

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See "LEGAL MATTERS – TAX OPINION AND CERTAIN MATTERS" herein with respect to other tax consequences with respect to the Bonds.*

**\$11,785,000**

**COMMUNITY FACILITIES DISTRICT NO. 2004-1  
OF THE SANTA ANA UNIFIED SCHOOL DISTRICT  
(CENTRAL PARK PROJECT)  
2005 SPECIAL TAX BONDS**

**Dated: Date of Delivery**

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

The 2005 Special Tax Bonds (the "2005 Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and a Bond Indenture, dated as of August 1, 2005, by and between the Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project) (the "Community Facilities District") and The Bank of New York Trust Company, N.A., as fiscal agent (the "Fiscal Agent"). The 2005 Bonds are payable from proceeds of Special Taxes (as defined herein) levied on property within the Community Facilities District according to the First Amended Rate and Method of Apportionment of Special Tax approved by the qualified electors within the Community Facilities District and by the Board of Education (the "Board") of the Santa Ana Unified School District (the "School District"), acting as the Legislative Body of the Community Facilities District.

The 2005 Bonds are being issued (i) to finance, either directly or indirectly, the acquisition and construction of certain school facilities, water and sewer facilities and fire suppression and protection facilities (collectively, the "Facilities") of benefit to the Community Facilities District, (ii) to fund a Reserve Account for the 2005 Bonds, (iii) to fund capitalized interest for a period of 24 months from the date of issuance of the 2005 Bonds, (iv) to pay certain administrative expenses of the Community Facilities District and (v) to pay the costs of issuing the 2005 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2005 BONDS" herein.

Interest on the 2005 Bonds is payable on March 1, 2006, and semiannually thereafter on each March 1 and September 1. The 2005 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2005 Bonds, when delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2005 Bonds as described herein under "THE 2005 BONDS — Book-Entry and DTC."

*The 2005 Bonds are subject to optional redemption, mandatory redemption from prepayment of Special Taxes and mandatory sinking fund redemption as described herein.*

**THE 2005 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2005 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE FOR THE 2005 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2005 BONDS. OTHER THAN THE SPECIAL TAXES WITHIN THE COMMUNITY FACILITIES DISTRICT, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2005 BONDS. THE 2005 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED IN THE COMMUNITY FACILITIES DISTRICT AS MORE FULLY DESCRIBED HEREIN.**

*This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the 2005 Bonds involves risks which may not be appropriate for some investors. See "BONDOWNERS' RISKS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the 2005 Bonds.*

The 2005 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the School District and the Community Facilities District by Atkinson, Andelson, Loya, Ruud & Romo, Riverside, California, and for the Community Facilities District by McFarlin & Anderson LLP, Lake Forest, California, Disclosure Counsel. It is anticipated that the 2005 Bonds, in book-entry form, will be available for delivery through the services of DTC on or about September 14, 2005.

**STONE & YOUNGBERG LLC**

Dated: September 2, 2005

**MATURITY SCHEDULE**

**\$11,785,000**

**COMMUNITY FACILITIES DISTRICT NO. 2004-1  
OF THE SANTA ANA UNIFIED SCHOOL DISTRICT  
(CENTRAL PARK PROJECT)  
2005 SPECIAL TAX BONDS  
\$2,150,000 Serial Bonds  
Base CUSIP® No. 801166†**

<b>Maturity September 1</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price</b>	<b>CUSIP® No.†</b>	<b>Maturity September 1</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price</b>	<b>CUSIP® No.†</b>
2008	\$55,000	3.30%	100%	AA7	2015	\$175,000	4.45%	100%	AH2
2009	70,000	3.60	100	AB5	2016	200,000	4.55	100	AJ8
2010	85,000	3.75	100	AC3	2017	225,000	4.65	100	AK5
2011	100,000	3.90	100	AD1	2018	250,000	4.75	100	AL3
2012	120,000	4.10	100	AE9	2019	275,000	4.85	100	AM1
2013	135,000	4.20	100	AF6	2020	305,000	4.90	100	AN9
2014	155,000	4.35	100	AG4					

\$2,035,000 4.950% Term 2005 Bonds due September 1, 2025, Price 100% CUSIP® No. 801166AT6†

\$3,095,000 5.050% Term 2005 Bonds due September 1, 2030, Price 100% CUSIP® No. 801166AU3†

\$4,505,000 5.100% Term 2005 Bonds due September 1, 2035, Price 100% CUSIP® No. 801166AV1†

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# **SANTA ANA UNIFIED SCHOOL DISTRICT**

## **BOARD OF EDUCATION**

Audrey Yamagata-Noji, Ph.D., *President*  
Rob Richardson, *Vice President*  
Sal Tinajero, *Clerk*  
Rosemarie Avila, *Member*  
John Palacio, *Member*

## **DISTRICT ADMINISTRATORS**

Al Mijares, Ph.D., *Superintendent*  
John Bennett, Ed.D., *Deputy Superintendent*  
Donald L. Trigg, *Associate Superintendent, Business Services*  
Juan Lopez, *Associate Superintendent, Human Resources*  
Kelvin Tsunozumi, *Director of Budgets Business Services*  
Richard White, *Assistant Superintendent, Facilities and Government Relations*

---

## **PROFESSIONAL SERVICES**

### **BOND COUNSEL**

Stradling Yocca Carlson & Rauth  
*Newport Beach, California*

### **SCHOOL DISTRICT COUNSEL**

Atkinson, Andelson, Loya, Ruud & Romo  
*Cerritos, California*

### **DISCLOSURE COUNSEL**

McFarlin & Anderson LLP  
*Lake Forest, California*

### **APPRAISER**

Harris Realty Appraisal  
*Newport Beach, California*

### **MARKET ABSORPTION CONSULTANT**

Empire Economics, Inc.  
*Capistrano Beach, California*

### **SPECIAL TAX CONSULTANT**

David Taussig & Associates, Inc.  
*Newport Beach, California*

### **FISCAL AGENT**

The Bank of New York Trust Company, N.A.  
*Los Angeles, California*

## GENERAL INFORMATION ABOUT THE OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the offer and sale of the 2005 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2005 Bonds.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the Community Facilities District in any press release and in any oral statement made with the approval of an authorized officer of the Community Facilities District or any other entity described or referenced herein, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend,” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Community Facilities District or any other entity described or referenced herein since the date hereof. The Community Facilities District does not plan to issue any updates or revision to the forward-looking statements set forth in this Official Statement.

**Limited Offering.** No dealer, broker, salesperson or other person has been authorized by the Community Facilities District to give any information or to make any representations in connection with the offer or sale of the 2005 Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the Community Facilities District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2005 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

**Involvement of Underwriter.** The Underwriter has submitted the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Community Facilities District or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

**Stabilization of Prices.** In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the 2005 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 2005 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE 2005 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2005 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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Santa Ana Unified School District  
Community Facilities District No 2004-1  
Central Park





## OFFICIAL STATEMENT

**\$11,785,000**  
**COMMUNITY FACILITIES DISTRICT NO. 2004-1**  
**OF THE SANTA ANA UNIFIED SCHOOL DISTRICT**  
**(CENTRAL PARK PROJECT)**  
**2005 SPECIAL TAX BONDS**

### INTRODUCTION

*This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2005 Bonds to potential investors is made only by means of the entire Official Statement.*

#### **General**

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project) 2005 Special Tax Bonds (the “2005 Bonds” or the “Bonds”).

The 2005 Bonds are issued pursuant to the Act (as defined below) and a Bond Indenture, dated as of August 1, 2005 (the “Bond Indenture”), by and between Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project) (the “Community Facilities District”) and The Bank of New York Trust Company, N.A., as fiscal agent (the “Fiscal Agent”). See “THE 2005 BONDS – Authority for Issuance” herein. The Community Facilities District may issue additional bonds payable on a parity with the 2005 Bonds for refunding purposes only.

#### **The School District**

The Santa Ana Unified School District (the “School District”), located in Orange County, California (the “County”), is the sixth-largest school district in California as measured by student enrollment. The School District encompasses territory in the central portion of the County and includes most of the city of Santa Ana, portions of the cities of Irvine, Newport Beach, Costa Mesa, Orange, and Tustin, and adjacent unincorporated areas of the County. The School District provides education for students in kindergarten through twelfth grades. The School District currently operates five comprehensive high schools (for grades 9-12), two continuation high schools (for grades 9-12), nine intermediate schools (for grades 6-8), one community day intermediate school (for grades 6-8), one community day high school (for grades 9-12), one middle college high school, 36 elementary schools (for grades K-5), one child development center. Total enrollment in the 2004-05 school year was approximately 58,832 students.

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

The Community Facilities District was formed and established by the Board of Education of the School District (the “Board”) on September 22, 2004, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code, and referred to herein as the “Act”), following a public hearing and a landowner election at which the qualified electors of the Community Facilities District, by more than a two-thirds vote, authorized the Community Facilities District to incur bonded indebtedness in the aggregate not-to-exceed amount of \$16,000,000 and approved the levy of special taxes (the “Special Taxes”) on certain real property located in the Community Facilities District.

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

The Community Facilities District is comprised of approximately 41.78 gross acres of contiguous land located at the northwest corner of Jamboree Boulevard and Michelson Drive, in the City of Irvine. The project is referred to as the "Central Park Project" or the "Central Park West" (hereinafter, the "Central Park Project"). The Community Facilities District is bounded generally on the east by Jamboree Boulevard, on the west by the Obsidian Street, on the south by Michelson Drive and on the north by the I-405 freeway. The Community Facilities District consists of approximately 30.59 net acres proposed for development of approximately 1,380 attached units, with a variety of low, mid and high rise attached residential units, an approximately 19,700 square foot retail development and an approximately 90,000 square foot office development. Included within the master-planned community is a proposed approximately 2.0-acre neighborhood park site, plus private homeowner park sites totaling approximately 1.3-acres.

As of August 23, 2005, there is one major landowner within the Community Facilities District: Lennar KFPLB, LLC, a Delaware limited liability company ("Lennar KFPLB LLC"). The members of Lennar KFPLB, LLC are Lennar Central Park, LLC, a Delaware limited liability company ("Lennar Central Park, LLC") and KFPLB Michelson Jamboree LLC, a Delaware limited liability company ("KFPLB Michelson Jamboree LLC"). Lennar Homes of California, Inc. a California corporation ("Lennar Homes of California, Inc.") is the managing member of Lennar Central Park, LLC. The other member of Lennar Central Park, LLC is LNR Central Park, Inc. a California corporation. Except for Lot No. 8, the property is subject to an option agreement between Lennar KFPLB, LLC and Lennar Central Park LLC, which is scheduled to be exercised on or before September 16, 2005 and to close on or before September 30, 2005. The portion of the project which will be subject to the levy of Special Taxes is proposed to be developed by several different builders, including Lennar Homes of California, Inc. and possibly joint ventures which are proposed to be formed by Lennar Homes of California, Inc. with other entities. The lots may be owned by separate limited liability companies or other entities which have not yet been formed so specific ownership and membership is not known as of August 23, 2005. In addition, Lennar KFPLB, LLC is negotiating with a builder which would develop approximately 62 affordable housing units on Lot No. 8 and those units if developed as affordable housing units would be exempt from the levy of the Special Tax. For convenience of reference herein, Lennar Homes of California, Inc., and the proposed joint ventures, limited liability companies or other entities which may be formed to take title to the property subject to the levy of Special Taxes are referred to individually as a "Builder" or collectively as "Builders. See "THE COMMUNITY FACILITIES DISTRICT – Property Ownership and Development."

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

Pursuant to the First Amended Rate and Method of Apportionment of Special Tax (the "First Amended Rate and Method"), the Board will levy the Annual Special Tax on each Assessor's Parcel of Residential Property and Commercial Property up to an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel, to satisfy the Minimum Annual Special Tax Requirement. If the sum of the amounts collected from Residential Property and Commercial Property is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board will levy proportionately an Annual Special Tax on each Assessor's Parcel of Undeveloped Property, up to the Assigned Annual Special Tax applicable to each Assessor's Parcel, to satisfy the Minimum Annual Special Tax Requirement. The Minimum Annual Special Tax Requirement is defined in the First Amended Rate and Method as the amount required in any Fiscal Year to pay (i) the debt service or the periodic costs on all outstanding 2005 Bonds, including, but not limited to, credit enhancement and rebate payments on the 2005 Bonds (ii) Administrative Expenses of Community Facilities District No. 2004-1, (iii) the costs associated with the release of funds from an escrow account, (iv) any amount required to establish or replenish any reserve funds (or account thereof) established in association with the 2005 Bonds, and (v) any amounts required for construction of Additional School Facilities, less (vi) any amount available to pay debt service or other periodic costs on the 2005 Bonds pursuant to the Bond Indenture. See "SECURITY FOR THE 2005 BONDS – First Amended Rate and Method."

### **Purpose of the 2005 Bonds**

A portion of the proceeds of the 2005 Bonds will be used to finance schools and school facilities, a portion of the proceeds will be used to finance the costs of water and sewer facilities of the Irvine Ranch Water District ("IRWD") and a portion of the proceeds will be used to finance the costs of fire suppression and protection facilities of the Orange County Fire Authority. The Community Facilities District will finance

school facilities which will directly or indirectly serve students to be generated from the development of the property within the Community Facilities District. The Community Facilities District was formed in connection with the Impact Mitigation Agreement (“Mitigation Agreement”), dated October 1, 2004, by and between the School District and Lennar KFPLB, LLC (successor to KFPLB Michelson Jamboree, LLC), a Delaware limited liability company (and together with the School District, the “Parties”). In addition, the Community Facilities District is subject to a Joint Community Facilities Agreement (the “IRWD JCFA”) dated September 28, 2004, by and among the School District, Lennar KFPLB, LLC as successor to KFPLB Michelson Jamboree, LLC, and IRWD and a Joint Community Facilities Agreement (the “OCFA JCFA”) dated June 23, 2005, by and among the Orange County Fire Authority, the School District and Lennar KFPLB, LLC. See “FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2005 BONDS” and “THE COMMUNITY FACILITIES DISTRICT – Property Ownership and Development” herein.

### **Sources of Payment for the 2005 Bonds**

The 2005 Bonds are secured by and payable from a first pledge of “Net Taxes,” which is defined within the Bond Indenture as Gross Taxes minus amounts applied to pay the Administrative Expense Requirement of \$40,000 per Fiscal Year (which amount shall increase 2% per each July 1 beginning with July 1, 2006). “Gross Taxes” are defined in the Bond Indenture as the amount of all Special Taxes received by the treasurer, together with the net proceeds collected from the sale of property pursuant to the foreclosure provisions of the Bond Indenture, penalties and interest received by the Community Facilities District in connection with the delinquency of such Special Taxes and proceeds from any security for payment of Special Taxes taken in lieu of foreclosure after payment of administrative costs and attorneys’ fees payable from such proceeds to the extent not previously paid as an Administrative Expense. “Special Taxes” are defined as the taxes authorized to be levied by the Community Facilities District in accordance with a Resolution and Ordinance adopted by the Legislative Body of the Community Facilities District on September 28, 2004, providing for the levy of the Special Taxes, the Resolution of Formation (as defined below), the Act and the First Amended Rate and Method. “Administrative Expenses” are defined as including the administrative costs with respect to the calculation and collection of the Special Taxes, or costs otherwise incurred by the School District staff on behalf of the Community Facilities District in order to carry out the purposes of the Community Facilities District as set forth in the Resolution of Formation or the First Amended Rate and Method and the fees and expenses of the Fiscal Agent.

Pursuant to the Act, the First Amended Rate and Method, the Resolution of Formation and the Bond Indenture, so long as the 2005 Bonds are outstanding, the Community Facilities District will annually fix and levy the amount of Special Taxes within the Community Facilities District required for the payment of principal of and interest on Outstanding 2005 Bonds becoming due and payable during the ensuing year including any necessary replenishment or expenditure of the Reserve Account for the 2005 Bonds, any amount equal to the Administrative Expense Requirement and any additional amounts necessary for expenses incurred in connection with administration or enforcement of delinquent Special Taxes. See “SECURITY FOR THE 2005 BONDS – Special Taxes” herein.

Pursuant to the Act, all lands owned by a public entity within the Community Facilities District are omitted from the levy of the Special Tax, *unless* the public entity acquires the property after recording the Notice of Special Tax Lien, in which case the public entity will be obligated to pay the Special Tax, subject to certain limitations. The First Amended Rate and Method exempts from the Special Tax all property owned by the State, the federal government and local governments, as well as certain other properties, subject to certain limitations. See “SECURITY FOR THE 2005 BONDS – First Amended Rate and Method” and “BONDOWNERS’ RISKS – Exempt Properties.”

The 2005 Bonds are secured by a first pledge of all moneys deposited in the Reserve Account. See “SECURITY FOR THE 2005 BONDS.” The Reserve Account will be established out of the proceeds of the sale of the 2005 Bonds, in an amount equal to the Reserve Requirement. The Bond Indenture defines the Reserve Requirement with respect to the 2005 Bonds as an amount, as of any date of calculation, equal to the lowest of (i) 10% of the original principal amount of the 2005 Bonds, (ii) “Maximum Annual Debt Service” on the 2005 Bonds (as defined in the Bond Indenture), or (iii) 125% of average annual debt service on the 2005 Bonds. The ability of the Board, in its capacity as Legislative Body of the Community Facilities District, to increase the annual Special Taxes levied to replenish the Reserve Account is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of the Community Facilities

District. The moneys in the Reserve Account will only be used for payment of principal of, interest and any redemption premium on, the 2005 Bonds, and at the direction of the Community Facilities District, for payment of rebate obligations related to the 2005 Bonds. See “SECURITY FOR THE 2005 BONDS – Reserve Account.”

The Community Facilities District has also covenanted in the Bond Indenture to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Taxes. For a more detailed description of the foreclosure covenant, see “SECURITY FOR THE 2005 BONDS – Proceeds of Foreclosure Sales.”

**NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2005 BONDS. OTHER THAN THE SPECIAL TAXES OF THE COMMUNITY FACILITIES DISTRICT, NO TAXES ARE PLEDGED TO THE PAYMENT OF 2005 BONDS. THE 2005 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES WITHIN THE COMMUNITY FACILITIES DISTRICT AS MORE FULLY DESCRIBED HEREIN.**

### **Appraisal**

An appraisal prepared by an MAI appraiser of the land and existing improvements for the development within the Community Facilities District dated June 2005 (the “Appraisal”), has been prepared by Harris Realty Appraisal, MAI of Newport Beach, California (the “Appraiser”) in connection with issuance of the 2005 Bonds. The purpose of the appraisal was to estimate the value of the “as is” condition of the land and reflect the proposed Community Facilities District financing, together with the overall tax rate of approximately 1.5% to the future homeowners, including the Special Taxes and the special taxes of Community Facilities District No. 2004-1 formed by the City of Irvine. The Appraisal is based on certain assumptions. Subject to these assumptions, the Appraiser estimated that the fee simple market value of the Taxable Property within the Community Facilities District (subject to the lien of the Special Taxes and other overlapping special taxes) as of June 1, 2005, was \$90,000,000.

The fee simple market value includes the value of grading. The market values reported in the Appraisal result in an estimated value-to-lien ratio of 7.42:1, calculated with respect to all direct and overlapping bonded debt as of the County Assessor’s Fiscal Year 2004-05 equalized assessment roll. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. The Appraisal is based on certain assumptions including a deduction from value for certain estimated costs which may be funded by the City of Irvine Community Facilities District No. 2004-1 if the City of Irvine Community Facilities District No. 2004-1 issues bonds. The value-to-lien ratio set forth above excludes debt of the City Community Facilities District No. 2004-1 which has a bond authorization of \$27,000,000. In the event the City of Irvine Community Facilities District No. 2004-01 issues bonds, the appraised value at that time will differ based both on any additional improvements as of the date of value of a future appraisal and based on use of City of Irvine Community Facilities District No. 2004-1 bond proceeds to finance certain of the estimated costs relating to the project which have been deducted in determining the estimate Appraised Value set forth above.

See “BONDOWNERS’ RISKS – Appraised Values” and “– Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property” herein and APPENDIX C – “Appraisal Report” appended hereto for further information on the Appraisal and for limiting conditions relating to the Appraisal.

### **Tax Exemption**

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the 2005 Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the 2005 Bonds will be exempt from State personal income taxes. See “LEGAL MATTERS – Tax Exemption” herein.

## **Risk Factors Associated with Purchasing the 2005 Bonds**

Investment in the 2005 Bonds involves risks that may not be appropriate for some investors. See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the 2005 Bonds.

## **Forward Looking Statements**

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

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

## **Professionals Involved in the Offering**

The Bank of New York Trust Company, N.A., Los Angeles, California, will serve as the paying agent, registrar, authentication agent and transfer agent for the 2005 Bonds and will perform the functions required of it under the Bond Indenture for the payment of the principal of and interest and any premium on the 2005 Bonds and all activities related to the redemption of the 2005 Bonds. Stradling Yocca Carlson & Rauth, Newport Beach, California is serving as Bond Counsel to the Community Facilities District and as general counsel to the School District. Stone & Youngberg LLC is acting as Underwriter in connection with the issuance and delivery of the 2005 Bonds. McFarlin & Anderson LLP, Lake Forest, California, is acting as Disclosure Counsel.

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

*Except for some Bond Counsel fees and Special Tax Consultant fees paid from advances made to the School District by KFPLB, LLC, payment of the fees and expenses of Bond Counsel, District Counsel, the Underwriter and the Fiscal Agent is contingent upon the sale and delivery of the 2005 Bonds. Fees of the Appraiser and the Market Absorption Consultant were paid from advances made to the School District by KFPLB, LLC.*

## **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the 2005 Bonds, certain sections of the Bond Indenture, security for the 2005 Bonds, special risk factors, the Community Facilities District, the School District, Lennar Central Park, LLC or other builders’ projects, Lennar KFPLB, LLC, Lennar Central Park, LLC, Lennar Homes of California, Inc., other prospective builders and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of

the 2005 Bonds, the Bond Indenture, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the 2005 Bonds, the Bond Indenture, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Office of the Clerk of the Board of Education of the Santa Ana Unified School District, 1601 East Chestnut Avenue, Santa Ana, California 92701-6322.

## CONTINUING DISCLOSURE

*The Community Facilities District.* The Community Facilities District has covenanted in the Community Facilities District Continuing Disclosure Agreement, the form of which is set forth in APPENDIX F – “Form of Community Facilities District Continuing Disclosure Agreement” (the “Community Facilities District Continuing Disclosure Agreement”), for the benefit of owners and beneficial owners of the 2005 Bonds, to provide certain financial information and operating data relating to the Community Facilities District and the 2005 Bonds by not later than January 30 in each year commencing on January 30, 2006 (the “Community Facilities District Annual Report”), and to provide notices of the occurrence of certain enumerated events, if material.

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

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

*Lennar KFPLB, LLC.* Lennar KFPLB, LLC has covenanted in a Continuing Disclosure Agreement, the form of which is set forth in APPENDIX G – “Form of Lennar KFPLB, LLC Continuing Disclosure Agreement” (the “Lennar KFPLB, LLC Continuing Disclosure Agreement”), for the benefit of owners and beneficial owners of the 2005 Bonds, to provide certain financial and operating information by not later than April 1 and October 1 of each year commencing April 1, 2006 (the “Semi-Annual Report”), and to provide notices of the occurrence of certain enumerated material events. Lennar KFPLB, LLC's obligations under the Lennar KFPLB, LLC Continuing Disclosure Agreement terminate upon the occurrence of certain events. See APPENDIX G – “Form of Lennar KFPLB, LLC Continuing Disclosure Agreement.”

Lennar KFPLB, LLC's Semi-Annual Report will be filed by Lennar KFPLB, LLC or the “Dissemination Agent” (as that term is defined in the Lennar KFPLB, LLC Continuing Disclosure Agreement) on behalf of Lennar KFPLB, LLC with the Repositories, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. Any notice of a material event will be filed by Lennar KFPLB, LLC or by the Dissemination Agent on behalf of Lennar KFPLB, LLC with the Municipal Securities Rulemaking Board or Repositories and the appropriate State repository, if any, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. The specific nature of the information to be contained in the Semi-Annual Reports or the notices of material events is set forth in the Lennar KFPLB, LLC Continuing Disclosure Agreement. The covenants of Lennar KFPLB, LLC in the Lennar

KFPLB, LLC Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with the Rule; *provided, however*, a default under the Lennar KFPLB, LLC Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Bond Indenture, and the sole remedy under the Lennar KFPLB, LLC Continuing Disclosure Agreement in the event of any failure of Lennar KFPLB, LLC or the Dissemination Agent to comply with the Lennar KFPLB, LLC Continuing Disclosure Agreement will be an action to compel performance. Lennar KFPLB, LLC's continuing disclosure obligations will terminate upon the occurrence of certain events, including when Lennar KFPLB, LLC's property is subject to less than 15% of the Special Tax levy of the Community Facilities District for the then current Fiscal Year.

Lennar KFPLB, LLC has indicated that except as described below it is not aware of any material failures to comply with previous undertakings by it or its Affiliates (as defined in the Lennar KFPLB, LLC Continuing Disclosure Agreement) under the Rule to provide annual or semi-annual reports or notices of material events with respect to community facilities districts or assessment districts in California within the past five years. In connection with covenants relating to a 1998 financing for a project in the City of Temecula by the Winchester Hills Financing Authority Community Facilities District No. 98-1 (Winchester Hills) in which Lennar Homes of California, Inc. was involved as the administrative member of the major landowner, Lennar Homes of California, Inc., as the administrative member, filed audited financial statements for each fiscal year through its 1999 fiscal year (the report filed in May 2000) but did not file the report due for the 2000 fiscal year and did not include financial information regarding the development of the property owned by Lennar Communities, Inc., a California corporation ("Lennar Communities") in the 1999 report. In connection with covenants relating to a 2001 financing for a project in the City of Murrieta by Community Facilities District No. 2000-1 of the Murrieta Valley Unified School District, continuing disclosure reports due on September 15, 2002, were not provided on a timely basis. Greystone Homes, Inc. (an Affiliate of Lennar Homes of California, Inc.) as successor to Pacific Century Homes, Inc., a California corporation filed the continuing disclosure report with the dissemination agent on May 15, 2003.

**ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds from the sale of the 2005 Bonds will be deposited into the following respective accounts and funds established by the School District under the Bond Indenture, as follows:

*Sources:*

Principal Amount of 2005 Bonds	\$11,785,000.00
Less: Underwriter's Discount	<u>(223,915.00)</u>
<i>Total Sources</i>	\$11,561,085.00

*Uses:*

Deposit into the Reserve Account <sup>(1)</sup>	\$1,032,282.90
Deposit into Costs of Issuance Account of the Acquisition and Construction Fund <sup>(2)</sup>	473,761.59
Deposit into Acquisition and Construction Fund <sup>(3)</sup>	8,810,000.00
Deposit into Capitalized Interest Subaccount of the Interest Account <sup>(4)</sup>	1,145,040.51
Administrative Expense Account	<u>100,000.00</u>
<i>Total Uses</i>	\$11,561,085.00

- (1) Equal to the Reserve Requirement with respect to the 2005 Bonds as of the date of delivery of the 2005 Bonds.
- (2) Includes, among other things, the fees and expenses of Bond Counsel, District Counsel, the cost of printing the final Official Statement, fees and expenses of the Fiscal Agent, the fees of the Special Tax Consultant and reimbursement to Lennar KFPLB, LLC.
- (3) \$5,500,000 will be deposited into the School Facilities Account, \$2,410,000 will be deposited into the Water Facilities Account and \$900,000 will be deposited into the Fire Facilities Account. See "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2005 BONDS" below.
- (4) Represents interest on the 2005 Bonds for a period of twenty-four months from the date of issuance of the 2005 Bonds.

**FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2005 BONDS**

A portion of the proceeds of the 2005 Bonds will finance school facilities, a portion of the proceeds of the 2005 Bonds will finance water and sewer improvements of IRWD and a portion of the proceeds of the 2005 Bond will finance fire suppression and protection facilities. Proceeds of the 2005 Bonds may be used for the construction, purchase, modification, expansion, improvement or rehabilitation of school facilities to be owned and operated by the School District including, without limitation, classrooms, multi-purpose, administration and auxiliary space at a school, and interim housing, together with furniture, equipment and technology needed by the School District in order to mitigate the impact on school facilities of the student population to be generated as a result of the development of the property to be included with the Community Facilities District, together with all land or interests in land required for the construction of such school facilities and all land or interests in land required to be provided by the School District as mitigation of environmental impacts associated with the development of such school facilities, and central support and administrative facilities, transportation and special education facilities, including any incidental school administration and transportation center improvements. In addition, non-school facilities include IRWD water and sewer facilities and all appurtenances and appurtenant work in connection the foregoing and Orange County Fire Authority fire suppression and protection facilities.

The Mitigation Agreement sets forth, among other things, terms for the issuance of bonds by the Community Facilities District to finance the impact of the development of property within the Community Facilities District upon the School District's school facilities, to finance a portion of the facilities costs for IRWD water and sewer facilities, and to finance a portion of the facilities costs for the OCFA fire suppression and protection facilities. The water and sewer facilities to be financed by the Community Facilities District are further described in the IRWD JCFA. The fire suppression and protection facilities to be financed by the Community Facilities District are further described in the OCFA JCFA. Lennar KLPFB, LLC and its



successors remain responsible for all of their respective obligations under the Mitigation Agreement and other development approvals to the extent not satisfied with Bond proceeds.

## THE 2005 BONDS

### Authority for Issuance

The 2005 Bonds in the aggregate principal amount of \$11,785,000 are authorized to be issued by the Community Facilities District under and subject to the terms of the Bond Indenture, the Act and other applicable laws of the State of California.

### General Provisions

The 2005 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the cover page hereof, payable semiannually on each March 1 and September 1, commencing on March 1, 2006 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the cover page hereof. The 2005 Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2005 Bonds. Ownership interests in the 2005 Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple thereof within a single maturity. So long as the 2005 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2005 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2005 Bonds in accordance with the procedures adopted by DTC. See "THE 2005 BONDS – Book-Entry and DTC."

The 2005 Bonds will bear interest at the rates set forth on the cover hereof payable on the Interest Payment Dates in each year. Interest due on the 2005 Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any 2005 Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that 2005 Bond, unless (i) such date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication or (iii) the date of authentication is prior to the close of business on the first Record Date in which event interest shall be payable from the dated date of such 2005 Bond; *provided, however*, that if at the time of authentication of such 2005 Bond, interest is in default, interest on that 2005 Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment on that 2005 Bond, interest on that 2005 Bond shall be payable from its dated date. "Record Date" means the 15<sup>th</sup> day of the month preceding an Interest Payment Date, regardless of whether such day is a business day.

Interest on the 2005 Bonds shall be paid by check of the Fiscal Agent mailed to the registered Bondowner by first class mail, postage prepaid, at his or her address as it appears on the Bond Register as of the Record Date; *provided, however*, that interest shall be paid by wire transfer to an account in the continental United States of any Owner of at least \$1,000,000 if such Owner has so requested and furnished adequate instructions with respect thereto to the Fiscal Agent not later than the Record Date preceding the applicable Interest Payment Date. The principal of the 2005 Bonds and any premium due upon redemption on the 2005 Bonds are payable by check in lawful money of the United States of America upon presentation thereof at the corporate trust office of the Fiscal Agent in St. Paul, Minnesota.

The 2005 Bonds are issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee DTC. DTC will act as securities depository of the 2005 Bonds. Ownership interests in the 2005 Bonds may be purchased in book-entry form only in denominations of \$5,000 and any integral multiple thereof. See APPENDIX I – "Book-Entry System."

## Debt Service Schedule

The following table presents the annual debt service on the 2005 Bonds (including sinking fund redemptions), assuming that there are no optional redemptions or mandatory redemptions from special taxes.

Year Ending (September 1)	Principal	Interest	Total Debt Service
2006	–	\$561,993.01	\$561,993.01
2007	–	583,047.50	583,047.50
2008	\$55,000	583,047.50	638,047.50
2009	70,000	581,232.50	651,232.50
2010	85,000	578,712.50	663,712.50
2011	100,000	575,525.00	675,525.00
2012	120,000	571,625.00	691,625.00
2013	135,000	566,705.00	701,705.00
2014	155,000	561,035.00	716,035.00
2015	175,000	554,292.50	729,292.50
2016	200,000	546,505.00	746,505.00
2017	225,000	537,405.00	762,405.00
2018	250,000	526,942.50	776,942.50
2019	275,000	515,067.50	790,067.50
2020	305,000	501,730.00	806,730.00
2021	335,000	486,785.00	821,785.00
2022	370,000	470,202.50	840,202.50
2023	405,000	451,887.50	856,887.50
2024	445,000	431,840.00	876,840.00
2025	480,000	409,812.50	889,812.50
2026	525,000	386,052.50	911,052.50
2027	570,000	359,540.00	929,540.00
2028	615,000	330,755.00	945,755.00
2029	665,000	299,697.50	964,697.50
2030	720,000	266,115.00	986,115.00
2031	775,000	229,755.00	1,004,755.00
2032	835,000	190,230.00	1,025,230.00
2033	895,000	147,645.00	1,042,645.00
2034	965,000	102,000.00	1,067,000.00
2035	1,035,000	52,785.00	1,087,785.00
	<u>\$11,785,000</u>	<u>\$12,959,968.01</u>	<u>\$24,744,968.01</u>

## Redemption of the 2005 Bonds

*Optional Redemption.* The 2005 Bonds are subject to redemption prior to maturity at the option of the Community Facilities District, on or after March 1, 2006, on any Interest Payment Date, in whole or in part, at the following redemption prices, expressed as a percentage of the principal amount of the 2005 Bonds to be redeemed, together with accrued interest to the date of redemption:

Redemption Dates	Redemption Price
March 1, 2006 through March 1, 2015	102%
September 1, 2015 and any Interest Payment Date thereafter	100

*Extraordinary Redemption.* The 2005 Bonds are subject to extraordinary redemption as a whole, or in part on a pro rata basis among maturities, on any Interest Payment Date, and will be redeemed by the Trustee, from prepayments of Special Taxes deposited to the Redemption Account plus amounts transferred

from the Reserve Account, at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
March 1, 2006 through March 1, 2015	102%
September 1, 2015 and any Interest Payment Date thereafter	100

*Mandatory Sinking Fund Redemption.* The 2005 Bonds maturing on September 1, 2025 are subject to mandatory sinking fund redemption in part, by lot, on September 1, 2021 and on each September 1 thereafter to maturity, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

<u>Year (September 1)</u>	<u>Mandatory Sinking Fund Redemption Amount</u>
2021	\$335,000
2022	370,000
2023	405,000
2024	445,000
2025 (Maturity)	480,000

The 2005 Bonds maturing on September 1, 2030 are subject to mandatory sinking fund redemption in part, by lot, on September 1, 2026 and on each September 1 thereafter to maturity, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

<u>Year September 1</u>	<u>Mandatory Sinking Fund Redemption Account</u>
2026	\$525,000
2027	570,000
2028	615,000
2029	665,000
2030 (Maturity)	720,000

The 2005 Bonds maturing on September 1, 2035 are subject to mandatory sinking fund redemption in part, by lot, on September 1, 2031 and on each September 1 thereafter to maturity, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, as follows:

<u>Year September 1</u>	<u>Mandatory Sinking Fund Redemption Account</u>
2031	\$775,000
2032	835,000
2033	895,000
2034	965,000
2035 (Maturity)	1,035,000

In the event the Community Facilities District shall elect to redeem 2005 Bonds as provided under the heading “ – Redemption of the 2005 Bonds – *Optional Redemption*,” the Community Facilities District shall give written notice to the Fiscal Agent of its election so to redeem, the redemption date and the principal amount of the 2005 Bonds to be redeemed. The notice to the Fiscal Agent shall be given at least 45 but no more than 60 days prior to the redemption date or such shorter period as shall be acceptable to the Fiscal Agent.

*Purchase of 2005 Bonds.* In lieu of payment at maturity or redemption, moneys in the Special Tax Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding Bonds, upon the filing with the Fiscal Agent of an Officer’s Certificate requesting such purchase, at a public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer’s Certificate may provide, but in no event will 2005 Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if the 2005 Bonds were to be redeemed in accordance with the Bond Indenture.

### **Selection of 2005 Bonds for Redemption**

If less than all of the 2005 Bonds Outstanding are to be redeemed (except with respect to mandatory sinking fund redemption in which case selection shall be by lot), the Fiscal Agent shall select 2005 Bonds pro rata among maturities and by lot within a maturity. The portion of any 2005 Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof, and, in selecting portions of such 2005 Bonds for redemption, the Fiscal Agent shall treat each such Bond as representing that number of 2005 Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000. The Fiscal Agent shall promptly notify the School District in writing of the 2005 Bonds, or portions thereof, selected for redemption.

### **Notice of Redemption**

Notice of redemption, containing the information required by the Bond Indenture, will be given by the Fiscal Agent in the name of the School District at least 30 but not more than 60 days prior to the redemption date. The Bond Indenture requires that the notice of redemption (a) specify the serial numbers and the maturity date or dates of the 2005 Bonds selected for redemption, except that where all the 2005 Bonds subject to redemption, or all the 2005 Bonds of one maturity, are to be redeemed, the serial numbers thereof need not be specified; (b) state the date fixed for redemption and surrender of the 2005 Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the 2005 Bonds are to be surrendered for redemption; and (e) in the case of 2005 Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed. The redemption notice will further state that on the date fixed for redemption there shall become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date and that from and after such date, interest thereon shall cease to accrue and be payable. The redemption notice shall also be forwarded to each of the Repositories described in the Continuing Disclosure Agreement.

The actual receipt by the owner of any 2005 Bond, if notice of such redemption shall not be a condition precedent thereto, and neither the failure to receive such notice nor any defect therein will affect the validity of the proceedings for the redemption of such 2005 Bonds or the cessation of interest on the redemption date. From and after the redemption date, the 2005 Bonds, or portions thereof so designated for redemption, shall be deemed to be no longer outstanding and such 2005 Bonds or portions thereof will cease to bear further interest.

In addition, no owner of any of the 2005 Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of the Bond Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

### **Registration of Exchange or Transfer**

Upon cessation of the book-entry system, the registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the corporate trust office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form approved by the

Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney. 2005 Bonds may be exchanged at said corporate trust office of the Fiscal Agent for a like aggregate principal amount of 2005 Bonds of other authorized denominations of the same maturity. The Fiscal Agent will not collect from the Owner any charge for any new Bond issued upon any exchange or transfer but will require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bond shall be surrendered for registration of exchange or transfer, the School District shall execute and the Fiscal Agent shall authenticate and deliver a new 2005 Bond or 2005 Bonds of the same maturity, for a like aggregate principal amount. The Fiscal Agent shall not be required to register transfers or make exchanges of (i) 2005 Bonds for a period of 15 days next preceding the date of any selection of the 2005 Bonds to be redeemed, or (ii) any 2005 Bonds chosen for redemption.

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

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2005 Bonds. The 2005 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2005 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX I – “Book-Entry System.”

## **SECURITY FOR THE 2005 BONDS**

### **General**

The 2005 Bonds are secured by a pledge of all of the Net Taxes of the Community Facilities District and all moneys deposited in the Interest Account, Principal Account, Redemption Account and Reserve Account of the Special Tax Fund. Pursuant to the Act and the Bond Indenture, the Community Facilities District will annually levy the Special Taxes on taxable property within the Community Facilities District in an amount required for the payment of principal of and interest on any outstanding 2005 Bonds of the Community Facilities District becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Account for the 2005 Bonds and an amount estimated to be sufficient to pay the Administrative Expenses during such year. The Net Taxes of the Community Facilities District and all moneys deposited into the accounts in said funds (until disbursed as provided in the Bond Indenture) are pledged to the payment of the principal of, and interest and any premium on, the 2005 Bonds as provided in the Bond Indenture and in the Act until all of the 2005 Bonds have been paid and retired or until moneys or Federal Securities (as defined in the Bond Indenture) have been set aside irrevocably for that purpose.

*The First Amended Rate and Method levies Special Taxes first on Residential Property and Commercial Property, second on Undeveloped Property proportionately up to the Assigned Annual Special Tax to satisfy the Minimum Annual Special Tax Requirement, and third on each Assessor’s Parcel of Residential Property and Commercial Property whose Maximum Annual Special Tax is the Backup Annual Special Tax proportionately up to the Backup Annual Special Tax to satisfy the Minimum Annual Special Tax Requirement. See “– Special Taxes” and “– First Amended Rate and Method.”*

Notwithstanding any provision contained in the Bond Indenture to the contrary, Net Taxes deposited in the Administrative Expense Account and the Rebate Fund shall no longer be considered to be pledged to the 2005 Bonds and the Administrative Expense Account, the Acquisition and Construction Fund and the Rebate Fund shall not be construed as trust funds held for the benefit of the Bondowners. The Facilities constructed and acquired with the proceeds of the 2005 Bonds are not in any way pledged to pay, or security for, the debt service on the 2005 Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2005 Bonds are not pledged to pay the debt service on any 2005 Bonds and are free and clear of any lien or obligation imposed under the Bond Indenture.

### **Special Taxes**

The Community Facilities District has covenanted in the Bond Indenture, subject to the Maximum Annual Special Tax rates, to comply with all requirements of the Act so as to assure the timely collection of Special Taxes, including, without limitation, the enforcement of delinquent Special Taxes. The Bond

Indenture provides that the Special Taxes are payable and will be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and will have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property; provided the Community Facilities District may provide for direct collection of the Special Taxes in certain circumstances.

**The Special Tax levy is limited to the Maximum Annual Special Tax rates set forth in the First Amended Rate and Method and while the Special Tax is levied on Undeveloped Property, the levy of the Special Tax is limited to the Minimum Annual Special Tax Requirement. No assurance can be given that, in the event of Special Tax delinquencies, the receipt of Special Taxes will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2005 Bonds.** Because interest is capitalized for 24 months from the date of issuance of the 2005 Bonds, Fiscal Year 2006-07 is the first year in which Special Taxes will be levied on property within the Community Facilities District and the Fiscal Year 2006-07 levy will be a relatively nominal amount.

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

**NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2005 BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2005 BONDS. THE 2005 BONDS ARE NOT A GENERAL OR SPECIAL OBLIGATION OF THE SCHOOL DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM CERTAIN AMOUNTS DEPOSITED BY THE COMMUNITY FACILITIES DISTRICT OR THE SPECIAL TAX FUND, AS MORE FULLY DESCRIBED HEREIN.**

#### **First Amended Rate and Method**

*General.* On September 28, 2004, pursuant to the request of KFPLB Michelson Jamboree, LLC, the sole landowner at that time, the terms of the Mitigation Agreement and the provisions of the Act, the School District established Community Facilities District No. 2004-1. On June 28, 2005, pursuant to the request of Lennar KFPLB, LLC, the sole landowner at the time, the School District approved a resolution of consideration which reduced the maximum rates of the Special Tax and added authorized facilities. The Community Facilities District is authorized to issue bonded indebtedness and to levy special taxes to pay debt service on the 2005 Bonds and to fund school facilities, certain water and sewer improvements and certain fire suppression and protection facilities. Pursuant to such proceedings, the Special Tax may be levied and collected against all Taxable Property (as defined below) within the Community Facilities District for school, water and sewer facilities costs according to the Rate and Method, a copy of which is set forth in APPENDIX B – "First Amended Rate and Method of Apportionment for Community Facilities District No. 2004-1 of Santa Ana Unified School District."

The final map for the project was considered and approved by the Irvine City Council at its May 10, 2005 meeting. The final map was recorded by Lennar KFPLB, LLC on May 19, 2005.

The qualified electors of the Community Facilities District approved the original Rate and Method on September 28, 2004 and approved the First Amended Rate and Method of June 28, 2005. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the First Amended Rate and Method.

*First Amended Rate and Method.* The First Amended Rate and Method provides the means by which the Board may annually levy the Special Taxes within the Community Facilities District up to the applicable Maximum Annual Special Tax. The 2005 Bonds are to be issued to fund school, water, sewer and fire suppression and protection facilities, and the 2005 Bonds are secured by any Special Taxes levied pursuant to the First Amended Rate and Method net of amount applied to pay the Administrative Expense Requirement. The First Amended Rate and Method provides that the Annual Special Tax shall be levied for

a period of 30 Fiscal Years after the last of Bonds has been issued, provided that Annual Special Taxes shall not be levied after Fiscal Year 2045-46. A copy of the First Amended Rate and Method is included in APPENDIX B hereto.

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

- (a) the debt service on all or the periodic costs and all outstanding Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds;
- (b) Administrative Expenses (as defined in the First Amended Rate and Method);
- (c) The costs associated with the release of funds from an escrow account;
- (d) any amount required to establish or replenish any reserve funds established in association with the Bonds;
- (e) any amounts required for construction of Additional School Facilities (as defined in the Rate and Method); less
- (f) any amount available to pay debt service or other periodic costs on the Bonds pursuant to the Bond Indenture.

*Residential and Commercial Property; Undeveloped Property.* The First Amended Rate and Method declares that for each Fiscal Year, each Assessor's Parcel of Taxable Property shall be classified as Residential Property, Commercial Property or Undeveloped Property.

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

(ii) "Commercial Property" means all Assessor's Parcels of Taxable Property for which Commercial Building Permits were issued on or before May 1 of the prior Fiscal Year provided that such Assessor's Parcels were created on or before January 1 of the prior Fiscal Year.

(iii) "Undeveloped Property" means all Assessors Parcels of Taxable Property that are not Residential Property or Commercial Property.

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

(v) "Exempt Property" is defined to include the following:

- (a) Assessor's Parcels owned by the State of California, federal or other local governments;
- (b) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization;
- (c) Assessor's Parcels used exclusively by a homeowner's association;
- (d) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement;
- (e) Assessor's Parcels on which an Affordable Unit is constructed and

- (f) Any other Assessor's Parcels at the reasonable discretion of the Board, *provided* that no such classification would reduce the sum of all Taxable Property to less than 1.68 acres of Acreage in Planning Area No. 1, 8.25 acres of Acreage in Planning Area No. 2, 4.63 acres of Acreage in Planning Area No. 3, 7.70 acres of Acreage in Planning Area No. 4 and 3.73 acres of Acreage in Planning Area No. 5 (as defined in the First Amended Rate and Method).

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

(i) Undeveloped Property: The amount determined by the application of the Assigned Annual Special Tax. The Assigned Annual Special Tax for Undeveloped Property for Fiscal Year 2005-06 is as follows: (i) for Planning Area No. 1, \$86,926.08 per acre; (ii) for Planning Area No. 2, \$44,019.49 per acre; (iii) for Planning Area No. 3, \$24,119.65 per acre; (iv) for Planning Area No. 4, \$25,193.64 per acre; and (v) for Planning Area No. 5, \$7,826.43. Each July 1, the Assigned Annual Special Tax applicable to Undeveloped Property shall increase by 2% of the amount in effect in the prior Fiscal Year.

(ii) Residential Property: The *greater* of (i) the Assigned Annual Special Tax or (ii) the Backup Annual Special Tax.

The Assigned Annual Special Tax for Residential Property in Fiscal Year 2005-06 ranges from \$539.90 to \$1,138.64 per Unit. The Assigned Annual Special Tax shall be increased by 2% of the amount in effect in the prior Fiscal Year. See APPENDIX B – "First Amended Rate and Method of Apportionment for Community Facilities District No. 2004-1 of Santa Ana Unified School District – Table 1" herein for a listing of the Assigned Annual Special Tax rates for various sizes of Units.

The "Backup Annual Special Tax" is calculated based on the number of Lots created by each Final Map recorded in the Community Facilities District (see "THE COMMUNITY FACILITIES DISTRICT – Property Ownership and Development"). While a Final Map within the Community Facilities District has been created, Builders may file condominium plans to identify the units being developed on a lot and the Backup Annual Special Tax for an Assessor's Parcel of Residential Property for any Fiscal Year cannot be determined for all Lots.

*Method of Apportionment.* The First Amended Rate and Method provides that the Board shall levy Annual Special Taxes as follows:

Step One: The Board shall levy Proportionately an Annual Special Tax on each Assessor's Parcel of Residential Property and Commercial Property up to an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel, to satisfy the Minimum Annual Special Tax Requirement.

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

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

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



*Prepayment of Annual Special Taxes.* The Annual Special Tax obligation of an Assessor's Parcel of Residential Property, or an Assessor's Parcel of Commercial Property, or an Assessor's Parcel of Undeveloped for which a Residential Building Permit or Commercial Building Permit has been issued may be prepaid in full and in certain cases in part, *provided* that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid. The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined, based on the Present Value of the remaining Special Tax payments for such Assessor's Parcel. See APPENDIX B – "Fist Amended Rate and Method of Apportionment for Community Facilities District No. 2004-1 of Santa Ana Unified School District – Section G" herein.

### **Proceeds of Foreclosure Sales**

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

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

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

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

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

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

**No assurances can be given that the real property subject to sale or foreclosure will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. The Act does not require the School District or the Community Facilities District to purchase or otherwise**

acquire any lot or parcel of property offered for sale or subject to foreclosure if there is no other purchaser at such sale. The Act does specify that the Special Tax will have the same lien priority in the case of delinquency as for *ad valorem* property taxes.

If the Reserve Account is depleted and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Bondowners pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any. However, within the limits of the First Amended Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property within the Community Facilities District in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the 2005 Bonds and to replenish the Reserve Account. There is, however, no assurance that the maximum annual Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the 2005 Bonds by the Bond Indenture.

### **Reserve Account**

In order to further secure the payment of principal of and interest on the 2005 Bonds, certain proceeds of the 2005 Bonds will be deposited into the Reserve Account in an amount equal to the Reserve Requirement (see "ESTIMATED SOURCES AND USES OF FUNDS" herein). The Reserve Requirement is defined in the Bond Indenture to mean with respect to the 2005 Bonds as an amount, as of any date of calculation, equal to the least of (i) 10% of the original principal amount of the 2005 Bonds, less original issue discount, if any, plus original issue premium, if any, (ii) Maximum Annual Debt Service of the 2005 Bonds, and (iii) 125% of average annual debt service on the 2005 Bonds.

A draw on the Reserve Account could occur as a result of Special Tax delinquencies. However, the Special Tax levy on Residential Property or Commercial Property whose Maximum Annual Special Tax is the Backup Annual Special Tax, can be increased in order to replenish the Reserve Account. See "SECURITY FOR THE 2005 BONDS – First Amended Rate and Method."

If Special Taxes are prepaid and 2005 Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the Reserve Account (determined on the basis of the principal of Bonds to be redeemed and the original principal of the 2005 Bonds) will be applied to the redemption of the 2005 Bonds.

Moneys in the Reserve Account are to be used to pay debt service on the 2005 Bonds to the extent other moneys are not available therefor or to principal and interest due on the final maturity of the 2005 Bonds and for the purpose of making any required deposits to the Rebate Fund. In no event shall amounts in the Reserve Account be used to pay fees or expenses of the Fiscal Agent or its counsel. See APPENDIX E – Summary of Certain Provisions of the Bond Indenture."

Subject to the limits on the Maximum Annual Special Tax which may be levied within the Community Facilities District, the Community Facilities District has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement while any 2005 Bonds are outstanding.

### **Administrative Expense Account**

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

Pursuant to the Bond Indenture, moneys in the Administrative Expense Account will not be construed as a trust fund held for the benefit of the Owners of the 2005 Bonds and will not be available for the payment of debt service on the 2005 Bonds.

## **Investment of Moneys in Funds**

Moneys in any fund or account created or established by the Bond Indenture and held by the Fiscal Agent will be invested by the Fiscal Agent in Authorized Investments (as defined below or in the Bond Indenture), as directed by an Authorized Officer, that mature prior to the date on which such moneys are required to be paid out under the Bond Indenture. See APPENDIX E – “Summary of Certain Provisions of the Bond Indenture” for a definition of “Authorized Investments.”

## **Payment of Rebate Obligation**

The Community Facilities District is required to calculate excess investment earnings in accordance with the requirements set forth in the Bond Indenture. If necessary, the Community Facilities District may use amounts in the Reserve Account, amounts on deposit in the Administrative Expense Account and other funds available to the Community Facilities to satisfy rebate obligations.

## **Letter of Credit**

Pursuant to the Mitigation Agreement, Lennar KFPLB, LLC and any subsequent owner of property in the Community Facilities District owning property which is responsible for 15% or more the Special Taxes projected by the School District’s Special Tax consultant to be levied to pay maximum annual debt service on the 2005 Bonds (the “Special Tax Threshold”) will be required to provide a letter of credit (the “Letter of Credit”) or cash deposit to the Fiscal Agent, as beneficiary, to secure payment of a portion of the Special Taxes levied on its property within the Community Facilities District. The initial letter of credit bank providing such letter of credit is Bank of America.

*Stated Amount and Initial Term.* During the initial fiscal year in which the Letter of Credit is in effect, the “Stated Amount” of the Letter of Credit must equal the amount of one year’s debt service on the 2005 Bonds to secure payment of the semi-annual installment payments of the Special Tax levied on all lots and parcels owned by Lennar KFPLB, LLC within the Community Facilities District.

*Duration and Conditions of Release.* The initial term of the Letter of Credit will expire no earlier than July 31, 2006. Lennar KFPLB, LLC is required to maintain and cause the issuing bank (the “Credit Bank”), which will initially be Bank of America to annually renew the Letter of Credit and the Letter of Credit Requirement shall remain in place for each property owner until the aggregate Special Tax obligations of properties owned by it and its Affiliates (as defined in the Mitigation Agreement), do not exceed the Special Tax Threshold.

The Stated Amount of the Letter of Credit will be recalculated on June 1 of each year, to reflect the estimated amount of annual Special Taxes to be levied on the property owned by Lennar KFPLB, LLC or its successor-in-interest (other than individual homeowners) in the Community Facilities District for the next fiscal year.

On or before July 1 of each year, commencing July 1, 2006, and in connection with any recalculation of the Stated Amount, the Community Facilities District will determine and certify to the Fiscal Agent, in writing, the new Stated Amount of the Letter of Credit, and the Letter of Credit will be reduced accordingly if reductions in ownership occurred. In addition, if the Community Facilities District determines at any time that a sufficient number of the lots in the Community Facilities District have been sold to individual purchasers, then the Letter of Credit securing payment of Special Taxes will be released. Under the Mitigation Agreement, the Letter of Credit shall be renewed each year the requirement continues, with respect to the portions of the project currently owned by Lennar KFPLB, LLC which requirement shall extend to any subsequent owner of property in the CFD owning property which is responsible for fifteen percent (15%) or more of the special taxes projected by the School District’s special tax consultant to be levied to pay maximum annual debt service on the Bonds (the “Special Tax Threshold”). The Letter of Credit or cash deposit shall remain in place for each property owner until the aggregate special tax obligations of properties owned by it and its Affiliates, do not exceed the Special Tax Threshold. In the event a property owner and its Affiliates maintain ownership of properties which in the aggregate are responsible for special taxes in excess of the Special Tax Threshold, the letter of credit or cash deposit requirement described in the Mitigation Agreement shall not terminate as to such ownership regardless of whether portions of such properties are leased to other entities.

*Annual Renewal.* The Community Facilities District will cause Lennar KFPLB, LLC to provide to the Fiscal Agent each year, a written commitment by the Credit Bank to provide the Letter of Credit or to extend or replace the existing Letter of Credit in an amount equal to the Stated Amount.

If the Fiscal Agent does not receive either a replacement of the Letter of Credit or an irrevocable written commitment from the Credit Bank that it will renew or issue the Letter of Credit when due, the Fiscal Agent will immediately, with no further authorization or instruction, draw upon the existing Letter of Credit not renewed in the full Stated Amount. The Fiscal Agent will deposit the proceeds of such draw into the Letter of Credit Account for use as described in the Bond Indenture.

Failure by Lennar KFPLB, LLC to maintain and renew the Letter of Credit are not events of default under the Bond Indenture.

*Draws on the Letter of Credit.* No later than five days before each Interest Payment Date, the Fiscal Agent is required to determine whether amounts on deposit in the Debt Service Account of the Special Tax Fund on that Interest Payment Date will be sufficient to make the next payment of principal of and interest on the 2005 Bonds under the Bond Indenture, and to notify the Community Facilities District of any deficiency. If amounts in the Debt Service Account of the Special Tax Fund will be insufficient to pay principal of and interest on the 2005 Bonds, and the shortfall is attributable to Lennar KFPLB, LLC's delinquency in the payment of Special Taxes for the property owned by it or its successors-in-interest (other than individual homeowners or non-affiliated merchant builders owning property which are responsible for less than fifteen percent (15%) of the Special Taxes) in the Community Facilities District, the Fiscal Agent will, prior to any withdrawals from the Reserve Account established under the Bond Indenture, draw upon the Letter of Credit provided by Lennar KFPLB, LLC in an amount no greater than the lesser of delinquent Special Taxes levied on property owned by Lennar KFPLB, LLC (exclusive of penalties and interest and the amount then available under the Letter of Credit.

The Fiscal Agent may also draw upon the Letter of Credit in the event that the Credit Bank's rating has been downgraded below "A3" by Moody's or "A-" by Standard & Poor's.

The Fiscal Agent will deposit the proceeds of any such draw upon the Letter of Credit into the Letter of Credit Account established under the Bond Indenture and, on the day preceding the Interest Payment Date, and prior to any transfers from the Reserve Account, transfer such amounts from the Letter of Credit Account to the Debt Service Account of the Special Tax Fund.

*Reimbursement of the Letter of Credit Bank.* The Community Facilities District has no obligation to reimburse the Credit Bank for draws on the Letter of Credit except from (i) any proceeds of a draw on the Letter of Credit not required to pay debt service on the 2005 Bonds on the Interest Payment Date for which the draw was made, and (ii) delinquent Special Taxes subsequently received by the Community Facilities District with respect to the property corresponding to the delinquent Special Taxes, net of collection costs.

The obligations of the Credit Bank under the Letter of Credit are not contingent upon reimbursement for any draws thereon from any source.

*Final Release of Funds in the Letter of Credit Account.* The Fiscal Agent will immediately return to the Credit Bank amounts that remain on deposit in the Letter of Credit Account if the following conditions are met:

- (i) the aggregate Special Tax obligations of properties owned by the property owner and its Affiliates (as defined in the Mitigation Agreement) do not exceed 15% of the Special Taxes projected by the School District's special tax consultant to be levied to pay maximum annual debt service on the 2005 Bonds.
- (ii) such moneys are not required to pay debt service on the 2005 Bonds on the following Interest Payment Date as a result of delinquencies in the payment of Special Taxes by Lennar KFPLB, LLC or its successors-in-interest (other than individual homeowners or non-affiliated merchant builders owning property which are responsible for less than fifteen percent (15%) of the Special Taxes), and

- (iii) Lennar KFPLB, LLC or its successors-in-interest (other than individual homeowners or non-affiliated merchant builders owning property which are responsible for less than fifteen percent (15%) of the Special Taxes), is not delinquent in the payment of its Special Taxes.

*Enforcement of the Letter of Credit.* If the Credit Bank wrongfully refuses to honor any drawing made on its Letter of Credit, the Community Facilities District is required to immediately bring an action and pursue any remedy available at law or in equity for the purpose of compelling the Credit Bank to honor such drawing and to enforce the provisions of the Letter of Credit.

### **Letter of Credit Bank**

Bank of America, N.A. (the "Bank") is the initial provider of the Letter of Credit. The Bank is a national banking association organized under the laws of the United States of America, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the "Corporation") and is engaged in general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2004, together with any subsequent documents it filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act").

*Recent Developments:* On April 1, 2004, the Corporation completed its merger with FleetBoston Financial Corporation ("FleetBoston"). The Bank is expected to merge with Fleet National Bank, the Corporation's other principal banking subsidiary, during the second quarter of 2005.

The Letter of Credit has been issued by the Bank. Moody's Investors Service, Inc. ("Moody's") currently rates the Bank's long-term certificates of deposit as "Aa1" and short-term certificates of deposit as "P-1". Standard & Poor's Rating Services ("Standard & Poor's") rates the Bank's long-term certificates of deposit as "AA" and its short-term certificates of deposit as "A-1+". Fitch, Inc. ("Fitch") rates long-term certificates of deposit of the Bank as "AA-" and short-term certificates of deposit as "F1+." Further information with respect to such ratings may be obtained from Moody's, Standard & Poor's and Fitch, respectively. No assurances can be given that the current ratings of the Bank's instruments will be maintained.

ALTHOUGH THE LETTER OF CREDIT IS A BINDING OBLIGATION OF THE BANK, THE 2005 BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE 2005 BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The information concerning the Corporation and the Bank contained herein is furnished solely to provide limited introductory information regarding the Corporation and the Bank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

## **Covenant Not to Reduce Special Tax Rates Unless Certain Conditions are Met**

The Community Facilities District has covenanted in the Bond Indenture that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the Community Facilities District's authority to levy the Special Tax for so long as the 2005 Bonds are Outstanding, including the initiation of proceedings under the Act to reduce the maximum annual Special Tax rates (the "Maximum Rates") on then existing Developed Property below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Outstanding Bonds.

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

Bonds issued on a parity with the 2005 Bonds may be issued for refunding purposes only. See APPENDIX E – "Summary of Certain Provisions of the Bond Indenture." The Community Facilities District may issue bonds, or other obligations, payable from Net Taxes which are subordinate to the 2005 Bonds.

## **Special Taxes Are Within Teeter Plan**

In 1949, the California Legislature enacted an alternative method for the distribution of secured property taxes to local agencies. This method, known as the Teeter Plan, is now set forth in Sections 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While a county benefits from the penalties associated with these delinquent taxes when they are paid, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. The Board of Supervisors of the County adopted the Teeter Plan on June 29, 1993 and has elected to include in its Teeter Plan assessments levied in certain assessment districts, including the District, on the secured roll.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. See "RISK FACTORS – Teeter Plan Termination." The County has never discontinued the Teeter Plan with respect to any levying agency.

In connection with the issuance of \$155,000,000 Orange County Special Financing Authority Teeter Plan Revenue Bonds, Series A through E (the "Teeter Bonds"), the County covenanted not to discontinue its participation in the Teeter Plan or, to the extent permitted by law, permit any taxing agency to discontinue its participation in the Teeter Plan, (a) at any time prior to the later of (i) the Scheduled Expiration Date (as defined in the Sales and Servicing Agreement executed and delivered in connection with the Teeter Bonds issuance), as such date may be extended in accordance with the Sales and Servicing Agreement, and (ii) the date upon which all Obligations (as defined in the Teeter Bond Indenture) owed to the Bank (as defined by the Teeter Bonds Sales and Servicing Agreement) shall have been satisfied in full and the Credit Facility (as defined by the Teeter Bonds Sales and Servicing Agreement) shall have expired, or (b) unless such discontinuance is required by applicable law. The foregoing covenant is not made for the benefit of the Owners of the 2005 Bonds and the Owners of the 2005 Bonds have no rights to enforce such covenant of the County.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of taxes and assessments (if a county has elected to include assessments), 100% of the tax and assessment delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the tax or assessment. After the initial distribution, each

participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

To the extent that the County's Teeter Plan continues in existence and is carried out as adopted, the County's Teeter Plan may help protect the Owners of the 2005 Bonds from the risk of delinquencies in Special Taxes.

## THE COMMUNITY FACILITIES DISTRICT

### General Information

The Community Facilities District consists of land located in the City of Irvine, in the central part of the County of Orange. The Community Facilities District is bounded generally on the east by Jamboree Boulevard, on the west by Obsidian Street, on the south by Michelson Drive and on the north by the I-405 freeway.

The site that Lennar KFPLB, LLC acquired in the Community Facilities District was the former site of a Parker- Hannifin Corporation complex which was improved with a mix of 1970's built low-rise offices and industrial buildings. Lennar KFPLB, LLC has completed the demolition and removal of the buildings, and has completed mass grading. Construction of infrastructure improvements, including streets, water and sewer improvements, commenced in the third quarter of 2005. Except with respect to Lot No. 8, Lennar Central Park, LLC has an option to acquire the property within the Community Facilities District, which is expected to be exercised on or before September 16, 2005 and to close on or before September 30, 2005. Lennar KFPLB, LLC, through its managing member, Lennar Central Park, LLC is developing the infrastructure and backbone improvements of the property. The site is expected to be developed with a mixture of residential, retail office and park uses. Communities within the Community Facilities District are expected to be gated, but the project overall will not be gated. See "THE COMMUNITY FACILITIES DISTRICT – Property Ownership and Development" herein.

Utility services for parcels in the Community Facilities District are anticipated to be provided by Southern California Edison (electricity), Southern California Gas Company (natural gas), Cox Communications (cable), Waste Management (refuse collection), IRWD (sewage), IRWD and Metropolitan Water District (water), Orange County Flood Control District (storm water), and SBC (telephone). Schools are located in the Santa Ana Unified School District. Students may petition to attend Irvine Unified School District.

## Authority for Issuance

The 2005 Bonds are issued pursuant to the Act and the Bond Indenture. In addition, as required by the Act, the Board of the School District has taken the following actions with respect to establishing the Community Facilities District and authorizing issuance of the 2005 Bonds:

*Resolutions of Intention:* On August 24, 2004, the Board adopted Resolution No. 04/05-2576 stating its intention to establish the Community Facilities District and to authorize the levy of a special tax therein, and on the same day the Board adopted Resolution No. 04/05-2575 stating its intention to incur bonded indebtedness in an amount not to exceed \$16,000,000 within the Community Facilities District for the purpose of financing the cost of certain public improvements. See "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2005 BONDS" herein.

*Resolution of Formation:* On September 28, 2004 subsequent to the conclusion of a noticed public hearing, the Board adopted Resolution No. 04/05-2580 (the "Resolution of Formation"), which established the Community Facilities District, authorized the levy of a special tax within the Community Facilities District and called a consolidated election by the landowners for the same date on the issues of the levy of the Special Tax, the incurring of bonded indebtedness and the establishment of an appropriations limit.

*Resolution of Necessity:* On September 28, 2004, the Board adopted Resolution No. 04/05-2581 declaring the necessity to incur bonded indebtedness in an amount not to exceed \$16,000,000 within the Community Facilities District and submitting that proposition to the qualified electors of the Community Facilities District.

*Landowner Election and Declaration of Results:* On September 28, 2004, an election was held within the Community Facilities District in which the landowners eligible to vote, being the qualified electors within the Community Facilities District, unanimously waived all time limits for holding the election and ballot arguments, and approved a ballot proposition authorizing the issuance of up to \$16,000,000 in bonds to finance the costs of the Improvements, the levy of a special tax and the establishment of an appropriations limit for the Community Facilities District. On September 28, 2004, the Board adopted Resolution No. 04/05-2582 pursuant to which the Board approved the canvass of the votes and declared the Community Facilities District to be fully formed with the authority to levy the Special Taxes, to incur the bonded indebtedness and to have the established appropriations limit.

*Special Tax Lien and Levy:* A Notice of Special Tax Lien was recorded in the real property records of Orange County on September 30, 2004 as Document No. 2004000879162.

*Ordinance Levying Special Taxes:* On September 28, 2004, the Board adopted a Resolution and Ordinance levying the Special Tax within the Community Facilities District.

*Resolution of Consideration:* On May 24, 2005, the Board adopted Resolution No. 04/05-2611 (the "Resolution of Consideration"), which added facilities eligible to be funded by the Community Facilities District, reduced the maximum annual Special Tax which may be levied under the First Amended Rate and Method and established a date for a public hearing of June 28, 2005.

*Resolution of Change:* On June 28, 2005, the Board adopted Resolution No. 04/05-2612 approving a change in the authorized facilities, the OCFA JCFA and a reduction in the maximum annual Special Tax and calling an election by the landowners for the same date on the issues of the authorized facilities and the maximum annual Special Tax.

*Landowner Election and Declaration of Results:* On June 28, 2005, an election was held within the Community Facilities District in which the landowners eligible to vote, being the qualified electors within the Community Facilities District, unanimously waived all time limits for holding the election and ballot arguments, and approved a ballot proposition authorizing the addition of facilities and the reduction in the maximum annual Special Tax. On June 28, 2005, the Board adopted Resolution No. 04/05-2613, pursuant to which the Board approved the canvass of the votes and declared the change proceedings approved.

*Special Tax Lien and Levy:* A First Amended Notice of Special Tax Lien was recorded in the real property records of Orange County on July 13, 2005 as Document No. 2005000541293.



*Resolution Authorizing Issuance of the 2005 Bonds:* On July 26, 2005, the Board adopted Resolution No. 05/06-2615 approving issuance of the 2005 Bonds.

## **Environmental Conditions**

*Environmental Impact Report.* A Supplemental Environmental Impact Report (SEIR) was prepared to address the environmental effects associated with the development of the Central Park residential and commercial mixed-use project located within the City of Irvine's Irvine Business Complex. The IBC EIR, consisting of a General Plan Amendment and Zone Change, was certified by the Irvine City Council on October 27, 1992 (EIR No. 88-ER-0087, State Clearinghouse Number 91011023). Development of the project site with office and industrial uses was assumed in the certified IBC EIR and no residential uses were assumed for the site. A SEIR was prepared to analyze the potential for new significant environmental effects associated with changes to the project and/or changes in circumstances under which the project is undertaken associated with the development of the Central Park project as a residential and commercial mixed-use project. The SEIR contained information necessary to supplement the IBC EIR in order to evaluate the project as revised. The SEIR primarily addressed factors such as noise, air quality, and hazards and hazardous materials. No other changes to the IBC EIR, as analyzed in the previously certified IBC EIR, were proposed.

The site was a manufacturing and research industrial complex operated by Parker-Hannifin Corporation from 1970 to 2000. Various jet, helicopter, and aerospace components were designed, built and tested on the facility. These operations included the use of numerous hazardous chemicals including chlorinated solvents and various petroleum hydrocarbons. During removal of two underground storage tanks in 1986, petroleum hydrocarbons and a common degreaser (tetrachloroethene (PCE) were detected in shallow soil and groundwater near the southwest corner of the site. Numerous soil and groundwater investigations were subsequently completed. In 1991, a groundwater treatment system was designed and installed. A soil vapor extraction system was designed and installed in 1995. Both treatment systems operated until July 2003 when they were shut down with permission from the California Regional Water Quality Control Board – Santa Ana Region (RWQCB). Only residual amounts of soil and groundwater contamination remained onsite at that time.

Lennar KFPLB, LLC completed demolition of all former structures in early May 2005. Lennar KFPLB, LLC, on behalf of Parker-Hannifin Corporation removed over 15,000 tons of soil impacted with petroleum hydrocarbons and volatile organic compounds from eight areas of the site throughout the demolition activities. Four of these eight areas were known before demolition work started. The remaining four were discovered during demolition activities.

Consultants for Lennar KFPLB, LLC met with representatives of the City of Irvine to resolve issues with the human health risk assessment ("HRA") work plan on May 19, 2005. Among other things, the meeting dealt with how the parcel-specific HRAs will be completed. Stechmann Geoscience, Inc. is preparing individual parcels maps showing the proposed sample locations.

Parker-Hannifin Corporation has responsibility for environmental remediation of the site and has entered into an Agreement for Environmental Remediation, Indemnification and Site Access, dated as of September 14, 2000 between Parker-Hannifin Corporation, and KFPLB Michelson Jamboree LLC. The Remediation Agreement provides that it is for the benefit of KFPLB Michelson Jamboree LLC and subsequent owners of the property or portions thereof or interest therein in the chain of title from KFPLB Michelson Jamboree LLC who execute and deliver an acknowledgment to be bound by the Remediation Agreement in the form attached to the Remediation Agreement. The term of the Remediation Agreement survives the issuance of a no further action letter issued for a particular matter addressed by such no future action letter only to the extent any governmental agency with jurisdiction reopens the file for the property concerning the matter which was the subject of the no further action letter and with respect to all further claims survives for one month after the statute of limitations for such claim has lapsed. Pursuant to an acknowledgment by a "Benefitted Party" (as defined in the Remediation Agreement), the Benefitted Party acknowledges that its rights under the Remediation Agreement are its sole and exclusive remedy against Parker-Hannifin Corporation.

Lennar KFPLB, LLC is not aware of any adverse conditions relating to the property that are not being addressed through the remediation measures. Furthermore, Lennar KFPLB, LLC reports that it is not aware of a current liability with respect to Hazardous Substances with respect to any of the parcels of Taxable

Property. However, it is possible that such liabilities do currently exist and that the Community Facilities District is not aware of them.

*Airport Restrictions.* John Wayne Airport is located approximately one mile to the northwest of the proposed development. Lennar KFPLB, LLC or its predecessors have obtained necessary approvals from the County's Airport Land Use Commission. The proposed structures within the Community Facilities District comply with the current height restrictions of the Airport Land Use Commission.

*Endangered Species Act Permit.* The project site had previously been developed with the Parker-Hannifin Corporation complex. No endangered species permits were required in connection with the project. Lennar KFPLB, LLC reports that due to the prior use of the property, the property within the Community Facilities District is not known to be inhabited by any plant or animal species which either the California Fish and Game Commission or the U. S. Fish & Wildlife Service has proposed for addition to the endangered species list.

*Biological Resources.* Based upon the prior use of the site and the biological reviews performed, the property within the Community Facilities District is not believed to include onsite biological resources.

*Mitigation Relating to Waters of the United States of America.* The U.S. Army Corps of Engineers has jurisdiction over developments in or affecting the navigable waters of the United States of America pursuant to the Rivers and Harbors Act and the Clean Water Act. The development within the Community Facilities District was previously developed with the Parker-Hannifin Corporation complex and the project is not expected to impact any non-vegetated water of the U.S. The U.S. Army Corps of Engineers determined that the activity complied with the terms and conditions of the nationwide permit issued under Section 404 of the Clean Water Act, *provided* that the activity met the criteria in the permit terms and conditions. A Section 401 Water Quality Certification from the California Regional Water Quality Control Board (Santa Ana Division) was not required for the development.

*Streambed Alteration Agreement.* A Section 1603 Streambed Alteration Agreement with the California Department of Fish and Game ("CDFG") was not required in connection with the project.

*National Pollution Discharge Elimination System Permit and Storm Water Pollution Prevention Plan.* Pursuant to the Federal Clean Water Act (Section 402(g)) and State General Construction Activity Storm Water Permit, a National Pollution Discharge Elimination System (NPDES) permit and storm water pollution prevention plan was required from the California State Water Resources Control Board for grading and construction of areas greater than one acre. Lennar KFPLB, LLC had a Storm Water Pollution Prevention Plan prepared for the project in conformance with the California NPDES General Permit No. WDID No. 8 30C330903 for Storm Water Discharges Associated with Construction Activity (Construction Permit). The permit and storm water pollution prevention plan were approved by the California State Water Resources Control Board (Division of Water Quality) on November 9, 2004 by Order No. WDID No. 8 30C330903.

## Other Matters

*Additional Approvals.* Lennar KFPLB, LLC has the entitlement approvals required for development of the property and plans to sell the parcels to Builders with entitlements. Lennar KFPLB, LLC has approved design guidelines for development within the Community Facilities District. Development of the residential attached units will require a Conditional Use Permit for each project. Assuming a Builder's proposed development is similar to those guidelines, the Appraiser has been advised that the Conditional Use Permit process is anticipated to take approximately 6 months. While Lennar KFPLB, LLC does not expect to seek additional entitlement or SEIR amendments or modifications, Lennar KFPLB, LLC is evaluating alternatives for density transfers among certain lots, which transfers are subject to a specified review process. Additional discretionary approval, such as design review for architecture (Builders), is needed for development in the Community Facilities District. Lennar KFPLB, LLC does not anticipate that obtaining any of the remaining approvals will constrain development of the property as planned.

*Covenants, Conditions and Restrictions.* Lennar KFPLB, LLC is in the process of forming the Central Park Irvine Community Association, a homeowners' association ("CPCA") formed to manage and maintain the CPCA's property. Covenants, conditions and restrictions are expected to be recorded against the property prior to sale of individual units. In addition, the future residential units are expected to be assessed monthly assessments to cover maintenance of common areas not being maintained by the City of Irvine. All of the parcels in the Community Facilities District are or are expected to be subject to recorded covenants, conditions and restrictions that provide for a levy of the CPCA's assessments, on a basis subordinate to the lien of the Special Taxes.

## Development Agreement

Lennar KFPLB, LLC, as successor to KFPLB Michelson Jamboree, LLC., and the City of Irvine entered into a Development Agreement (the "Development Agreement"), as of September 15, 2004, regarding the proposed development. The Development Agreement was approved by Ordinance No. 04-10 on September 14, 2004 and was recorded on October 29, 2004 as Document No. 2004-000978366. For purposes of the Development Agreement, the proposed development includes the improvement of the proposed development sites for the purposes consistent with the proposed development's land use authorization as set forth in the Development Plan (as defined in the Development Agreement), including, without limitation, grading, construction of infrastructure and public facilities related to the off-site improvements and the on-site improvements, the construction of structures and buildings and the installation of landscaping.

Pursuant to the terms of the Development Agreement, Lennar KFPLB, LLC has the right to develop the proposed development in a manner consistent with the approved master plan, and applicable rules, regulations and official policies. The Development Agreement provides that as long as the project is constructed in a manner consistent with the Development Plan and Existing Land Use Regulations (as defined in the Development Agreement), the project may be constructed at the rate and in the sequence that Lennar KFPLB, LLC deems appropriate. Build-out within the project is expected to occur in 2011 pursuant to the Market Absorption Study. See APPENDIX D – "Market Absorption Study."

By entering into the Development Agreement, Lennar KFPLB, LLC obtained a vested right to proceed with the project in accordance with the development approvals identified in the Development Agreement. However, development remains subject to any remaining discretionary approvals required in order to complete the project as contemplated by the foregoing entitlements and subject to changes in City laws, regulations, plans or policies specifically mandated and required by changes in State or federal laws or regulations.

Termination of the Development Agreement by one party due to the default of the other party will not affect a right or duty emanating from City of Irvine entitlements or approvals on the development project.

The Development Agreement was approved by Ordinance No. 04-10 on September 14, 2004 and entered into pursuant to California Government Code Section 65864, *et seq.* (the "Development Agreement Law"). The applicable statute of limitations relating to a challenge to the Development Agreement has expired. The Development Agreement Law provides that a developer can obtain a vested right to develop its real property pursuant to a validly executed development agreement. One appellate case in California, *Santa Margarita Residents v. San Luis Obispo County Bd. of Supervisors*, has held that development agreements are enforceable under the Development Agreement Law. However, the development agreement

in that case did not address the type of vested rights obtained in the Development Agreement. Consequently, although the Development Agreement purports to provide Lennar KFPLB, LLC with a vested right to build the development as currently planned and as described herein, if the Development Agreement were to be challenged in a California court, there can be no assurances that such court would enforce the Development Agreement if the City of Irvine fails to fulfill its obligations under the Development Agreement or if more restrictive local land use regulations are adopted in the future. Additionally, public entities not bound by the terms of the Development Agreement may impose additional conditions on the development. See “BONDOWNERS’ RISKS – Failure to Develop Properties” and “ – Ballot Initiatives and Legislative Measures” herein.

### **Acquisition of Improvements**

For a description of agreements between the School District and IRWD and the School District and the Orange County Fire Authority, see “FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2005 BONDS.”

### **Property Ownership and Development**

*The information about Lennar KFPLB, LLC, Lennar Central Park, LLC, Lennar Homes of California, Inc., LNR Central Park, Inc., LNR Property Corporation, and any joint ventures, limited liability companies or other entities which may be formed in the future, has been provided by representatives of Lennar KFPLB, LLC, Lennar Central Park, LLC, Lennar Homes of California, Inc., and LNR Central Park, Inc., and has not been independently confirmed or verified by the Underwriter, the Community Facilities District or the School District. Such information is included because it may be relevant to an informed evaluation of the security for the 2005 Bonds. However, because ownership of the property may change at any time, no assurance can be given that the planned development will occur at all, will occur in a timely manner or will occur as presently anticipated and described below or that Lennar KFPLB, LLC, or any joint venture, limited liability company or other entity will acquire or own the property within the Community Facilities District at all. No representation is made herein as to the accuracy or adequacy of such information, as to the experience, abilities or financial resources of Lennar KFPLB, LLC, Lennar Central Park, LLC, Lennar Homes of California, Inc., LNR Central Park, Inc., or any other entity, or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.*

*Neither Lennar KFPLB, LLC nor its constituent members are personally liable for payment of the Special Taxes or the 2005 Bonds, and the following information should not be construed to suggest that the Special Taxes or the 2005 Bonds are personal obligations or indebtedness of Lennar KFPLB, LLC, or any joint venture, limited liability company or other entity which acquires property within the Community Facilities, or that Lennar KFPLB, LLC, will continue to own its property within the Community Facilities District or that any joint ventures, limited liability companies or other entity will acquire their proposed respective parcels of land. It is proposed that Lot No. 8 be developed as affordable housing units. Up to 69 Affordable housing units are exempt from the levy of the Special Tax.*

*Description of Project.*

Table 1 below sets forth information regarding the projects proposed for development within the Community Facilities District. Lennar KFPLB, LLC has acquired the property and except with respect to Lot No. 8, has entered into an Assignment (Option Agreement with Agreement for Purchase and Sale and Escrow Instructions) (the "Option Agreement"), dated as of December 1, 2004, with Lennar Central Park, LLC pursuant to which Lennar Central Park, LLC, or its assigns expect to acquire the property on or before September 30, 2005. (The foregoing dates can be extended but only in accordance with the terms of the Option Agreement). Lennar Central Park, LLC is negotiating various agreements with Lennar Homes of California, Inc., LNR Central Park, Inc., and various entities, for the sale of various lots within the Community Facilities District. There can be no assurance that such entities or any joint venture, limited liability company or other entity formed by any of such entities will close escrow on the respective lots within the Community Facilities District at the times indicated or at all.

**Table 1**  
**Santa Ana Unified School District**  
**Community Facilities District No. 2004-1**  
**(Central Park Project)**  
**Property Ownership and Development Status**

Name of Landowner	Lot No./ Type of Development	Est. No. of Units to be Built <sup>(1)</sup>	Units Authorized <sup>(1)</sup>	Est. Date of Issuance of First Building Permits <sup>(2)</sup>	Net Taxable Acreage	Status of Development as of June 1, 2005
<i>Residential Property</i>						
Lennar KFPLB, LLC	3 Lofts	106	118	3 <sup>rd</sup> qtr. of 2006	1.62	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	4 Brownstone Townhomes /6 bldgs.	59	66	3 <sup>rd</sup> qtr. of 2006	2.08	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	5 Brownstone Villas/8 bldgs	86	96	3 <sup>rd</sup> qtr. of 2006	3.09	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	6 Brownstone Villas/8 bldgs.	46	51	3 <sup>rd</sup> qtr. of 2006	1.62	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	7 Two Mid-Rise Towers (Est. 15 story)	216	240	1 <sup>st</sup> qtr. of 2006	1.98	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	8 Affordable <sup>(3)</sup>	56	62	2 <sup>nd</sup> qtr. of 2006	0	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	9 Lofts/flats/ 10 bldgs.	161	179	3 <sup>rd</sup> qtr. of 2006	2.43	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	10 Lofts/flats/ 7 bldgs.	174	193	3 <sup>rd</sup> qtr. of 2006	2.6	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	11 Brownstone Townhomes /12 bldgs.	91	102	3 <sup>rd</sup> qtr. of 2006	3.19	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	12 Luxury Flats/4 bldgs.	78	87	3 <sup>rd</sup> qtr. of 2006	1.5	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	13 Luxury Townhomes /3 bldgs.	21	23	3 <sup>rd</sup> qtr. of 2006	1.09	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	14 Luxury Townhomes /3 bldgs.	23	25	3 <sup>rd</sup> qtr. of 2006	1.18	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	15 Luxury Flats/4 bldgs.	81	90	3 <sup>rd</sup> qtr. of 2006	1.56	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	16 Luxury Townhomes /3 bldgs.	23	25	3 <sup>rd</sup> qtr. of 2006	1.18	Mass grading complete; Final map recorded May 19, 2005
Lennar KFPLB, LLC	17 Luxury Townhomes /3 bldgs.	<u>21</u>	<u>23</u>	3 <sup>rd</sup> qtr. of 2006	1.08	Mass grading complete; Final map recorded May 19, 2005
Subtotal Residential Units		1,242	1380			

***Retail and Commercial Property***

Lennar KFPLB, LLC	1	19,700	3 <sup>rd</sup> qtr. of 2006 <sup>(4)</sup>	1.92	Mass grading complete; Final map recorded May 19, 2005
	Commercial	sf			
Lennar KFPLB, LLC	2 Office tower	90,000	4 <sup>th</sup> qtr. of 2006 <sup>(4)</sup>	2.47	Mass grading complete; Final map recorded May 19, 2005
		sf			

- (1) In accordance with the Development Agreement and approved entitlements, Lennar KFPLB, LLC would be allowed to construct up to 1,380 residential housing units within the Community Facilities District. For planning purposes by the Community Facilities District in estimating Special Tax Revenues from Developed Property, development within the Community Facilities District has been assumed to be approximately 1,242 residential units, a 10% reduction from the allowed units. The 62 affordable units proposed for development within Lot 8 are included within the 1,242 units and would be exempt from the Special Tax levy. The Absorption Study estimates absorption of 1,238 units. Lennar KFPLB, LLC's estimates regarding development vary from time to time. The entitlement allows density transfers among lots and Lennar KFPLB, LLC is evaluating alternatives for density transfers which may increase or decrease the number of units built and the square footages of units built.
- (2) Estimated date of issuance of the first building permit is by product category, and not necessarily indicative of when product in a particular lot will commence. The third quarter of 2006 is the estimated date of issuance for (i) the first unit to be built among the 372 aggregate units in Lots 9 and 10, (ii) the first unit to be built among the 168 aggregate units in Lots 4 and 11, (iii) the first unit to be built among the 159 aggregate units in Lots 12 and 15, and (iv) the first unit to be built among the 88 aggregate units in Lots Nos. 13, 14, 16 and 17.
- (3) Lennar KFPLB, LLC is negotiating a purchase agreement with respect to Lot No. 8 proposed for development of 62 affordable attached units. The affordable units are exempt from the Special Tax levy. The site is approximately 1.0 acre.
- (4) Estimated date of issuance of building permits with respect to Lot Nos. 1 and 2 depends on product configuration which has not been finally determined.

*Sources: Development Plan from Lennar KFPLB, LLC*

**Lennar KFPLB, LLC; Lennar Central Park, LLC; Lennar Homes of California, Inc.**

Lennar Homes of California, Inc. develops residential communities both within the Lennar family of builders and through consolidated and unconsolidated partnerships in which Lennar Homes of California, Inc. maintains an interest. In September 2000, KFPLB Michelson Jamboree, LLC acquired the project site from Parker-Hannifin Corporation.

KFPLB Michelson Jamboree, LLC is a Delaware limited liability company. The member of KFPLB Michelson Jamboree, LLC is KFP Irvine Associates, LLC a Delaware limited liability company. KFPLB Michelson Jamboree, LLC contributed the property to Lennar KFPLB, LLC in December 2004. The members of Lennar KFPLB, LLC are Lennar Central Park, LLC, a Delaware limited liability company and KFPLB Michelson Jamboree LLC.

*Lennar Corporation and its Subsidiaries.*

Lennar Homes of California, Inc. ("Lennar Homes of California, Inc.") is a California corporation based in Aliso Viejo, California, that has been in the business of developing residential real estate communities in California since 1995. Lennar Homes of California, Inc., is a wholly-owned subsidiary of Lennar Homes Inc., a Florida corporation, which is a wholly-owned subsidiary of Lennar Corporation, a Delaware corporation ("Lennar Corporation"), with headquarters in Miami, Florida. Lennar Corporation, founded in 1954 and publicly traded under the symbol "LEN" since 1971, is one of the nation's largest home builders, now operating under one name. Some of the former brand names (companies acquired by Lennar Corporation) include US Home and Greystone Homes in Southern California. As of November 30, 2004 (Lennar Corporation's Fiscal Year-end), Lennar Corporation and its subsidiaries employed over 11,796 individuals, of whom approximately 7,918 were involved in homebuilding and land development operations and owned approximately 87,740 home sites and had access to an additional 168,327 home sites through options or unconsolidated partnerships. Copies of Lennar Corporation's Annual Report and related financial statements are on their website at [www.lennar.com](http://www.lennar.com).

Lennar Homes of California, Inc., US Home, and Greystone Homes are through various levels of ownership, subsidiaries of Lennar Corporation.

Lennar KFPLB, LLC is a Delaware limited liability company formed by KFPLB Michelson Jamboree LLC and Lennar Central Park, LLC. which agreed to undertake the development of the site and the sale to builders. A brief description of each is provided below.

Lennar Homes of California, Inc. has been involved in the acquisition and development of residential real estate projects in Southern California since 1995. Representative master-planned communities include:

(i) Coto de Caza, an approximately 2,000 home development in South Orange County acquired in March of 1996 and substantially sold out, (ii) Stevenson Ranch, consisting of approximately 5,700 homes at build out in Los Angeles, County, California, (iii) Bressi Ranch, an approximately 500-acre mixed use community in Carlsbad, California which recently obtained entitlement approvals, (iv) Greer Ranch, an approximately 674 home gate-guarded community in Murrieta, California, which opened in the fall of 2002, and (v) The Bridges at Rancho Santa Fe, an exclusive, gated residential enclave located in San Diego, California, consisting of approximately 274 custom home sites and semi-custom homes in a private golf course setting.

Recent projects under development by Lennar Homes of California, Inc. in the Orange County area of Southern California include the following:

Site Name	Location	Units	Average Prices	Average Square Feet	Time Period of Development
Cantara	Irvine/Tustin	72	\$792,000	2,800	Under constr.
Serissa	Irvine	88	\$739,333	2,100	Under constr.
Rosemoor	Irvine	62	\$850,000	2,500	Under constr.
Verano	San Clemente	144	\$536,333	1,500	Under constr.
The Gables	Tustin	82	\$926,000	2,600	Under constr.

*Lennar KFPLB, LLC.* Lennar KFPLB, LLC is a Delaware limited liability company that acquired property previously owned by KFPLB Michelson Jamboree, LLC, a Delaware Limited Liability Company. KFPLB Michelson Jamboree, LLC acquired the property in September 2000 and contributed it to Lennar KFPLB, LLC in December 2004. The members of Lennar KFPLB, LLC are Lennar Central Park, LLC and KFPLB Michelson Jamboree, LLC. The member of KFPLB Michelson Jamboree, LLC is KFP Irvine Associates, LLC a Delaware limited liability company.

The site that Lennar KFPLB, LLC acquired in the Community Facilities District was the former site of Parker-Hannifin Corporation complex which was improved with a mix of 1970's built low-rise offices and industrial buildings. Lennar KFPLB, LLC has completed the demolition and removal of the buildings, and has completed mass grading.

Lennar KFPLB, LLC has entered into the Option Agreement with Lennar Central Park, LLC, except with respect to Lot No. 8. Lennar KFPLB, LLC has no present intention of developing the property itself other than through the Option Agreement with Lennar Central Park, LLC. Lennar KFPLB, LLC expects to sell Lot No. 8 to a builder for construction of affordable housing units. Neither Lennar KFPLB, LLC nor any entity with a direct or indirect ownership interest in it has any obligation of any kind whatsoever to advance any funds for the development of Lennar KFPLB, LLC's property in the Community Facilities District or to pay the Special Tax applicable to such property. The Lennar Central Park, LLC option must be exercised on or before September 16, 2005 and closing must occur by September 30, 2005. (The foregoing dates may be extended, but only in accordance with the terms of the Option Agreement.) Prior to closing September 30, 2005, Lennar Central Park, LLC has paid and will have paid fees and performed site work. If Lennar Central Park, LLC does not exercise its option, it potentially could lose its \$24 million letter of credit.

Lennar Central Park, LLC is negotiating the sale of the property to Lennar Homes of California, Inc., and various other entities, including to be formed affiliates of LNR Central Park, Inc. and the possible formation of joint ventures to be formed by Lennar Homes of California, Inc. with other entities. As of August 23, 2005, the separate agreements have not been completed and the entities which are anticipated to take title to the properties have not been formed. In addition, Lennar Central Park, LLC, may include all or a portion of the properties which it proposes to develop in a land banking arrangement. In a land bank arrangement, Lennar Central Park, LLC would have an option to re-purchase the property from a land bank entity. A takedown schedule with price escalators is typically used. Neither Lennar Central Park, LLC, nor its managing member, Lennar Homes of California, Inc., LNR Central Park, Inc. nor any entity with a direct or indirect ownership interest in it has any obligation of any kind whatsoever to advance any funds for the development of the property in the Community Facilities District or to pay the Special Tax applicable to such property.



*Sale Agreements.* On or about December 1, 2004, Lennar KFPLB, LLC took title to the property within the Community Facilities District. Lennar KFPLB, LLC entered into the Option Agreement with Lennar Central Park, LLC whereby Lennar Central Park, LLC has the right to exercise its option on or before September 16, 2005 and to acquire the property (except for Lot No. 8) on or before September 30, 2005. Lennar Central Park, LLC is negotiating the terms of various agreements for the sale of various lots to Lennar Homes of California, Inc., to be formed affiliates of LNR Central Park, Inc., joint ventures proposed to be formed between Lennar Homes of California, Inc. and various builders. Lennar Homes of California, Inc., and various entities negotiating the purchase of the property or proposed to be formed intend to develop the property.

*Other Obligations of Lennar KFPLB, LLC.* The property in the Community Facilities District is subject to the Development Agreement. The property is also subject to conditions of approval in approving ordinances and in the tentative and final maps relating to the project, and adopted by the Irvine City Council in 2004 and preceding years. Certain public improvements are expected to be acquired by the IRWD and by the Orange County Fire Authority with Bond proceeds. The affordable housing obligation is anticipated to be satisfied through construction of affordable housing, such as the proposed project by an affordable housing builder. See "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2005 BONDS"

### **The Development Plan**

*General.* On December 1, 2004, Lennar Central Park, LLC and Lennar KFPB Michelson Jamboree, LLC entered into the Amended and Restated Limited Liability Agreement of Lennar KFPLB, LLC (the "Limited Liability Agreement") which set forth the rights and obligations of such parties with respect to the development of the property in the Community Facilities District. The site development work has commenced and will be substantially completed in the second quarter of 2006. It is anticipated that Lennar Central Park, LLC, will acquire Lennar KFPLB, LLC's interest in the property on or before September 30, 2005 and that Lennar Central Park, LLC will then complete negotiations and enter into various agreements with other builders that will continue to develop the property in accordance with applicable development plans.

In accordance with the Development Agreement, Lennar KFPLB, LLC and its successors and assigns is allowed to construct up to 1,380 residential housing units within the Community Facilities District. For planning purposes by the Community Facilities District in estimating Special Tax Revenues from Developed Property, development within the Community Facilities District has been assumed to be approximately 1,242 residential units, a 10% reduction from the allowed units. The entitlement allows density transfers among lots and Lennar KFPLB, LLC is evaluating alternatives for density transfers which may increase or decrease the number of units built and the square footages of units built. As of August 23, 2005, Lennar KFPLB, LLC anticipates that the estimated units to be built will be in excess of the estimate utilized by the Community Facilities District. Depending on decisions which may be made regarding density transfers, the builders that acquire the property may construct substantially all of the 1,380 allowed residential units, but there is no assurance as to the amount of units which will be built.

Lennar KFPLB, LLC anticipates that the vertical development of the property in the Community Facilities District (including residential, retail and commercial building activity) will proceed in phases over a period which will continue through the second quarter of 2012. Due to the amount of construction materials, construction traffic and other construction activity required to develop the project, it is necessary to schedule the construction of the various lots in phases. Discussion and negotiations within Lennar Homes of California, Inc. and among the Builders regarding phasing are ongoing.

It is anticipated that a substantial portion of the attached units will be constructed by Lennar Homes of California, Inc., and by joint ventures between Lennar Homes of California, Inc. and other entities. Lot No. 8 is expected to be sold to an affordable housing builder. The mid-rise tower is anticipated to be constructed by a joint venture between Lennar Homes of California, Inc. and another builder. The approximately 19,700 square foot retail property is anticipated to be constructed by a to be formed affiliate of LNR Central Park, Inc. or another builder. The office tower is anticipated to be constructed by a to be formed affiliate of LNR Central Park, Inc. or another builder. Negotiations regarding purchase by a to be formed affiliate of LNR Central Park, Inc. are continuing and definitive purchase agreements have not been executed.

*Park/Open Space Property.*

Lennar KFPLB, LLC reports that it allocated and developed acreage for park purposes within the project area consistent with City of Irvine requirements, and that approvals for the 2.02 acre central park site and the other park sites are under review by the City of Irvine staff.

*Infrastructure Property.*

Lennar KFPLB, LLC reports that it anticipates completing construction of the backbone infrastructure, including grading, storm drain, sewer, water, streets, and utilities (but excluding landscaping) by the second quarter of 2006, with some additional work being completed thereafter.

*Development Budget.*

It is estimated that as of June 1, 2005, Lennar KFPLB, LLC had expended approximately \$9,070,535 in improvement costs, exclusive of land acquisition costs, debt service and general and administrative costs.

The following table sets forth Lennar KFPLB, LLC's budget for approximately \$30,839,994 of the estimated costs for developing the property to a super pad condition, as of June 1, 2005. The \$30,839,994 estimated costs in the following table does not include land acquisition costs, costs to be paid through proceeds of the 2005 Bonds, or costs to be paid through proceeds of the City Community Facilities District). Table 2 is a projection only and no assurance can be given that these results will be achieved. Actual cash flow will depend on future events such as the rate of land sales and actual costs of infrastructure development.

Table 2

**Pro Forma Development Costs<sup>1</sup>**  
**(Estimated as of June 1, 2005)**

	<b>Cost Incurred through June 1, 2005</b>	<b>Cost Est. through June30, 2005</b>	<b>Cost Est. 3<sup>rd</sup>Qtr. 2005</b>	<b>Cost Est. 4<sup>th</sup> Qtr. 2005</b>	<b>Cost Est. 1<sup>st</sup> Qtr. 2006</b>	<b>Cos Est. 2<sup>nd</sup> Qtr. 2006</b>	<b>Cost Est. 3<sup>rd</sup> Qtr. 2006</b>	<b>Cost Est. 4<sup>th</sup> Qtr. 2006</b>	<b>Cost. Est. 1<sup>st</sup> Qtr. 2007</b>	<b>Est. Total Infrastructure &amp; In-Tract</b>
Master Improvements Planning, Engineering and Indirect Costs	\$3,736,367	\$132,720	\$395,659	\$390,659	\$374,752	\$374,752	\$374,752	\$374,752	–	\$6,154,413
Fees, Bonds, Permits, Impact Fees	2,368,478	22,700	68,099	68,099	33,116	33,116	33,116	33,116	–	2,659,838
Demolition, Grading, Erosion Control	1,954,979	473,065	1,419,194	413,300	121,187	121,187	121,187	121,187	–	4,745,285
Water and Sewer Storm Drain, Street Improvements, Dry Utilities	359,171	357,771	1,073,314	–	–	–	–	–	–	1,790,256
Amenities, Entry Features, Walls, landscape, Parks	173,782	173,285	4,665,197	680,786	–	–	–	–	–	5,693,049
Other	183,855	21,630	1,154,211	1,956,040	–	–	–	–	–	7,963,315
	<u>293,904</u>	<u>293,904</u>	<u>881,713</u>	<u>–</u>	<u>1,956,040</u> <u>(5,135,684)</u>	<u>1,581,923</u> <u>1,375,000</u>	<u>1,009,615</u> <u>1,375,000</u>	<u>100,000</u> <u>1,375,000</u>	<u>–</u> <u>\$ 1,375,000</u>	<u>1,833,838</u>
<b>Total</b>	\$9,070,535	\$1,475,074	\$9,657,386	\$3,508,884	\$(2,650,589)	\$3,485,978	\$2,913,670	\$2,004,055	\$1,375,000	\$30,839,994

<sup>1</sup> Pro forma residential development costs only. Does not include land acquisition costs. The table does not include costs which Lennar KFPLB, LLC estimates will be financed through proceeds of the 2005 Bonds or proceeds of bonds issued by City of Irvine Community Facilities District No. 2004-1. For purposes of the Appraisal, the Appraiser has assumed that the City of Irvine Community Facilities District No. 2004-1 bonds are not issued and Lennar KFPLB, LLC or subsequent owners will bear such costs.

Source: Lennar KFPLB, LLC.

The discussion and budgets set forth above merely reflect Lennar KFPLB, LLC's estimate regarding development of the property. There can be no assurance that Lennar KFPLB, LLC and the Builders will have the resources, willingness or ability to successfully implement the development plan as described above.

As of June 1, 2005, Lennar KFPLB, LLC owned the property within the Community Facilities District. Pursuant to the provisions of the Option Agreement, Lennar KFPLB, LLC granted Lennar Central Park, LLC or its assignees, the right, but not the obligation, to purchase all of the lots subject to such Option Agreement. (Lot No. 8 is not subject to the Option Agreement.) As indicated above, the residential units are proposed to be developed by the Builders.

The sites that Lennar KFPLB, LLC acquired in the Community Facilities District required demolition and removal of the then existing buildings and construction of various public and private improvements before the sites could be ready for development. The description of those improvements to be constructed and the schedule for completing each improvement is summarized in Table 2 above.

*Description of the Projects.* Title to the parcels in the Community Facilities District was transferred from KFPLB Michelson Jamboree, LLC to Lennar KFPLB, LLC on or about December 1, 2004. As of June 15, 2005, demolition and removal of the Parker-Hannifin Corporation buildings was complete and mass grading was underway on the sites. As of June 15, 2005, there was no vertical construction. The first production units are not scheduled to commence construction until the first quarter of 2006. Some of the models for the various developments are expected to be located off-site. Residential units are estimated to range from 925 to 2,150 square feet. Information regarding estimated absorption is provided in Tables 4 and Table 8 below.

The development, together with the estimated unit sizes are set forth below.

**Table 3**  
**Santa Ana Unified School District**  
**Community Facilities District No. 2004-1**  
**(Central Park Project)**  
**Description of Development Average Square Footage**

<u>Lot Number</u>	<u>General Description</u>	<u>Range of Estimated Avg. Unit Size (Square Feet)<sup>(1)</sup></u>	<u>Total Units Est./Authorized<sup>(2)</sup></u>	
<i>Residential Property</i>				
Lot No. 3	Lofts	1,230 - 1,245	106	118
Lot Nos. 4 and 11	Brownstone Townhomes	1,400	150	168
Lot Nos. 5 and 6	Brownstone Villas	1,400	132	147
Lot No. 7	Two Mid-Rise Towers	1,500 - 1,549	216	240
Lot No. 8	Affordable housing	N/A	56	62
Lot No. 9 and 10	Lofts/Flats	925 - 1,230	335	372
Lot No. 12 and 15	Luxury Flats	1,595 - 1,945	159	177
Lot No. 13, 14, 16 and 17	Luxury Townhomes	2,150	88	96
Total Residential Units			1,242	1,380
<i>Retail and Commercial Property</i>				
Lot 1	Commercial	N/A	19,700 sf	
Lot 2	Office tower	N/A	90,000 sf	

- (1) Estimated average unit sizes reflect average sizes among product type and are subject to change. With respect to Lot Nos. 9 and 10 and Lot Nos. 12 and 15, the estimated average unit sizes reflect estimates for that product type and do not necessarily reflect the estimated range of units within each such Lot.
- (2) In accordance with the Development Agreement and approved entitlements, Lennar KFPLB, LLC would be allowed to construct up to 1,380 residential housing units within the Community Facilities District. For planning purposes by the Community Facilities District in estimating Special Tax Revenues from Developed Property, development within the Community Facilities District has been assumed to be approximately 1,242 residential units, a 10% reduction from the allowed units. The affordable units proposed for development within Lot 8 would be exempt from the Special Tax levy. The Absorption Study estimates absorption of 1,238 units. Lennar KFPLB, LLC's estimates regarding development vary from time to time. The entitlement allows density transfers among lots and Lennar KFPLB, LLC is evaluating alternatives for density transfers which may increase or decrease the number of units built and the square footages of units built.

The foregoing estimates were provided by Lennar KFPLB, LLC. The Market Absorption Study contains projected absorption at build out of production homes. The Absorption Study also contains assumption regarding average sales price ranges. Lennar KFPLB, LLC is negotiating agreements regarding sales of lots to various entities and estimates regarding base average sales price ranges are not available as of August 23, 2005. See "THE COMMUNITY FACILITIES DISTRICT – Market Absorption Study" and APPENDIX D – "Market Absorption Study."

*Status of Permits and Approvals.* A final map encompassing all of the property within the Community Facilities District was approved by the City Council on May 10, 2005 and recorded on May 19, 2005. Backbone infrastructure improvements, including water, sewer, drainage, street improvements, paving and street lights are under construction in the Community Facilities District. All of such improvements are estimated to be substantially completed by the end of the second quarter of 2006. In order to complete the development, the respective Builders must construct the production residential units or retail and commercial buildings. Lennar KFPLB, LLC must complete interior streets and utilities.

As of June 1, 2005, Lennar KFPLB, LLC has estimated the costs to develop the parcels to the stage of super pads with the foregoing backbone infrastructure to be \$30,839,994 excluding land acquisition costs, estimated facilities financed with proceeds of the 2005 Bonds and with proceeds of the City Community Facilities District.

As of June 1, 2005, Lennar KFPLB, LLC has expended in the aggregate approximately \$9,070,535 in development, infrastructure and financing costs relating to development of the property within the Community Facilities District, exclusive of land acquisition costs, debt service and general and administrative costs.

Major infrastructure which remains to be constructed includes the interior streets, traffic signals, storm drains, water lines and sewer lines.

Lennar KFPLB, LLC has received will-serve letters from IRWD to provide water and wastewater services to the property.

Lennar KFPLB, LLC has entered into an agreement with the Orange County Fire Authority relating to the provision of fire suppression and prevention services by the Orange County Fire Authority to the property within the Community Facilities District.

*Environmental Review.* Most required development approvals were obtained over the last several years. See “THE COMMUNITY FACILITIES DISTRICT – Environmental Conditions” above. The project had previously been used as a research and office facilities and is subject to mitigation and monitoring relating to that use. Parker-Hannifin Corporation is responsible for cleanup of the site. There were no issues relating to sensitive plant or animal species on the property. An archaeologist was on site during grading and remains on site. Lennar KFPLB, LLC is not aware of any additional environmental permits required to proceed with development of the property other than the usual permits required from the City of Irvine and applicable local agencies. No lots are in the 100-year flood plain.

*Plan of Finance.* Lennar KFPLB, LLC has a project loan on the property within the Community Facilities District from Fremont Investment & Loan, a California Industrial Bank with a principal balance as of June 15, 2005 of \$105,000,000. Lennar KFPLB LLC and Fremont Investment & Loan, entered into an Assignment (Option Agreement with Agreement for Purchase and Sale and Escrow Instructions), in connection with the \$105 million loan. The loan matures on the date the property is transferred pursuant to the Option Agreement or December 5, 2005, whichever first occurs.

The foregoing plans and Lennar KFPLB, LLC’s projections are subject to change. There can be no assurance that Lennar KFPLB, LLC, Lennar Central Park, LLC, Lennar Homes of California, Inc. or the Builders have the willingness or ability to successfully implement the development plans described above. In the event that cost overruns occur which exceed the funds described in the section captioned “*Plan of Finance*” above, Lennar Central Park, LLC, Lennar Homes of California, Inc., and the Builders will need to raise additional funds. No assurance can be given that such funds could be raised or would be raised on a timely basis. Continued development in the Community Facilities District may also be adversely affected by changes in general economic conditions, fluctuations in the real estate market and other similar factors. See “BONDOWNERS’ RISKS” herein for a discussion of risk factors.

If and to the extent that internal financing and land sales revenues are inadequate to pay the costs to complete the planned development of the lots within the Community Facilities District, portions of the project may not be developed. While Lennar Corporation has made such internal financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future; and it has no legal obligation of any kind to Bondowners to make any such contributions or to obtain loans. Other than pointing out the willingness of Lennar Corporation to provide internal financing in the past, Lennar Homes has not represented in any way that Lennar Corporation will do so in the future.

*Absorption.*

The estimated units per quarter, estimated quarter in which absorption will commence and estimated quarter in which final units will be absorbed are set forth below:

**Table 4**  
**Santa Ana Unified School District**  
**Community Facilities District No. 2004-1**  
**(Central Park Project)**  
**Description of Estimated Absorption Commencement Date and**  
**Absorption Completion Date by Quarter**

Lot No.	Estimated Units/Sq. Ft.	Units per Qtr.	Commencing	Concluding
1	19,700 sq. ft.	N/A	1st Qtr., 2008 <sup>(1)</sup>	2 <sup>nd</sup> qtr 2008 <sup>(1)</sup>
2	90,000 sq. ft.	N/A	1 <sup>st</sup> Qtr., 2008 <sup>(1)</sup>	2nd Qtr. 2009 <sup>(1)</sup>
3	106 lofts	9	4 <sup>th</sup> Qtr., 2007	3 <sup>rd</sup> Qtr., 2010
4 and 11	150 brownstone townhomes	18	4 <sup>th</sup> Qtr., 2006	4 <sup>th</sup> Qtr., 2008
5 and 6	132 brownstone villas	18	4 <sup>th</sup> Qtr., 2006	3 <sup>rd</sup> Qtr., 2008
7	216 mid-rise towers	30	1 <sup>st</sup> Qtr., 2008	4 <sup>th</sup> Qtr., 2009
8	56 affordable units	18	4 <sup>th</sup> Qtr., 2007	3 <sup>rd</sup> Qtr., 2008
9 and 10	335 lofts/flats	27	4 <sup>th</sup> Qtr., 2007	4 <sup>th</sup> Qtr., 2010
12	78 luxury flats	9	4 <sup>th</sup> Qtr., 2007	4 <sup>th</sup> Qtr., 2009
13, 14, 16 and 17	88 luxury townhomes	15	4 <sup>th</sup> Qtr., 2006	1 <sup>st</sup> Qtr., 2008
15	81 luxury flats	9	4 <sup>th</sup> Qtr., 2007	4 <sup>th</sup> Qtr., 2009

<sup>(1)</sup> Estimated dates depends on date of issuance of building permits with respect to Lot Nos. 1 and 2 which depends on product configuration which has not been finally determined and is subject to change.

The foregoing absorption estimates were provided by Lennar KFPLB, LLC. The Market Absorption Study contains projected absorption at build out of production homes which varies from the absorption estimated above. See “THE COMMUNITY FACILITIES DISTRICT – Market Absorption Study” and APPENDIX D – “Market Absorption Study.”

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* The officer executing a certificate on behalf of Lennar KFPLB, LLC certifies that, to his actual knowledge:

- Lennar KFPLB, LLC, has numerous Affiliates (as defined in the Lennar KFPLB, LLC Continuing Disclosure Agreement attached hereto as Appendix G), consisting of various entities that are developing or have been involved in the development of numerous different projects in states throughout the country over an extended period of time. It is likely that any such Affiliates have been delinquent at one time or another in the payment of *ad valorem* property taxes, special assessments or special taxes. Lennar KFPLB, LLC does not have actual knowledge that any such Affiliate is currently delinquent in any material amount in the payment of *ad valorem* property taxes, special assessments or special taxes in the State.
- Neither Lennar KFPLB, LLC nor any of its Affiliates is currently in material default on any loans, lines of credit or other obligation related to its development in the Community Facilities District or any of its other projects which default would in any way materially and adversely affect its ability to develop its property in the Community Facilities District as described in the Official Statement or to pay the Special Taxes for which it is responsible. No Affiliate has any loans, lines of credit, or other obligation related to the development in the Community Facilities District.

- Lennar KFPLB, LLC is solvent and neither Lennar KFPLB, LLC nor any of its current Affiliates, including Lennar Homes of California, Inc., has filed bankruptcy or been declared bankrupt, or has any proceeding pending or to the actual knowledge of the officer executing a certificate on behalf of KFPLB, LLC threatened in which Lennar KFPLB, LLC or any Affiliate may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations.

- No action, suit, proceedings, inquiry or investigations at law or in equity, before or by any court, regulatory agency, public board or body, is pending (with service of process to Lennar KFPLB, LLC or any Affiliate having been accomplished) against Lennar KFPLB, LLC or any Affiliate or, to the actual knowledge of the officer signing on behalf of Lennar KFPLB, LLC threatened, which if successful, would materially adversely affect the ability of Lennar KFPLB, LLC or any Affiliate to complete the development and sale of the property proposed for development by such entities within the Community Facilities District or to pay special taxes or *ad valorem* tax obligations when due on such property within the Community Facilities District.

### **LNR Central Park, Inc.**

LNR Central Park, Inc., is a California corporation. LNR Central Park, Inc. is a member of Lennar Central Park, LLC. LNR Central Park, Inc. has a right of first offer with respect to Lot Nos. 1 and 2. LNR Central Park, Inc. is negotiating the purchase of Lot Nos. 1 and 2 and if successful in acquiring those lots may form a separate legal entity or entities to acquire and develop of the commercial property located within Lot Nos. 1 and 2. The managing member of any entity formed is expected to be LNR Central Park, Inc.

LNR Central Park, Inc. is an indirect wholly owned subsidiary of LNR Property Corporation, a Delaware corporation. LNR Property Corporation had been listed on the New York Stock Exchange (trading symbol "LNR") but on February 3, 2005, LNR Property Corporation completed a merger that was the subject of a Plan and Agreement of Merger dated as of August 29, 2004 as a result of which LNR Property Corporation became a private company, not subject to the reporting requirements of the Securities and Exchange Commission.

*LNR Central Park, Inc. or any entity formed by LNR Central Park, Inc. has no legal obligation to acquire any property in the Community Facilities District and LNR Central Park, Inc. has no legal or contractual obligation to contribute funds to any project or joint venture, or to complete construction of any project or to pay the Special Taxes.*

*Plan of Finance; Absorption.* LNR Central Park, Inc. is negotiating the purchase of Lot Nos. 1 and 2. As of August 23, 2005, LNR Central Park, Inc. has not determined the manner in which it will finance the purchase of Lot No. 1 and Lot No. 2 from Lennar KFPLB, LLC and the construction of the commercial building and the office tower. Such financing may be through a combination of cash, equity and debt financing. As of August 23, 2005, LNR Central Park, Inc. has not determined the expected absorption schedule with respect to Lot Nos. 1 and 2.

*There is no assurance that LNR Central Park, Inc. will acquire any property within the Community Facilities District or that amounts necessary to finance the remaining site development and construction costs within the commercial portions of the project will be available from any source, when needed. LNR Central Park, Inc. is under no legal obligation of any kind to acquire Lots 1 and 2 within the Community Facilities District. Any contribution of capital by LNR Central Park, Inc. or any members of any limited liability company or joint venture or any other entity, or any borrowings by any such entity whether to fund costs of development within Lot No. 1 or Lot No. 2, or to fund costs of development within any residential lots or to pay Special Taxes, is entirely voluntary.*



### **Estimated Special Tax Allocation by Property Ownership**

As of August 23, 2005, Lennar KFPLB, LLC owned all of the property within the Community Facilities District, with an option to Lennar Central Park, LLC, or its assigns (except with respect to Lot No. 8). Lennar Central Park, LLC is negotiating various agreements with Lennar Homes of California, Inc., and various builders. If a Special Tax were levied in Fiscal Year 2005-06, the actual allocation among Lennar KFPLB, LLC, Lennar Central Park, LLC or any other entities can not be determined as of August 23, 2005. Interest is capitalized for 24 months from the date of issuance of the 2005 Bonds and the first year in which Special Taxes will be levied is 2007-08. The actual allocation of Special Taxes will depend on the sale of lots by Lennar KFPLB, LLC and the development and sale of the property in the intervening period. A builder of affordable housing is negotiating the acquisition of Lot No. 8 for development of affordable housing units. If developed as affordable housing units, such units would be exempt from the levy of the Special Tax.

**Table 5**  
**Community Facilities District No. 2004-1**  
**(Central Park Project)**  
**Owners of Taxable Property as of August 23, 2005**  
**and Estimated Allocation of Special Tax Liability**  
**Based on Fiscal Year 2005-06 <sup>(1)</sup>**

Property Owner/ Merchant Builder	Lot No.	Planning Area	Number of Units <sup>(2)</sup>	Units Authorized <sup>(2)</sup>	Acreage	Estimated Developed Special Tax	Estimated Undeveloped Special Tax	Percent of Developed Sp. Tax Obligation <sup>(3)</sup>
Lennar KFPLB, LLC	3	2	106	118	1.62	\$57,229.40	\$71,311.57	6.21%
Lennar KFPLB, LLC	4	4	59	66	2.08	\$46,464.86	\$52,402.77	5.04%
Lennar KFPLB, LLC	5	4	86	96	3.09	\$58,247.80	\$77,848.35	6.32%
Lennar KFPLB, LLC	6	4	46	51	1.62	\$31,155.80	\$40,813.70	3.38%
Lennar KFPLB, LLC	7	1	216	240	1.98	\$208,027.44	\$172,113.64	22.57%
Lennar KFPLB, LLC	8	1	56	62	N/A	N/A	N/A	N/A
Lennar KFPLB, LLC	9	2	161	179	2.43	\$86,923.90	\$106,967.36	9.43%
Lennar KFPLB, LLC	10	2	174	193	2.60	\$93,942.60	\$114,450.67	10.19%
Lennar KFPLB, LLC	11	3	91	102	3.19	\$71,666.14	\$76,941.68	7.78%
Lennar KFPLB, LLC	12	2	78	87	1.50	\$61,428.12	\$66,029.24	6.66%
Lennar KFPLB, LLC	13	4	21	23	1.09	\$20,224.89	\$27,461.07	2.19%
Lennar KFPLB, LLC	14	4	23	25	1.18	\$22,151.07	\$29,728.50	2.40%
Lennar KFPLB, LLC	15	2	81	90	1.56	\$92,229.84	\$68,670.40	10.01%
Lennar KFPLB, LLC	16	3	23	25	1.18	\$22,151.07	\$28,461.19	2.40%
Lennar KFPLB, LLC	17	3	21	23	1.08	\$20,224.89	\$26,049.22	2.19%
Retail and Commercial Property								
Lennar KFPLB, LLC	1	5	0	0	1.92	\$5,319.00	\$15,026.75	0.58%
Lennar KFPLB, LLC	2	5	<u>0</u>	<u>0</u>	<u>2.47</u>	<u>\$24,300.00</u>	<u>\$19,331.28</u>	<u>2.64%</u>
<b>Total</b>	N/A	N/A	1,242	1,380	30.59	\$921,686.82	\$993,607.39	100.00%

- (1) Interest is capitalized for 24 months from the date of issuance of the 2005 Bonds. The first year in which Special Taxes will be levied is Fiscal Year 2007-08.
- (2) In accordance with the Development Agreement and approved entitlements, Lennar KFPLB, LLC would be allowed to construct up to 1,380 residential housing units within the Community Facilities District. For planning purposes by the Community Facilities District in estimating Special Tax Revenues from Developed Property, development within the Community Facilities District has been assumed to be approximately 1,242 residential units, a 10% reduction from the allowed units. The affordable units proposed for development within Lot 8 would be exempt from the Special Tax levy. The Absorption Study estimates absorption of 1,238 units. Lennar KFPLB, LLC's estimates regarding development vary from time to time. The entitlement allows density transfers among lots and Lennar KFPLB, LLC is evaluating alternatives for density transfers which may increase or decrease the number of units built and the square footages of units built.
- (3) Includes debt service plus estimated administrative expenses less capitalized interest.
- (4) Total may not add due to rounding.

Source: David Taussig & Associates, Inc.

## Direct and Overlapping Debt

Table 6 below, which sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the Community Facilities District, was prepared by National Tax Data and is based on taxes levied for Fiscal Year 2004-05 (the "Debt Report"). The Debt Report is included for general information purposes only. In certain cases, the percentages of debt calculations are based on assessed values, which will change significantly as sales occur and assessed values increase to reflect housing values. The Community Facilities District believes the information is current as of its date, but makes no representation as to its completeness or accuracy. Other public agencies, such as the City of Irvine, may issue additional indebtedness at any time, without the consent or approval of the Community Facilities District or the School District. See " – Overlapping Assessment and Community Facilities Districts" below.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Community Facilities District in whole or in part. Such long term obligations generally are not payable from property taxes, assessment or special taxes on land in the Community Facilities District. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency. Additional indebtedness could be authorized by the Community Facilities District, the City of Irvine or other public agencies at any time.

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

**Table 6  
Community Facilities District No. 2004-1  
(Central Park Project)  
Detailed Direct and Overlapping Debt**

**I. Assessed Value**

**2004-2005 Secured Roll Assessed Value** **\$46,380,028**

**II. Secured Property Taxes**

Description on Tax Bill	Type	Total Parcels	Total Levy	% Applicable	Parcels	Levy
Basic Levy	PROP13	793,168	2,871,442,413	0.01615%	1	\$463,800.28
City of Irvine Landscape Lighting District No. 1	LLD	46,539	3,636,104	0.04829%	1	\$1,755.84
Metropolitan Water District of Southern California Debt Service	GO	518,591	11,116,658	0.02420%	1	\$2,690.04
Metropolitan Water District of Southern California Water Standby	STANDBY	519,108	6,273,874	0.00681%	1	\$427.00
Orange County Vector Control Assessment	VECTOR	741,240	1,482,511	0.00042%	1	\$6.24
Orange County Vector Control Mosquito & Fire Ant Assessment	VECTOR	740,938	4,299,321	0.00397%	1	\$170.72
Rancho Santiago Community College Debt Service 2002 Election	GO	118,602	10,992,678	0.11501%	1	\$12,643.19
Santa Ana Unified School District Debt 1999, Series 2000	GO	41,093	2,896,589	0.28870%	1	\$8,362.32
Santa Ana Unified School District Debt 1999, Series 2002A	GO	41,093	1,518,177	0.28870%	1	\$4,382.91
Santa Ana Unified School District Debt 1999, Series 2002B	GO	41,093	3,555,260	0.28870%	1	\$10,263.90
<b>2004-2005 TOTAL PROPERTY TAX LIABILITY</b>						<b>\$504,502.44</b>

**TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2004-2005 ASSESSED VALUATION** **1.09%**

**III. Land Secured Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
Santa Ana Unified School District CFD No. 2004-1	CFD	TBD	TBD	100.00000%	1	TBD
<b>TOTAL LAND SECURED BOND INDEBTEDNESS (1)</b>						<b>\$0</b>

**TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS (1)** **\$0**

**IV. General Obligation Bond Indebtedness**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
Metropolitan Water District of Southern California Debt Service	GO	\$850,000,000	\$447,475,000	0.00314%	1	\$14,042
Santa Ana Unified School District Debt 1999	GO	\$145,148,156	\$140,943,156	0.23974%	1	\$337,895
<b>TOTAL GENERAL OBLIGATION BOND INDEBTEDNESS (1)</b>						<b>\$351,937</b>

**TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS (1)** **\$351,937**

**TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT** **\$351,937**

(1) Additional bonded indebtedness or available bond authorization may exist but are not shown because a tax was not levied for the referenced fiscal year.

Source: National Tax Data, Inc.

Table 7 below sets forth estimated Fiscal Year 2005-06 overall tax rates applicable to a single-family residential unit with 1,250 building square feet. The Special Tax rates, and therefore the overall tax rates, are higher for larger homes. Table 7 also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

**Table 7**  
**Community Facilities District No. 2004-1**  
**of the Santa Ana Unified School District**  
**(Central Park Project)**  
**Estimated Fiscal Year 2005-06 Tax Rates**  
**(Single-Family Residential Unit Containing 1,250 Building Square Feet)**

ASSESSED VALUATION AND PROPERTY TAXES			
Estimated Sale Price [1]	\$417,500		
Homeowner's Exemption	<u>(\$7,000)</u>		
Assessed Value [2]	\$410,500		
		Percent of	Projected
		<u>Total AV</u>	<u>Amount</u>
AD VALOREM PROPERTY TAXES			
General Purposes		1.00000%	\$4,105.00
Ad Valorem Tax Overrides			
RSCCD 2002 Bond 2003A		0.02726%	\$111.90
Santa Ana USD 99 Bond 2002B		0.02213%	\$90.84
Santa Ana USD 99 Bond 2000		0.01803%	\$225.78
Santa Ana USD 99 Bond 2002A		0.00945%	\$38.79
Metro Water District-Orange County		0.00580%	\$23.81
Total Ad Valorem Property Taxes		1.08267%	\$4,596.12
ASSESSMENTS, SPECIAL TAXES, AND PARCEL CHARGES			
Santa Ana Unified School District CFD No. 2004-1			\$539.90
Orange County Vector Control Mosquito & Fire Ant Assessment			\$5.42
Metropolitan Water District of Southern California Water Standby			\$10.07
City of Irvine Landscape Lighting District No. 1			\$86.63
Orange County Vector Control Assessment			\$1.92
City of Irvine CFD No. 2004-1			\$1,087.00
PROJECTED TOTAL PROPERTY TAXES			\$6,316.47
Projected Total Effective Tax Rate (as of % of Sale Price)			1.51%

[1] Base Sales price for a single family detached unit with a taxable area of 1,250 square feet.

[2] Assessed Value reflects estimate total assessed value for the parcel net of homeowner's exemption.

*Source: David Taussig & Associates, Inc.*

## Overlapping Assessment and Community Facilities Districts

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

Accordingly, the debt on the property within the Community Facilities District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the 2005 Bonds are issued between the value of the property and the debt secured by the Special Taxes and other taxes and assessments which may be levied on such property. The incurring of such additional indebtedness could also affect the ability and willingness of the property owners within the Community Facilities District to pay the Special Taxes when due.

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

## Other Overlapping Direct Assessments

Contained within the Community Facilities District are numerous overlapping local agencies providing public services. Some of such local agencies have outstanding bonds issued in the form of general obligation and special assessment bonds. Additional indebtedness could be authorized by the School District, the City of Irvine or other public agencies at any time.

*Metropolitan Water District of Southern California Water Standby.* Property within the Community Facilities District is subject to the Metropolitan Water District of Southern California Water Standby. This pay-as-you-go assessment is used for water conservation programs, emergency programs, water treatment and capital improvements such as transporting water from Colorado and Northern California to Southern California. The annual assessment for Fiscal Year 2005-06 is \$10.07 per acre or per parcel for parcels less than one (1) acre. This assessment is fixed unless registered voters of the State of California elect to increase the assessment.

*Orange County Vector Control Assessment.* Property within the Community Facilities District will be subject to the Orange County Vector Control Assessment. This pay-as-you-go assessment funds efforts to protect residents from any animal capable of transmitting human disease, injury or discomfort. This assessment also funds a system of public improvements aimed at the surveillance, prevention, abatement and control against specified vectors. The annual assessment for Single Family Residential Units in Fiscal Year 2005-06 is \$1.92 per unit. Commercial property is assessed at a rate of \$1.92 (the rate for Single Family Residential Units) per 1/5 of an acre for the first five (5) acres and \$1.92 per acre for each additional acre. This assessment is not expected to increase.

*Orange County Vector Control Mosquito & Fire Ant Assessment.* Property within the Community Facilities District will be subject to the Orange County Vector Control Mosquito & Fire Ant Assessment. This pay-as-you-go assessment is levied by the County of Orange to provide funding for surveillance, prevention, abatement and control for insect populations including the red imported fire ant, mosquitoes and other disease carrying insects. The assessment funds treatment and control against new pathogens such as the West Nile Virus and also monitors new and emerging vectors such as the Asian Tiger Mosquito.

The annual assessment for Single Family Residential Units in Fiscal Year 2005-06 is \$5.42 per unit. Commercial property is assessed at a rate of \$2.71 (one half of the rate for Single Family Residential Units) per 1/5 of an acre for the first five (5) acres and \$2.71 per acre for each additional acre. This assessment is not expected to increase.

*City of Irvine Landscape Lighting District No. 1.* Property within the Community Facilities District will be subject to the City of Irvine Lighting and Landscaping District No. 1 Assessment. The annual assessment for Fiscal Year 2005-06 is \$86.63 per unit for all residential property, while commercial property is assessed at a rate of \$286.69 per acre. This pay-as-you-go assessment is used to fund the regular maintenance and service of all landscaping, public lighting facilities, parks and recreation facilities, irrigation systems, sidewalks and appurtenant facilities and all plant life located within the boundary of the City of

Irvine. These rates are subject to escalation each year at the lesser of 3.5% or the annual increase in the Consumer Price Index.

*City of Irvine CFD No. 2004-1.* The City of Irvine formed Community Facilities District No. 2004-1 to finance, via the issuance of bonds, infrastructure improvements and eligible impact fees attributable to the property within City of Irvine Community Facilities District 2004-1. The assessment on residential property is levied on a per unit basis depending on the square footage of the residential unit. The assessment on non-residential property is levied on a per square foot basis. The following table outlines the assessments for residential and non-residential property within CFD No. 2004-1 for Fiscal Year 2005-06:

Land Use Class	Description	Residential Floor Area/Unit Type	Maximum Special Tax
1	Residential Property	More than 2,000 s.f.	\$2,411 per unit
2	Residential Property	1,751 – 2,000 s.f.	\$2,347 per unit
3	Residential Property	1,501 – 1,750 s.f.	\$2,020 per unit
4	Residential Property	1,251 – 1,500 s.f.	\$1,341 per unit
5	Residential Property	Less than 1,251 s.f.	\$1,087 per unit
6	Residential Property	Affordable Units	\$0 per unit
7	Non-Residential Property	N/A	\$0.2914 per square foot of Non-Residential Floor Area

This assessment is not authorized to increase.

#### **Estimated Assessed Value-to-Lien Ratios**

The assessed values, direct and overlapping debt and total tax burden on individual parcels varies among parcels within the Community Facilities District. The value of individual parcels is significant because in the event of a delinquency in the payment of Special Taxes, the Community Facilities District may foreclose only against delinquent parcels. As of August 23, 2005, based on the Fiscal Year 2004-05 Assessor’s tax roll, the the parcels in the Community Facilities District have a value-to-lien ratio of approximately 3.82:1.

#### **Market Absorption Study**

Empire Economics, Inc., the market absorption consultant (the “Market Absorption Consultant”) has prepared a market analysis of the property in the Community Facilities District in its Market Absorption Study, Revised June 21, 2005 (Original Study: June 1, 2005) (the “Market Absorption Study”).

Based upon its analysis of the expected demographic-economic trends, the Market Consultant estimated the Community Facilities District is expected to accommodate approximately 1,238 to 1,380 residential units at build-out by the end of 2011. The Market Absorption Consultant’s estimated absorption rates of the different categories of residential units are as follows:

**Table 8  
Community Facilities District No. 2004-1  
(Central Park Project)  
Projected Absorption  
June 1, 2005**

Product Types	Lofts	Lofts/ Flats	Brownstone/ Townhomes	Brownstone Villas	Luxury Flats A	Luxury Flats B	Luxury Townhomes	Hi-Rise Tower Condominiums	Hi-Rise Tower Penthouses	Total Residential	
										Annually	Cumulative
<b>Units/Acre</b>	68	78	32	31	50	60	21	150			
<b>Development Status</b>											
Total	107	342	163	127	78	81	100	221	19	1,238	100.0%
Escrow Closed	0	0	0	0	0	0	0	0	0	0	0%
Forthcoming:	107	342	163	127	78	81	100	221	19	1,238	100%
Share - Forthcoming	868%	27.6%	13.2%	10.3%	6.3%	6.5%	8.1%	17.9%	1.5%	100.0%	
<b>Prices - Estimated</b>											
Plan #1	\$395,000	\$290,000	\$483,000	\$586,000	\$800,000	\$650,000	\$817,000	\$411,000	\$1,465,000		
Plan #2	\$435,000	\$330,000	\$527,000	\$628,000	\$845,000	\$695,000	\$877,000	\$507,000	\$1,569,000		
Plan #3	\$475,000	\$370,000	\$569,000	\$670,000	\$890,000	\$740,000	\$937,000	\$593,000			
Plan #4	\$515,000	\$410,000	\$608,000	\$708,000	\$935,000	\$785,000	\$997,000	\$669,000			
Plan #5								\$739,000			
Averages	\$455,000	\$350,000	\$546,750	\$648,000	\$867,500	\$717,500	\$907,000	\$583,800	\$1,517,000	\$576,839	
<b>Living Area - Estimated</b>											
Plan #1	1,050	700	1,175	1,425	1,750	1,400	1,850	900	2,300		
Plan #2	1,200	850	1,325	1,575	1,900	1,550	2,050	1,150	2,600		
Plan #3	1,350	1,000	1,475	1,725	2,050	1,700	2,250	1,400			
Plan #4	1,500	1,150	1,625	1,875	2,200	1,850	2,450	1,650			
Plan #5								1,900			
Averages	1,275	925	1,400	1,650	1,975	1,625	2,150	1,400	2,450	1,411	
<b>Value Ratio</b>	\$357	\$378	\$391	\$393	\$439	\$442	\$422	\$417	\$619	\$409	
<b>Commence Closings &gt;</b>											
	1 <sup>st</sup> -2008	1 <sup>st</sup> -2008	1 <sup>st</sup> -2007	1 <sup>st</sup> -2007	1 <sup>st</sup> -2008	1 <sup>st</sup> -2008	1 <sup>st</sup> -2007	3 <sup>rd</sup> -2007	3 <sup>rd</sup> -2007		
2005	0	0	0	0	0	0	0	0	0	0	0
2006	0	0	0	0	0	0	0	0	0	0	0
2007	0	0	60	50	0	0	30	0	8	140	140
2008	60	100	60	50	35	40	30	100	8	483	623
2009	47	100	43	27	35	41	30	100	3	431	1,054
2010	0	100	0	0	8		10	21	0	142	1,196
2011	0	42	0	0	0	0	0	0	0	42	1,238
<b>Totals</b>	<b>107</b>	<b>342</b>	<b>163</b>	<b>127</b>	<b>78</b>	<b>81</b>	<b>100</b>	<b>221</b>	<b>19</b>	<b>1,238</b>	



The Market Absorption Study is subject to a number of assumptions and limiting conditions. See APPENDIX D – “Market Absorption Study” for a discussion of the assumptions and limit conditions of the Market Absorption Study.

### **Appraised Property Value**

An appraisal prepared by an MAI appraiser of the land and existing improvements for the development within the Community Facilities District dated June 2005 (the “Appraisal”), has been prepared by Harris Realty Appraisal, MAI of Newport Beach, California (the “Appraiser”) in connection with issuance of the 2005 Bonds. The purpose of the appraisal was to estimate the market value of 16 of the 17 lots, reflecting the “as is” condition of the lots within each of the 16 lots. Lot 8, which is proposed for development as an affordable housing project, which would be exempt from the Special Tax levy was not appraised. The Appraisal also reflects the proposed Community Facilities District financing together with the overall tax rate to future homeowners of approximately 1.5%, including the Special Taxes and the special taxes which may be levied by City of Irvine Community Facilities District No. 2004-1. The Appraisal is based on certain assumptions. Subject to these assumptions, the Appraiser estimated that the fee simple market value of the Taxable Property within the Community Facilities District (subject to the lien of the Special Taxes) as of June 1, 2005, was \$90,000,000.

The Appraisal estimated the value of the property in the Community Facilities District as “finished lots,” that is, lots that are fully improved and ready for residential or retail or commercial structures to be built. This reflects that the lots have had fine grading, all in-tract streets and utilities have been completed and fees have been paid or credited (sewer, water, road, library, park, school, etc.) up to the stage of pulling building permits (which, as described in “Property Ownership and Development” above, is not yet the condition of the property within the Community Facilities District), less the remaining cost to the respective Builders to achieve finished lots (based on the status of the development process as of June 1, 2005). The estimate of value was based on fee simple ownership, subject only to easements of record and the lien of the Special Taxes and other special tax and assessment liens.

The Appraiser values the ownership in bulk, representing a discounted value to that ownership as of the date of value. The bulk value of the various proposed uses represents the market value of the entire property with the Community Facilities District. A developmental analysis was used. There are a number of contingencies in the appraisal including that costs associated with improvements require to satisfy the conditions of development that have been provided to the appraiser and included in the developmental analysis are reasonable and accurate.

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

The fee simple market value includes the value of extensive grading as of the date of value and the improvements to be financed by the 2005 Bonds. The market values reported in the Appraisal result in an estimated value-to-lien ratio of 7.42:1 calculated with respect to all direct and overlapping bonded debt as of the County Assessor’s Fiscal Year 2004-05 equalized assessment roll. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. The Appraisal is based on certain assumptions including a deduction from value for certain estimated costs which may be funded by the City of Irvine Community Facilities District No. 2004-1 if the City of Irvine Community Facilities District No. 2004-1 issues bonds. The value-to-lien ratio set forth above excludes debt of the City Community Facilities District No. 2004-1 which has a bond authorization of \$27,000,000. In the event the City of Irvine Community Facilities District No. 2004-01 issues bonds, the appraised value at that time will differ based both on any additional improvements as of the date of value of a future appraisal and based on use of City of Irvine Community Facilities District No. 2004-1 bond proceeds to finance certain of the estimated costs relating to the project which have been deducted in determining the estimate Appraised Value set forth above.

See “BONDOWNERS’ RISKS – Appraised Values” and “BONDOWNERS’ RISKS – Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property” herein and APPENDIX C – “Appraisal Report” appended hereto for further information on the Appraisal and for limiting conditions relating to the Appraisal.

## BONDOWNERS' RISKS

*In addition to the other information contained in this Official Statement, the following risk factors should be carefully considered in evaluating the investment quality of the 2005 Bonds. The School District cautions prospective investors that this discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the 2005 Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the Community Facilities District to pay their Special Taxes when due. Any such failure to pay Special Taxes could result in the inability of the School District to make full and punctual payments of debt service on the 2005 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Community Facilities District.*

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

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

### **Concentration of Ownership**

As of August 23, 2005, Lennar KFPLB, LLC is responsible for 100% percent of the Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT – Property Ownership and Development." If Lennar KFPLB, LLC or subsequent owners are unwilling or unable to pay the Special Tax when due, a potential shortfall in the Bond Fund could occur, which would result in the depletion of the Reserve Account prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Taxes and, consequently, a delay or failure in payments of the principal of or interest on the 2005 Bonds.

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

### **Failure to Develop Properties**

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

Land development is also subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. As of May 19, 2005, a final map was been recorded for the lots within the Community Facilities District. Subsequent maps are required to be filed with respect to certain of the attached units. The property within the Community Facilities District was previously developed with office buildings, research facilities, and public infrastructure improvements, which were recently demolished in preparation for development of the project and mass grading has commenced; however, additional approvals are necessary to complete the development. It is possible that the approvals necessary to complete development of the property within the Community Facilities District will not be obtained on a timely basis. Failure to obtain any such approval could adversely affect land development operations within the Community Facilities District. In addition, there is a risk that future governmental restrictions on land development within the Community Facilities District will be enacted, either directly by a governmental entity with jurisdiction or by the voters through the exercise of the initiative power.

The failure to complete the development or the required infrastructure in the Community Facilities District or substantial delays in the completion of the development or the required infrastructure for the development due to litigation, the inability to obtain required funding, failure to obtain necessary governmental approval or other causes may reduce the value of the property within the Community Facilities District and increase the length of time during which Special Taxes will be payable from Undeveloped Property, and may affect the willingness and ability of the owners of property within the Community Facilities District to pay the Special Taxes when due. See "THE COMMUNITY FACILITIES DISTRICT – Appraised Property Value."

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

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

The current and future owners of land within the Community Facilities District are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of the land within the Community Facilities District. If the value of the land within the Community Facilities District is not sufficient to fully secure the Special Tax, then the Community Facilities District has no recourse against the landowner under the laws by which the Special Tax has been levied and the 2005 Bonds have been issued.

### **The 2005 Bonds Are Limited Obligations of the Community Facilities District**

The Community Facilities District has no obligation to pay principal of and interest on the 2005 Bonds in the event Special Tax collections are delinquent, other than from amounts, if any, on deposit in the Reserve Account or funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent, nor is the Community Facilities District obligated to advance funds to pay such debt service on the 2005 Bonds.

### **Appraised Values**

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

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

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

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

### **Land Development**

A major risk to the Bondowners is that development by the property owners in the Community Facilities District may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of the property owners to pay Special Taxes when due. For example, proposed development within the Community Facilities District could be adversely affected unfavorable economic conditions, competing development projects, an inability of the current owners or future owners of the parcels to obtain financing, fluctuations in the real estate market or interest rates, unexpected increases in development costs, changes in federal, state or local governmental policies relating to the ownership of real

estate, faster than expected depletion of existing water allocations, the appearance of previously unknown environmental impacts necessitating preparation of a supplemental environmental impact report, and by other similar factors. There can be no assurance that land development operations within the Community Facilities District will not be adversely affected by the factors described above.

In addition, partially developed land is less valuable than developed land and provides less security for the 2005 Bonds (and therefore to the owners of the 2005 Bonds) should it be necessary for the Community Facilities District to foreclose on undeveloped property due to the nonpayment of Special Taxes. Moreover, failure to complete future development on a timely basis could adversely affect the land values of those parcels which have been completed. Lower land values result in less security for the payment of principal of and interest on the 2005 Bonds and lower proceeds from any foreclosure sale necessitated by delinquencies in the payment of the Special Taxes.

Furthermore, an inability to develop the land within the Community Facilities District as planned will reduce the expected diversity of ownership of land within the Community Facilities District, making the payment of debt service on the 2005 Bonds more dependent upon timely payment of the Special Taxes levied on the undeveloped property. Because of the concentration of undeveloped property ownership, the timely payment of the 2005 Bonds depends upon the willingness and ability of the current owners of undeveloped land to whom finished lots are sold to pay the Special Taxes levied on the undeveloped land when due. Furthermore, continued concentration of ownership increases the potential negative impact of a bankruptcy or other financial difficulty experienced by the existing landowners. See "Concentration of Ownership" above.

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

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

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

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Tax securing the 2005 Bonds.

In general, as long as the Special Tax is collected on the county tax roll, the Special Tax and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of Special Taxes securing the 2005 Bonds, the Special Tax will be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro rata basis. Although the Special Taxes will generally have priority over non-governmental liens on a parcel of Taxable Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the Special Tax or not, this result may not apply in the case of bankruptcy.

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

## **Disclosure to Future Purchasers**

The Community Facilities District has recorded a notice of the Special Tax lien in the Office of the Orange County Recorder on September 30, 2004, as Document No. 2004000879162 and an amended notice of the Special Tax lien in the Office of the Orange County Recorder on July 13, 2005, as Document No. 2005000541293. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a parcel of land or a residential unit in the Community Facilities District or the lending of money thereon. The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

## **Government Approvals**

Lennar KFPLB, LLC or its predecessors have secured most discretionary approvals, permits and government entitlements necessary to develop the land within the Community Facilities District. Nevertheless, development within the Community Facilities District is contingent upon the construction of a number of major public improvements as well as the necessary local in-tract improvements. The installation of the necessary improvements and infrastructure is subject to the receipt of construction or building permits from the County and other public agencies. The failure to obtain any such approval could adversely affect construction within the Community Facilities District. A slow down or stoppage of the construction process could adversely affect land values. No assurance can be given that permits will be obtained in a timely fashion, if at all. The failure to do so may result in the prevention, or significant delays in the development of the project or portions thereof. See "Failure to Develop Properties" above.

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

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

## **Endangered and Threatened Species**

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

At present, the property within the Community Facilities District is not known to be inhabited by any plant or animal species which either the California Fish and Game Commission or the U.S. Fish & Wildlife Service has listed as endangered or threatened. See the subheading “Environmental Conditions” under the caption “THE COMMUNITY FACILITIES DISTRICT” for a discussion of the permitting requirements Lennar KFPLB, LLC and its predecessors satisfied in developing the property. Furthermore, Lennar KFPLB, LLC reports that due to the prior use of the property, the property within the Community Facilities District is not known to be inhabited by any plant or animal species which either the California Fish and Game Commission or the U. S. Fish & Wildlife Service has proposed for addition to the endangered species list.

### **Hazardous Substances**

While governmental taxes, assessments, and charges are a common claim against the value of Taxable Property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Tax is a claim with regard to hazardous substances. In general, the owners and operators of parcels within the Community Facilities District may be required by law to remedy conditions of the parcels related to the releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substances condition of a property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should any parcel within the Community Facilities District be affected by a hazardous substance, would be to reduce the marketability and value of the parcel by the costs of remedying the condition, because the owner (or operator) is obligated to remedy the condition. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling or disposing of it. All of these possibilities could significantly affect the financial and legal ability of a property owner to develop the affected parcel or other parcels, as well as the value of the property that is realizable upon a delinquency and foreclosure.

As noted above, Certain toxic materials are known to have been treated, stored, disposed, spilled or leaked onto the project site and some contaminated soils were found on the site. Parker-Hannifin Corporation has responsibility for environmental remediation of the site. See “THE COMMUNITY FACILITIES DISTRICT – Environmental Conditions” above.

The value of the property within the Community Facilities District, as set forth in the Appraisal hereto, does not take into account the possible reduction in marketability and value of any of the parcels of Taxable Property by reason of the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel. The Community Facilities District has not independently verified and is not aware that the owner (or operator) has such a current liability with respect to any of the parcels of Taxable Property, except as expressly noted. Furthermore, Lennar KFPLB, LLC reports that it is not aware of a current liability with respect to Hazardous Substances with respect to any of the parcels of Taxable Property. However, it is possible that such liabilities do currently exist and that the Community Facilities District is not aware of them.

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

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

The principal source of payment of principal of and interest on the 2005 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the Community Facilities District. The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2005 Bonds.

Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the 2005 Bonds, and certainly not a direct relationship.

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

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

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

Except as set forth above under “SECURITY FOR THE 2005 BONDS – Special Taxes” and “– First Amended Rate and Method” herein, the Bond Indenture provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY FOR THE 2005 BONDS – Proceeds of Foreclosure Sales” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2005 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the School District of the proceeds of sale if the Reserve Account is depleted. See “SECURITY FOR THE 2005 BONDS – Proceeds of Foreclosure Sales.”

In addition, the First Amended Rate and Method limits the increase of Special Taxes levied on parcels of Residential Property to cure delinquencies of other property owners in the Community Facilities District. See “SECURITY FOR THE 2005 BONDS – First Amended Rate and Method” herein.

### **Exempt Properties**

Certain properties are exempt from the Special Tax in accordance with the First Amended Rate and Method (see “SECURITY FOR THE 2005 BONDS – First Amended Rate and Method” herein). In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Special Tax; *provided, however*, that property within the Community Facilities District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Special Tax. In addition, although the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special

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

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

### **Depletion of Reserve Account**

The Reserve Account is to be maintained at an amount equal to the Reserve Requirement (see “SECURITY FOR THE 2005 BONDS – Reserve Account” herein). Funds in the Reserve Account may be used to pay principal of and interest on the 2005 Bonds in the event the proceeds of the levy and collection of the Special Tax against property within the Community Facilities District is insufficient. If funds in the Reserve Account for the 2005 Bonds are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the Bondowners pursuant to the Bond Indenture. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within the Community Facilities District at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Account will be depleted and not be replenished by the levy of the Special Tax.

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

The payment of property owners’ taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. See “SECURITY FOR THE 2005 BONDS – Proceeds of Foreclosure Sales” and “BONDOWNERS’ RISKS – Bankruptcy and Foreclosure Delay” herein. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

The ability of the Community Facilities District to collect interest and penalties specified by State law and to foreclose against properties having delinquent Special Tax installments may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the “FDIC”) has or obtains an interest. The FDIC would obtain such an interest by taking over a financial institution which has made a loan which is secured by property within the Community Facilities District. See “BONDOWNERS’ RISKS – Payments by FDIC and Other Federal Agencies.”

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

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

Delays and uncertainties in the Special Tax lien foreclosure process create significant risks for Bondowners. High rates of special tax payment delinquencies which continue during the pendency of



protracted Special Tax lien foreclosure proceedings, could result in the rapid, total depletion of the Reserve Account prior to replenishment from the resale of property upon foreclosure. In that event, there could be a default in payment of the principal of, and interest on, the 2005 Bonds. See "Concentration of Ownership" above.

### Bankruptcy and Foreclosure Delay

The payment of Special Taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent Special Taxes as discussed in the section herein entitled "SECURITY FOR THE 2005 BONDS" may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a judicial foreclosure may be delayed due to congested local court calendars or procedural delays.

The various legal opinions to be delivered concurrently with the delivery of the 2005 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the obligation to pay the Special Tax to become extinguished, bankruptcy of a property owner or of a partner or other equity owner of a property owner, could result in a stay of enforcement of the lien for the Special Taxes, a delay in prosecuting Superior Court foreclosure proceedings or adversely affect the ability or willingness of a property owner to pay the Special Taxes and could result in the possibility of delinquent Special Taxes not being paid in full. In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the 2005 Bonds and the possibility of delinquent Special Taxes not being paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments. To the extent that a significant percentage of the property in the Community Facilities District is owned by KFPLB, LLC, or any other property owner, and such owner is the subject of bankruptcy proceedings, the payment of the Special Tax and the ability of the School District to foreclose the lien of a delinquent unpaid Special Tax could be extremely curtailed by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

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

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

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

It should also be noted that on October 22, 1994, Congress enacted 11 U.S.C. Section 362(b)(18), which added a new exception to the automatic stay for *ad valorem* property taxes imposed by a political

subdivision after the filing of a bankruptcy petition. Pursuant to this new provision of law, in the event of a bankruptcy petition filed on or after October 22, 1994, the lien for *ad valorem* taxes in subsequent Fiscal Years will attach even if the property is part of the bankruptcy estate. Bondowners should be aware that the potential effect of 11 U.S. C. Section 362(b)(18) on the Special Taxes depends upon whether a court were to determine that the Special Taxes should be treated like *ad valorem* taxes for this purpose.

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

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

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

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

The School District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency on a parcel within the Community Facilities District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the 2005 Bonds should assume that the Community Facilities District will be unable to collect Special Taxes or to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, a default in payment on the 2005 Bonds. Based upon the secured tax roll as of January 1, 2004, the FDIC does not presently own any of the property in the Community Facilities District. The School District expresses no view concerning the likelihood that the risks described above will materialize while the 2005 Bonds are outstanding.

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

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

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

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

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

### **No Acceleration Provisions**

The 2005 Bonds do not contain a provision allowing for the acceleration of the 2005 Bonds in the event of a payment default or other default under the terms of the 2005 Bonds or the Bond Indenture. Pursuant to the Bond Indenture, a Bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies (see APPENDIX E – “Summary of Certain Provisions of the Bond Indenture” herein). So long as the 2005 Bonds are in book-entry form, DTC will be the sole Bondowner and will be entitled to exercise all rights and remedies of Bondowner.

### **District Formation**

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

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

### **Billing of Special Taxes**

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

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

property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See "SECURITY FOR THE 2005 BONDS – Proceeds of Foreclosure Sales," for a discussion of the provisions which apply, and procedures which the Community Facilities District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

### **Inability to Collect Special Taxes**

In order to pay debt service on the 2005 Bonds, it is necessary that the Special Tax levied against land within the Community Facilities District be paid in a timely manner. The Community Facilities District has covenanted in the Bond Indenture under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the 2005 Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. In the event such Superior Court foreclosure is necessary, there could be a delay in principal and interest payments to the owners of the 2005 Bonds pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. Although the Act authorizes the Board, as the Legislative Body of the Community Facilities District, to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the Board with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See "SECURITY FOR THE 2005 BONDS – Proceeds of Foreclosure Sales."

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

An initiative measure, Proposition 218, commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIIC ("Article XIIC") and Article XIID to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative have not yet been interpreted by the courts, although a number of lawsuits have been filed requesting the courts to interpret various aspects of the Initiative.

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2005 Bonds.

It may be possible, however, for voters or the Community Facilities District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2005 Bonds but which does

reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the 2005 Bonds.

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

The foregoing discussion of the Initiative should not be considered an exhaustive or authoritative treatment of the issues. The Community Facilities District does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of the Initiative on the 2005 Bonds as well as the market for the 2005 Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of the Initiative.

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

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

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the 2005 Bonds or, if a secondary market exists, that such 2005 Bonds can be sold for any particular price. Although the School District, the Community Facilities District and Lennar KFPLB, LLC, have committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of credit rating for the 2005 Bonds or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Loss of Tax Exemption**

As discussed under the caption "LEGAL MATTERS – Tax Exemption," the interest on the 2005 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2005 Bonds as a result of a acts or omission of the Community Facilities District and the School District in violation of certain provisions of the Code and the covenants of the Bond Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2005 Bonds, the School District has covenanted in the Bond Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2005 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2005 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Bond Indenture. See "THE 2005 BONDS – Redemption of the 2005 Bonds."

## **Limitations on Remedies**

Remedies available to the Bondowners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2005 Bonds or to preserve the tax-exempt status of the 2005 Bonds. See “Payments by FDIC and other Federal Agencies,” “No Acceleration Provisions” and “Billing of Special Taxes” herein.

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

## **LEGAL MATTERS**

### **Legal Opinion**

The legal opinion of Stradling Yocca Carlson & Rauth, Newport Beach, California, Bond Counsel, approving the validity of the 2005 Bonds will be made available to purchasers at the time of original delivery and is attached hereto as Appendix H. A copy of the legal opinion will be printed on each 2005 Bond. McFarlin & Anderson LLP, Lake Forest, California is serving as Disclosure Counsel. Stradling Yocca Carlson & Rauth will also pass upon certain legal matters for the School District and the Community Facilities District as special counsel to these entities.

### **Tax Opinion and Certain Matters**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2005 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2005 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2005 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The amount by which the issue price of a Bond (the first price at which a substantial amount of the 2005 Bonds of the same series and maturity is to be sold to the public) is less than the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2005 Bond Owner will increase the Bond Owner’s basis in the 2005 Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the 2005 Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income of interest (and original issue discount) on the 2005 Bonds is based upon certain representations of fact and certifications made by the Community Facilities District and others and is subject to the condition that the Community Facilities District complies with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the 2005 Bonds to assure that interest (and original issue discount) on the 2005 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the 2005

Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2005 Bonds. The Community Facilities District has covenanted to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2005 Bond to the Owner. Purchasers of the 2005 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2005 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2005 Bonds might be affected as a result of such an audit of the 2005 Bonds (or by an audit of similar bonds).

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2005 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of interest (and original issue discount) on the 2005 Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2005 Bonds is excluded from gross income for federal income tax purposes provided that the Community Facilities District continues to comply with certain requirements of the Code, the ownership of the 2005 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2005 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2005 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2005 Bonds.

Certain portions of Bond Counsel's opinion address federal income tax matters other than (A) the excludability of interest (and original issue discount) on Bonds from gross income under Section 103 of the Code, and (B) whether interest (and original issue discount) on the 2005 Bonds is an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations (these other matters not referred to in (A) or (B) above are hereinafter referred to as the "Non State and Local Bond Opinion Portions").

The Non State and Local Bond Opinion Portions (A) are not intended or written by Bond Counsel to be used, and cannot be used, by any Bondholder (or other taxpayer) for the purpose of avoiding penalties that may be imposed on the Bondholder or other taxpayer and (B) have been written to support the promotion or marketing of the 2005 Bonds. Bondholders (and other taxpayers) should seek advice based upon their particular circumstances, from an independent tax advisor, with respect to the Non State and Local Bond Opinion Portions applicable to the 2005 Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix H.

### **Absence of Litigation**

No litigation is pending or threatened concerning the validity of the 2005 Bonds. There is no action, suit or proceeding known by the Community Facilities District or the School District to be pending at the present time restraining or enjoining the delivery of the 2005 Bonds or in any way contesting or affecting the validity of the 2005 Bonds or any proceedings of the Community Facilities District or the School District taken with respect to the execution thereof. A no litigation certificate executed by the School District on behalf of the Community Facilities District will be delivered to the Underwriter simultaneously with the delivery of the 2005 Bonds.

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

The 2005 Bonds are not general obligations of the School District or the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from proceeds of the Special Tax and proceeds of the 2005 Bonds, including amounts in the Reserve Account, the Special Tax Fund and the Bond Fund and investment income on funds held pursuant to the Bond Indenture (other than as necessary to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable regulations promulgated pursuant thereto). Any tax levied for the payment of the 2005 Bonds shall be limited to the Special Taxes to be collected within the jurisdiction of the Community Facilities District.

## **NO RATINGS**

The 2005 Bonds have not been rated by any securities rating agency.

## **UNDERWRITING**

The 2005 Bonds are being purchased by the Stone & Youngberg LLC at a purchase price of \$11,561,085 (which represents the aggregate principal amount of the 2005 Bonds of \$11,785,000, less an underwriter's discount of \$223,915).

The purchase agreement relating to the 2005 Bonds provides that the Underwriter will purchase all of the 2005 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriter may offer and sell 2005 Bonds to certain dealers and others at prices lower than the offering price stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

## **PROFESSIONAL FEES**

Except for some Bond Counsel fees paid from advances made to the School District by Lennar KFPLB, LLC, fees payable to certain professionals, including the Underwriter, McFarlin & Anderson LLP, as Disclosure Counsel, Stradling Yocca Carlson & Rauth, as Bond Counsel and District Counsel, and The Bank of New York Trust Company, N.A., as the Fiscal Agent, are contingent upon the issuance of the 2005 Bonds. The fees of David Taussig & Associates, Inc., as Special Tax Consultant and Dissemination Agent, are in part contingent upon the issuance of the 2005 Bonds. The fees of Harris Realty Appraisal, as Appraiser, are not contingent upon the issuance of the 2005 Bonds.



## MISCELLANEOUS

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

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representatives of fact. This Official Statement is not to be construed as a contract or agreement between the Community Facilities District and the purchasers or owners of any of the 2005 Bonds.

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

COMMUNITY FACILITIES DISTRICT NO. 2004-1 OF  
THE SANTA ANA UNIFIED SCHOOL DISTRICT  
(CENTRAL PARK PROJECT)

By: /s/ Donald L. Trigg  
Donald L. Trigg, Associate Superintendent,  
Business Services,  
Santa Ana Unified School District on behalf  
of Community Facilities District No. 2004-1 of the  
Santa Ana Unified School District (Central Park  
Project)

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## APPENDIX A

### GENERAL INFORMATION ABOUT THE SANTA ANA UNIFIED SCHOOL DISTRICT

#### General Information

The School District was established in 1888 and is now the largest school district in the County and the sixth-largest school district in California as measured by student enrollment. The School District currently operates five comprehensive high schools (for grades 9-12), two continuation high schools (for grades 9-12), nine intermediate schools (for grades 6-8), one community day intermediate school (for grades 6-8), one community day high school (for grades 9-12), one Middle College High School, 36 elementary schools (for grades K-5), one child development center. The School District is located in Santa Ana, California, the County seat of the County, and has an area of approximately 24 square miles. Enrollment in the School District in the 2004-05 school year was approximately 58,832 students.

#### Board of Education

The School District is governed by a five-member Board of Education (the "Board"). Each member of the Board is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their offices and the dates their terms expire, are listed below:

<u>Board Member</u>	<u>Office</u>	<u>Term Expires</u>
Audrey Yamagata-Noji, Ph.D.	President	November 2006
Rob Richardson	Vice-President	November 2008
Sal Tinajero	Clerk	November 2008
Rosemarie Avila	Member	November 2008
John Palacio	Member	November 2006

The administrative staff of the School District participating in the financing include Al Mijares, Ph.D.; Superintendent; John Bennett, Ed.D., Deputy Superintendent; Donald L. Trigg, Associate Superintendent, Business Services; Kelvin Tsunozumi, Director of Budgets Business Services; and Richard White, Assistant Superintendent, Facilities and Government Relations.

#### Key Personnel

The Superintendent of Schools of the School District is appointed by the Board and reports to the Board. The Superintendent is responsible for management of the School District's day-to-day operations of and supervises the work of other District administrators and supervisors. The Superintendent and key administrative personnel are as follows:

*Al Mijares, Ph.D., Superintendent.*

*John Bennett, Ed.D., Deputy Superintendent.*

*Donald L. Trigg, Associate Superintendent, Business Services.*

*Kelvin Tsunozumi, Director of Budgets Business Services.*

*Richard White, Assistant Superintendent, Facilities and Government Relations.*

#### Enrollment

The School District enrollment increased by 29.62% since 1994-95, representing an average annual compound growth rate of 2.6%. The following table shows a 10-year enrollment history for the School District.

**ANNUAL ENROLLMENT  
FISCAL YEARS 1996-97 THROUGH 2004-05  
Santa Ana Unified School District**

School Year	Enrollment	Annual Change	Annual % Change
1996-97	52,107	-	-%
1997-98	53,805	1,698	3.26%
1998-99	56,071	2,266	4.21%
1999-00	58,043	1,972	3.52%
2000-01	59,837	2,600	4.48%
2001-02	60,788	1,266	2.09%
2002-03	60,973	1,701	2.75%
2003-04	59,895	(736)	-1.16%
2004-05	58,832	(1,233)	-1.96%

*Source: Santa Ana Unified School District, based on October CBEDS.*

### Employee Relations

As of August 23, 2005, the School District employed approximately 4,078 full and part-time certificated employees and approximately 3,573 classified employees. These employees, except management and some part-time employees, are represented by the two bargaining units as noted below:

Labor Organization	Represented Employees	Contract Expiration Date
Santa Ana Educators' Association	Certificated	June 30, 2007
California School Employees' Association	Classified	June 30, 2004

*Source: Santa Ana Unified School District.*

### Retirement System

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System ("STRS") and classified employees are members of the Public Employees' Retirement System ("PERS").

All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. STRS provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

All full-time and some part-time classified employees participate in PERS, a cost-sharing multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. The School District is part of a "cost-sharing" pool within PERS. One actuarial valuation is performed for those participating in the pool, and the same contribution rate applies to each.

The School District is required by statute to contribute 8.25% of gross salary expenditures to STRS and 0.09116% to PERS. Participants are required to contribute 8% and 7% of applicable gross salary to STRS and PERS, respectively. The School District's employer contributions to STRS and to PERS met the required contribution rates established by law.

## Post-Employment Benefits

The School District provides post-employment health care benefits, in accordance with School District employment contracts, to all employees who retire from the School District on or after attaining age 55 under STRS or PERS with at least ten years of service. The School District contributes 90% of the amount of premiums incurred by retirees and their dependents. Expenditures for post-employment benefits are recognized on a pay-as-you-go basis. During the year ending June 30, 2004, expenditures of \$4,994,825 were recognized for retirees' health care benefits.

The School District received an actuarial study of the liability for those employees who will receive benefits beyond age 65. The School District has projected the increases to the actuarial study for those years beyond 1996 using a calculation from the actuarial report. The estimated current year's liability is not available at this time.

## Supplemental Employee Retirement Plan

The School District entered into an agreement for a supplemental retirement benefits program for certain qualified employees. Eligibility requirements are for employees to be 55 years of age or older, have 10 years of service with the School District and a minimum of three years of consecutive service. The agreement calls for the School District to make payments in five equal installments into an annuity contract for the employees. The remaining payments are shown below with imputed interest using a 6% rate.

### SUPPLEMENTAL RETIREMENT PLAN PAYMENTS Santa Ana Unified School District

<u>Fiscal Year Ending June 30</u>	<u>Annual Payment</u>	<u>Remaining Balance</u>
2002 SERP	\$2,319,936	\$6,959,808
2003 SERP	1,841,656	<u>5,524,968</u>
Total		<u>\$12,484,776</u>

## Joint Powers Agreements

The School District participates in one joint powers agreement ("JPA"), as a member of a public entity risk pool. The Schools' Excess Liability Fund ("SELF") arranges for and provides property and liability insurance coverage. The relationship between the School District and SELF is such that SELF is not a component unit of the School District for financial reporting purposes.

The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA, including the selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation of the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA.

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**APPENDIX B**

**FIRST AMENDED RATE AND METHOD OF APPORTIONMENT FOR  
COMMUNITY FACILITIES DISTRICT NO. 2004-1  
OF THE SANTA ANA UNIFIED SCHOOL DISTRICT  
(CENTRAL PARK PROJECT)**

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

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

**SECTION A  
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

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

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

**"Additional School Facilities"** shall have the meaning ascribed to it in the Impact Mitigation Agreement Related to Proposed Community Facilities District No. 2004-1 by and between the School District and KFPLB Michelson Jamboree LLC, dated September 1, 2004.

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

**"Affordable Unit"** means one of not more than 69 Units that are subject to deed restrictions, resale restrictions, and/or regulatory agreement in favor of the City or County providing for affordable housing. The first 69 Units which meet the criteria of the preceding sentence and for which Residential Building Permits are issued will be designated permanently and irrevocably as Affordable Units.

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

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

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

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

**"Assigned Annual Special Tax"** means the Special Tax of that name described in Section D.

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

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

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

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

**"Bond Yield"** means the weighted average yield on all outstanding series of Bonds, for purposes of this calculation the yield of the Bonds shall be the yield calculated at the time such Bonds are issued, pursuant to Section 148 of the Internal Revenue Code of 1986, as amended for the purpose of the Non-Arbitrage Certificate or other similar bond issuance document.

**"Building Square Footage"** or **"BSF"** means the square footage of assessable internal living space of a Unit, exclusive of any carports, walkways, garages, overhangs, patios, enclosed patios, internal hallways or detached accessory structure, as determined by reference to the Residential Building Permit for such Unit.

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

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

**"City"** means the City of Irvine.

**"Commercial Building Permit"** means a permit for the construction of commercial square footage issued by the City, or another public agency in the event the City no longer issues said permits for the construction of commercial square footage within CFD No. 2004-1. For the purposes of this definition, "Commercial Building Permit" shall not include permits for construction or installation of residential structures.

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

**"Commercial Property"** means all Assessor's Parcels of Taxable Property for which Commercial Building Permits were issued on or before May 1 of the prior Fiscal Year provided that such Assessor's Parcels were created on or before January 1 of the prior Fiscal Year.

**"Commercial Square Footage"** means the square footage of commercial space associated with a Assessor's Parcel of Commercial Property as determined by reference to the Commercial Building Permit(s) for such Assessor's Parcel.

**"County"** means the County of Orange.

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

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

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

**"Market Rate Unit"** means any Unit which is not an Affordable Unit.

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

**"Minimum Annual Special Tax Requirement"** means the amount required in any Fiscal Year to pay: (i) the debt service or the periodic costs on all outstanding Bonds including but not limited to, credit enhancement and rebate payments on the Bonds, (ii) Administrative Expenses of CFD No. 2004-1, (iii) the costs associated with the release of funds from an escrow account, (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds, and (v) any amounts required for construction of Additional School Facilities less (vi) any amount available to pay debt service or other periodic costs on the Bonds pursuant to any applicable bond indenture, fiscal agent agreement, or trust agreement. In arriving at the Minimum Annual Special Tax requirement the Board shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year.

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

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

**"Planning Area"** means the areas identified as a Planning Area and illustrated in Section M.

**"Planning Area No. 1 "** means all property located within the area identified as Planning Area No. 1 in Section M, subject to interpretation by the Board.

**"Planning Area No. 2 "** means all property located within the area identified as Planning Area No. 2 in Section M, subject to interpretation by the Board.

**"Planning Area No. 3 "** means all property located within the area identified as Planning Area No.

3 in Section M, subject to interpretation by the Board.

**"Planning Area No. 4 "** means all property located within the area identified as Planning Area No. 4 in Section M, subject to interpretation by the Board.

**"Planning Area No. 5 "** means all property located within the area identified as Planning Area No. 5 in Section M, subject to interpretation by the Board.

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

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

**"Present Value of Taxes"** means for any Assessor's Parcel the present value of (i) the unpaid portion, if any, of the Special Tax applicable to such Assessor's Parcel in the current Fiscal Year and (ii) the Annual Special Taxes expected to be levied on such Assessor's Parcel in each remaining Fiscal Year, as determined by the Board, until the termination date specified in Section I. The discount rate used for this calculation shall be equal to the (i) Bond Yield after Bond issuance or (ii) most recently published Bond Index prior to Bond issuance.

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

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

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

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

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

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

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

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

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

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

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

Each Fiscal Year, beginning with Fiscal Year 2004-05, each Assessor's Parcel shall be assigned to a Planning Area. Each Assessor's Parcel shall be classified as Exempt Property or Taxable Property. Each Assessor's Parcel of Taxable Property shall be classified as Residential Property, Commercial Property or Undeveloped Property. Residential Property shall be further classified based on the Building Square Footage of the Unit. The classification of Exempt Property within each Planning Area shall be done taking into consideration the Minimum Taxable Acreage for such Planning Area, as determined pursuant to Section J.

## **SECTION C MAXIMUM ANNUAL SPECIAL TAXES**

### **1. Residential Property**

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

### **2. Commercial Property**

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

### **3. Undeveloped Property**

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

**SECTION D  
ASSIGNED ANNUAL SPECIAL TAXES**

**1. Residential Property**

The Assigned Annual Special Tax applicable to an Assessor's Parcel classified as Residential Property in Fiscal Year 2004-05 shall be determined by reference to Table 1 according to the Building Square Footage of the Unit(s).

**TABLE 1**

**ASSIGNED ANNUAL SPECIAL TAX FOR  
DEVELOPED RESIDENTIAL PROPERTY  
FISCAL YEAR 2004-05**

Unit Type	BSF	Assigned Annual Special Tax
Market Rate Unit	< 1,250	\$529.31 per Unit
Market Rate Unit	1,251 – 1,500	\$664.02 per Unit
Market Rate Unit	1,501 – 1,750	\$772.10 per Unit
Market Rate Unit	1,751 – 2,000	\$944.21 per Unit
Market Rate Unit	> 2,000	\$1,116.31 per Unit

Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax for each Assessor's Parcel of Residential Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

**2. Commercial Property**

The Assigned Annual Special Tax rate for an Assessor's Parcel of Commercial Property in Fiscal Year 2004-05 shall be \$0.29 per Square Foot of Commercial Square Footage. Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax for each Assessor's Parcel of Commercial Property shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

**3. Undeveloped Property**

The Assigned Annual Special Tax rate for an Assessor's Parcel of Undeveloped Property in Fiscal Year 2004-05 shall be the amount per acre of Acreage (prorated with respect to partial acres) determined by reference to Table 2 based on the location of the Assessor's Parcel.

**TABLE 2**

**ASSIGNED ANNUAL SPECIAL TAX FOR  
UNDEVELOPED PROPERTY  
FISCAL YEAR 2004-05**

Location	Assigned Annual Special Tax
Planning Area No. 1	\$85,221.65 per acre
Planning Area No. 2	\$43,156.36 per acre
Planning Area No. 3	\$23,646.72 per acre
Planning Area No. 4	\$24,699.65 per acre
Planning Area No. 5	\$7,672.97per acre

Each July 1, commencing July 1, 2005, the Assigned Annual Special Tax for each Assessor's Parcel of Undeveloped Property shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

**SECTION E  
BACKUP ANNUAL SPECIAL TAXES**

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

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

The terms above have the following meanings:

- B = Backup Annual Special Tax per Residential Lot or acre of Acreage of Commercial Lots within the applicable Planning Area for the applicable Fiscal Year
- Z = Assigned Annual Special Tax per acre of Acreage of Undeveloped Property for the applicable Planning Area for the applicable Fiscal Year
- A = Acreage of Taxable Property expected to exist in the applicable Planning Area, based on the Final Map at build-out, as determined by the Board pursuant to Section J
- L = Number of Residential Lots or acres of Acreage of Commercial Lots in the applicable Planning Area, based on the Final Map.

Notwithstanding the foregoing, if all or any portion of the Final Map(s) applicable to a Planning Area described in the preceding paragraph is subsequently changed or modified, then the Backup Annual Special Tax for each Assessor's Parcel of Residential Property or Commercial Property in

each Planning Area affected by such Final Map that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Annual Special Taxes anticipated to apply to the Planning Area affected by the changed or modified Final Map prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Residential Property or Commercial Property which is ultimately expected to exist in such Planning Area, as reasonably determined by the Board.
3. The result of paragraph 2 above shall be divided by 43,560. The result is the Backup Annual Special Tax per square foot of Acreage, which shall be applicable to Assessor's Parcels of Residential Property or Commercial Property in such Planning Area.

Each July 1, commencing with the July 1 following the Fiscal Year in which the preceding calculation is performed, the Backup Annual Special Tax per square foot of Acreage calculated in step 3 above shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

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

Commencing Fiscal Year 2004-05, and for each subsequent Fiscal Year, the Board shall levy Annual Special Taxes as follows:

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



**SECTION G  
PREPAYMENT OF ANNUAL SPECIAL TAXES**

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

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

$$P = PVT - RFC + PAF$$

The terms above have the following meanings:

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

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

With respect to any Assessor's Parcel that is prepaid, the Board shall indicate in the records of CFD No. 2004-1 that there has been a prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act to indicate the prepayment of the Annual Special Tax obligation and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Tax shall cease.

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

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

**1. Partial Prepayment Times and Conditions**

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

**2. Partial Prepayment Amount**

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

$$PP = P_G \times F$$

The terms above have the following meanings:

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

**3. Partial Prepayment Procedures and Limitations**

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

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

**SECTION I  
TERMINATION OF SPECIAL TAX**

Annual Special Taxes shall be levied for a period of thirty (30) Fiscal Years after the last series of Bonds has been issued, as determined by the Board, provided that Annual Special Taxes shall not be levied after Fiscal Year 2045-46.

**SECTION J  
EXEMPTIONS**

The Board shall classify as Exempt Property (i) Assessor’s Parcels owned by the State of California, Federal or other local governments, (ii) Assessor’s Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor’s Parcels used exclusively by a homeowners' association, (iv) Assessor’s Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement, (v) Assessor's Parcel on which a Affordable Unit is constructed and (vi) any other Assessor’s Parcels at the reasonable discretion of the Board. The Board shall not classify an Assessor’s Parcel as Exempt Property if such classification would reduce the sum of all Taxable Property to less than the Minimum Taxable Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than the Minimum Taxable Acreage will continue to be classified as Residential Property, Commercial Property, or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly. The Minimum Taxable Acreage for each Planning Area of CFD No. 2004-1 shall be the amount determined by reference to Table 3 below.

**TABLE 3**

**MINIMUM TAXABLE ACREAGE**

<b>Location</b>	<b>Minimum Taxable Acreage</b>
Planning Area No. 1	1.68 acres of Acreage
Planning Area No. 2	8.25 acres of Acreage
Planning Area No. 3	4.63 acres of Acreage
Planning Area No. 4	7.70 acres of Acreage
Planning Area No. 5	3.73 acres of Acreage

**SECTION K  
APPEALS**

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Board not later than twelve months after having paid the first installment of the Special Tax that is disputed. A representative(s) of CFD No. 2004-1 shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the representative’s decision requires that the Special Tax for an Assessor’s Parcel be modified or changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Annual Special Tax on that Assessor’s Parcel in the subsequent Fiscal Year(s) as the representative's decision shall indicate.

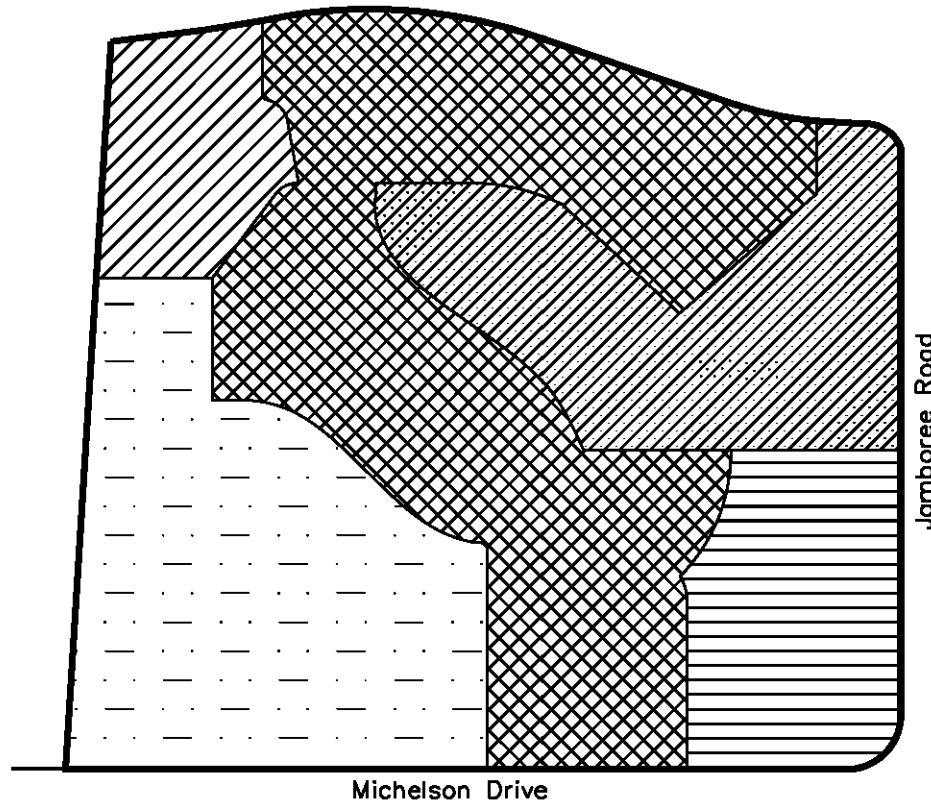
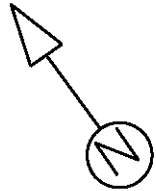
**SECTION L  
MANNER OF COLLECTION**

The Annual Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that CFD No. 2004-1 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

**SECTION M  
MAP OF PLANNING AREAS  
(Attached hereto)**

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SECTION M  
MAP OF PLANNING AREAS



LEGEND	
	Boundaries of Community Facilities District No. 2004-1
	Planning Area 1
	Planning Area 2
	Planning Area 3
	Planning Area 4
	Planning Area 5

PREPARED BY  
DAVID TAUSSIG & ASSOCIATES, INC.

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APPENDIX C  
APPRAISAL REPORT

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APPRAISAL REPORT

**SANTA ANA UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2004-1  
CENTRAL PARK PROJECT**

**Harris Realty Appraisal**

5100 Birch Street, Suite 200  
Newport Beach, California 92660  
949-851-1227 FAX 949-851-2065  
www.harrisappraisal.com

June 20, 2005

Prepared for:

SANTA ANA UNIFIED SCHOOL DISTRICT  
1601 East Chestnut Avenue  
Santa Ana, CA 92701-6322

Mr. Dick White  
Assistant Superintendent, Facilities  
SANTA ANA UNIFIED SCHOOL DISTRICT  
1601 East Chestnut Avenue  
Santa Ana, CA 92701-6322

Re: Community Facilities District No. 2004-1  
Central Park Project

Dear Mr. White:

In response to your authorization, we have prepared a self-contained appraisal report which addresses the property within the boundaries of the Santa Ana Unified School District (SAUSD) Community Facilities District No. 2004-1 Central Park Project, commonly known as Central Park West by Lennar KFPLB, LLC. This appraisal includes an estimate of Market Value of the undeveloped land under site construction within CFD No. 2004-1, subject to a special tax levy. This land is under the ownership of the developer, Lennar KFPLB, LLC.

According to the specific guidelines of the California Debt and Investment Advisory Commission (CDIAC), the District is valued in bulk, representing a discounted value to a single ownership as of the date of value. The bulk value of the various proposed uses represents Market Value of the entire property within CFD No. 2004-1, subject to special tax levy.

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

June 2005

Mr. Dick White  
June 20, 2005  
Page Two

Based on the investigation and analyses undertaken, our experience as real estate appraisers, and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value is formed as of June 1, 2005.

**NINETY MILLION DOLLARS**

**\$90,000,000**

*The District is under construction with rough grading. Approximately \$41,801,643 in off-site and on-site infrastructure improvements are required from the master developer to bring the land to saleable condition. Those improvements are scheduled to be substantially complete by October 2005. The developer is expected to receive reimbursements or fee credits from this bond issue of approximately \$8,400,000 for construction funds.*

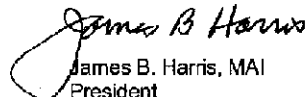
The self-contained report that follows sets forth the results of the data and analyses upon which our opinions of value are, in part, predicated. This report has been prepared for the Santa Ana Unified School District for use in the sale of Community Facilities District No. 2004-1 bonds. The intended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

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

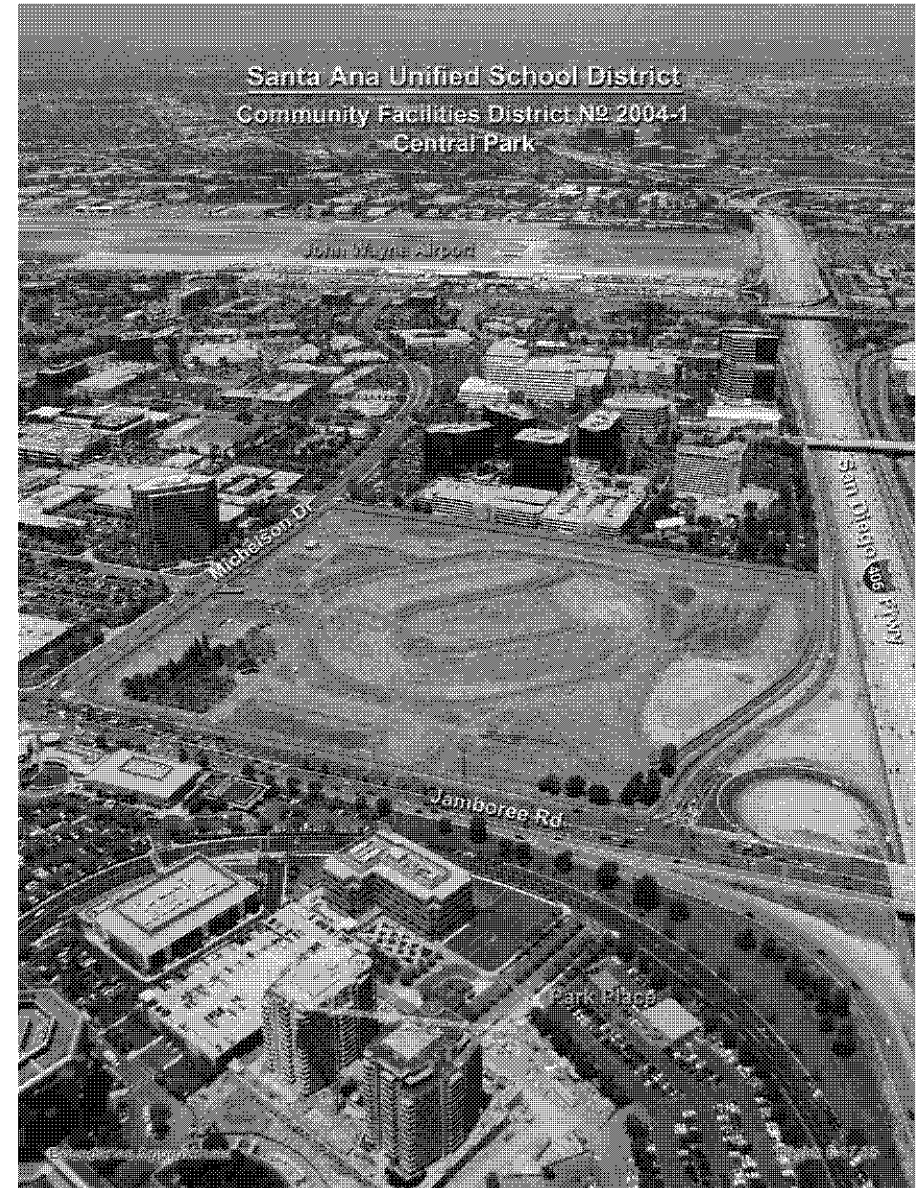
Respectfully submitted,



Berri J. Cannon Harris  
Vice President  
AG009147



James B. Harris, MAI  
President  
AG001846



Santa Ana Unified School District  
Community Facilities District No. 2004-1  
Central Park



**SUMMARY OF FACTS AND CONCLUSIONS**

<b>EFFECTIVE DATE OF APPRAISAL</b>	June 1, 2005
<b>DATE OF REPORT</b>	June 20, 2005
<b>INTEREST APPRAISED</b>	Fee Simple Estate, subject to special tax and special assessment liens.
<b>LEGAL DESCRIPTION</b>	APN 445-091-07 Final Tract No. 16590, Lots 1-7 and 9-17 Lot 8 of Tract 16590 is proposed for 62 affordable units and is not a part of the valuation of CFD No. 2004-1.  Parcel 1, in the City of Irvine, County of Orange, State of California, as shown on a parcel map filed in Book 2, Page 2 of Parcel Maps, in the office of the County Recorder of said County.
<b>OWNERSHIP</b>	Lennar KFPLB, LLC  The developer is planning to sell Lots 1 through 7 and 9 through 17 to merchant builders. As of the date of value, purchase and sale agreements had not been signed, deposits had not been received and prices were not made available.
<b>SITE CONDITION</b>	The subject property began rough grading in April 2005. The land within the District is expected to be completed to super pad condition by October 2005, when sales of parcels to builders are scheduled to close.  The site has a recorded Final Tract Map. The site is approved for a maximum of 1,380 dwelling units, 90,000 square feet of office uses and 19,700 square feet of retail uses.
<b>HIGHEST AND BEST USE</b>	Development as an urban master-planned community known as Central Park West.
<b>VALUATION CONCLUSION</b>	<b>\$90,000,000 MARKET VALUE</b>

# HRA

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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 and special assessment liens* for all the taxable property within CFD No. 2004-1 (Central Park Project) (referred to herein as "CFD No. 2004-1" or the "District") in the City of Irvine. The purpose of this appraisal is to estimate the "As Is" Market Value of the land subject to special tax under the ownership of the developer.

The opinions set forth are subject to the assumptions and limiting conditions and the specific appraisal guidelines as set forth by the Santa Ana Unified School District.

### Function of the Report and Intended Use

It is our understanding that this appraisal report is to be used for District bond financing purposes only. The subject property is described more particularly within this report. The bonds will be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The maximum authorized bond indebtedness for the District is \$16,000,000.

### Client and Intended Users of the Report

This report was prepared for our client, the Santa Ana Unified School District. The intended users of the report include the SAUSD, its Underwriter, Legal Counsel, Consultants, and potential bond purchasers.

### Scope of the Assignment

According to specific instructions from the District and the CDIAAC guidelines, the total value conclusion includes the "As Is" estimate of Market Value giving consideration to the single ownership within the boundaries of CFD No. 2004-1. Any lands designated for park, open space or civic uses within CFD No. 2004-1 and not subject to tax or special assessment are not included in this assignment. The value excludes Lot 8 of Tract 16590 which is proposed to be developed as affordable units and not subject to special tax.

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The land and site improvements are valued in their "As Is" condition as of the date of value. The subject property began rough grading in April 2005. The land within the District is expected to be completed to super pad condition by September 30, 2005. The site has a recorded Final Tract Map. The site is approved for a maximum of 1,380 dwelling units and 90,000 square feet of office development, and 19,700 square feet of retail uses. As of the date of value, the residential development of the District was proposed for 1,300 dwelling units, which includes 62 affordable units that are not a part of this appraisal assignment and not subject to special tax. The proposed number of units and proposed unit mix are estimates only as of the date of value, which could be subject to change depending on market demand and the ultimate home builder.

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 condominium land, office use land and retail use 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 Irvine (zoning information, building permit trends), City of Irvine 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.
1. Inspected the subject's neighborhood and reviewed proposed product and similar products for consideration of Highest and Best Use of the proposed lots.
2. Gathered and analyzed comparable merchant builder land sales within the Irvine market area, and residential attached unit sales, within the subject's primary and secondary market areas. Data was gathered from sources including, Comps.com, brokers, appraisers, builders active in the area and developers within the Southern

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California area. Where feasible, data were confirmed with both the buyer and seller.

### Date of Value and Report

The opinion of Market Value expressed in this report is stated as of June 1, 2005. The date of the appraisal report is June 20, 2005.

### Date of Inspection

The subject property was inspected on numerous occasions, with the most recent on June 20, 2005.

### 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 the taxable land within SAUSD's CFD No. 2004-1, commonly known as the planned community of Central Park West in the City of Irvine. The District is located southwest of Jamboree Road and Interstate 405 in the City of Irvine. The proposed Central Park West consists of a 42.758 acre parcel located within the 2,800 acre Irvine Business Center (IBC) at the northwest corner of Jamboree Road and Michelson Drive. The site is approved for a maximum of 1,380 dwelling units, 19,700 square feet of retail use and 90,000 square feet of office use.

The current development plans are for 1,300 condominium dwelling units, of which 62 dwelling units on Lot 8 of Tract 16590 will be subject to the affordable housing requirements. There are 17 lots within the tract proposed for various attached residential developments and commercial uses, which are described in the Proposed Improvement Description Section of this report. The District will be built in phases with absorption to homeowners scheduled from 2007 through 2011.

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## Legal Description and Ownership

As previously mentioned, the subject of this appraisal includes one ownership, Lennar KFPLB, LLC, as of the valuation date. The subject property includes 42.758 gross acres within Tract No. 16590, which includes parks, streets and the proposed affordable housing site. The District's Special Tax Consultant estimates approximately 30.562 acres will be subject to special tax. The gross acres are according to the recorded tract map. The ownership is as it appears on the recorded grant deed and title report.

According to the current development plans, all of the developable property will be sold to merchant builders. The following table summarizes the lot and tract nos., proposed products and number of units. Purchase and sale agreements have not been executed and sales prices were not made available to the appraisers.

TR 16590 Lot No.	Gross Acres	Product Description	No. D.U.'s or Sq.Ft.
1	1.914	Retail	19,700 SF
2	2.471	Office	90,000 SF
3	1.611	Michelson Lofts	107 DU
4	2.068	Brownstone Townhomes	84 DU
5	3.093	Brownstone Villas	83 DU
6	1.622	Brownstone Villas	44 DU
13	1.099	Luxury Townhomes	24 DU
14	1.184	Luxury Townhomes	26 DU
18	1.176	Luxury Townhomes	26 DU
17	1.082	Luxury Townhomes	24 DU
7	1.970	High-rise Decade	240 DU
9	2.421	Lofts Loop Rd.	165 DU
10	2.595	Lofts Loop Rd.	177 DU
11	3.189	Brownstone Townhomes	99 DU
12	1.507	Luxury Flats	78 DU
15	1.660	Luxury Flats	81 DU
Total Units to be Valued			1,238 DU
8	0.996	Flats	62 DU
Total Units within the District			1,300 DU

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## Property History

The current owners acquired the subject property on December 1, 2004. The seller, KFPLB Michelson Jamboree, LLC transferred the property to the current owner, Lennar KFPLB, LLC recorded as Document No. 2004001067980. The appraisers have requested, but have not been provided details of the sales price. The seller acquired the property on September 14, 2000 from Parker Hannifin Corp. Since that time the property has been re-entitled and the City of Irvine approved the tentative tract map in September 2004, which allows for the current proposed uses.

The current owner, Lennar KFPLB, LLC plans to sell all of the developable land to merchant builders. As of the date of value, sales prices and the buyers legal names were not available.

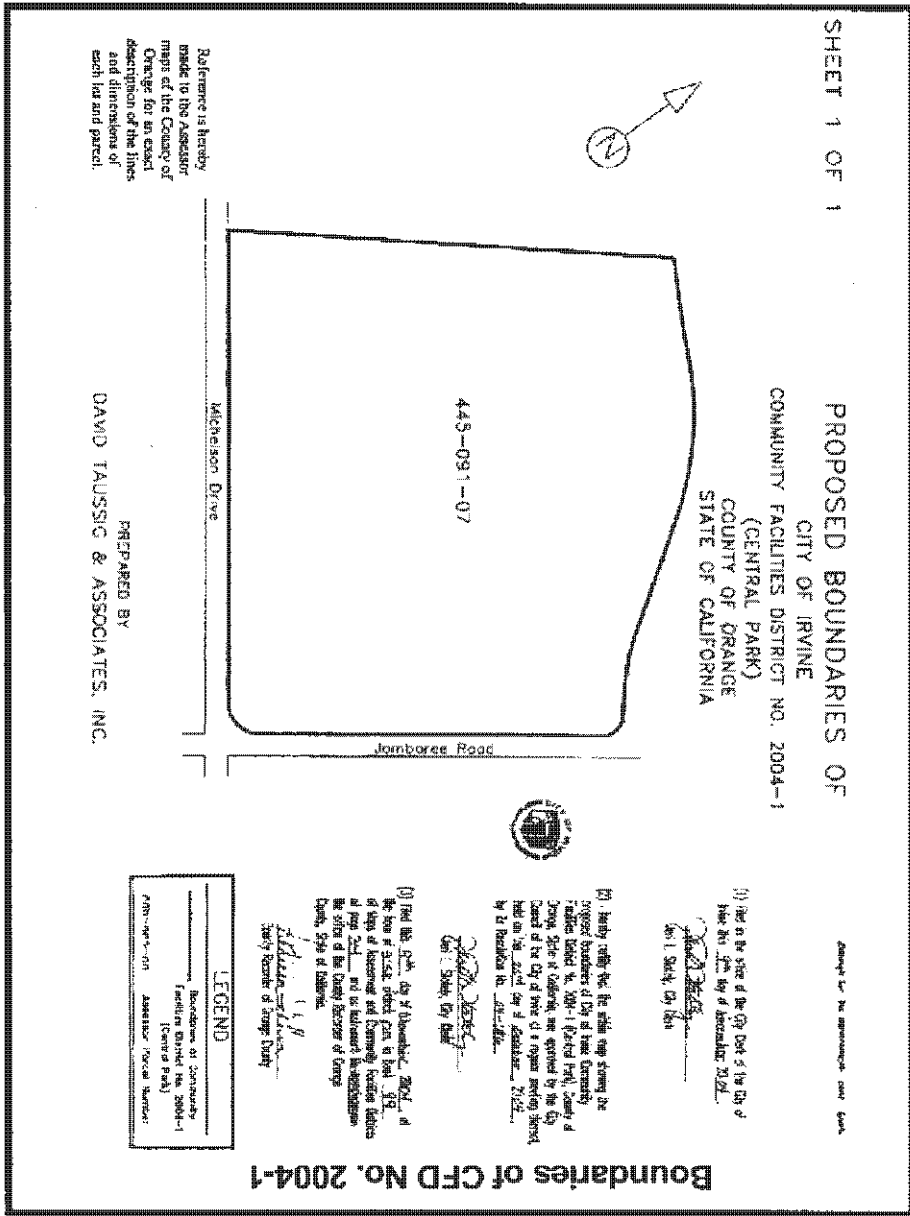
## Definitions

### 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.

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



**Assessed Value<sup>2</sup>**

The value of a property according to the tax rolls in ad valorem taxation. May be higher or lower than market value, or based on an assessment ratio that is a percentage of market value.

**Fee Simple Estate<sup>3</sup>**

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

**Fee Simple Estate and Leased Fee 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 Mello-Roos 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. Because fee simple ownership is subject to the governmental power of taxation, but not the power to levy assessments, appraisers sometimes treat special tax and assessment liens differently.

The Market Value included herein, reflects the value potential buyers would consider given the special taxes and encumbrances of CFD No. 2004-1 by the Santa Ana Unified School District.

**Retail Value**

Retail value should be estimated for all fully improved and occupied 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.

**Bulk Sale Value**

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:

<sup>2</sup> *The Dictionary of Real Estate Appraisal*, Third Edition, published by The Appraisal Institute, 1993, Page 22

<sup>3</sup> *Ibid*, Page 140

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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.

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

Land that is improved so that it is ready to be used for a specific purpose. (Improvements include rough graded site, streets to the site boundary, utilities to the site boundary, and all fees required to pull building permits paid.)

### **Blue-top Graded Parcel**

Graded parcel to blue-top, which includes streets cut and padded lots with utilities stubbed to the site and perimeter streets in.

### **Mass-Graded Parcel/Superpad Parcel**

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 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 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:

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

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### **Contingencies of the Appraisal**

The appraisal is contingent upon the successful issuance of bonds by CFD No. 2004-1 with construction proceeds of approximately \$8,400,000. The rate and method of apportionment are based on public reports prepared on behalf of the Santa Ana Unified School District by David Taussig and Associates.

The Market Value reported in this report assumes a portion of the funding for the infrastructure improvements from the proceeds of this bond issuance of CFD No. 2004-1. Public improvements subject to possible reimbursement are for school facilities; water and sewer facilities; and the Orange County Fire Authority facilities. Please refer to the Community Facilities District report prepared by the District's consultant, which identifies the potential CFD improvements and services. Also please refer to Fire Authority JCFA, which identifies the fire suppression and protection facilities.

The development site cost information was prepared by the developer's in house engineer and BV Engineering, Irvine, CA. It is a contingency of this appraisal that the costs are all the costs associated with development of the District and that they satisfy the Conditions of Map Approval and the Development Agreement with the City of Irvine. These costs are assumed to be correct. We have not engaged an independent cost estimator or civil engineer to examine the reasonableness of the development cost estimates. Any variance in development costs could alter our value conclusion.

The ultimate merchant builders are not known as of the date of value. Therefore, final building plans are not available for review. Detailed vertical construction costs and indirect in-tract costs have been provided by the developer, Lennar KFPLB< LLC. The direct construction costs and indirect construction costs used in the Valuation section of this report are considered the best information available as of the date of valuation. The appraisers have requested that the cost information provided be conservative and on the high side of their expected cost to develop the sites. The time-line for the construction costs has also been provided by the developer's consultant based on the current number of proposed buildings per project and occupancies as outlines in the Developmental Analysis. *It is a specific contingency of this appraisal and value that the costs and time-line for the costs used in the Valuation of the District are reasonable and similar to the actual construction costs and timeline at the time of development of the 1,238 proposed dwelling units. If the actual costs are higher and/or the timeline for the costs is faster than the costs used in valuing the District, the value conclusion could be lower.*



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The subject property has been under environmental monitoring and remediation since 1990. All of the costs associated with environmental issues are the responsibility of the original owner that caused the contamination, Parker-Hannifin. *It is a specific contingency of the appraisal and values included herein, that any additional costs associated with further remediation are born by Parker-Hannifin and there is no time delay in site or unit construction.* It is a specific assumption of this appraisal that the site is free of any environmental hazards.

It is our understanding that the City will require an additional Site Assessment for each lot within the District upon further development of each condominium lot. *It is a specific assumption and contingency of this appraisal and value that no further remediation will be required and the timeline for development as currently envisioned will be met.*

### Assumptions and Limiting Conditions of the Appraisal

No responsibility is assumed by your appraisers for matters which 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 opinion of Market Value is expressed in this report is June 1, 2005. The dollar amount of this value opinion is based on the purchasing power of the United States dollar on that date.

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

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

We were provided with a geotechnical report prepared by Leighton and Associates, Inc. dated January 27, 2005 for Lennar KFPLB, LLC. The report concluded that the proposed development is feasible from a geotechnical standpoint provided their recommendations included in the report are incorporated in the project plans. For purposes of this appraisal, the soil is assumed to be of adequate load-bearing capacity to support all uses considered under our conclusion of highest and best use.

The appraiser has been provided with one title report that covers Tract Map No. 16590. The report was prepared by North American Title Company

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dated June 3, 2005, order number 70029 34-23. The report includes numerous easements for City and utility purposes, and incidental purposes. The title report disclosed a "notice of special tax lien" for both the Santa Ana Unified School District CFD No. 2004-1 and the City of Irvine CFD No. 2004-1. A Deed of Trust for \$105,000,000 dated November 30, 2004 was also reported. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely effect the value of the subject property. A copy of the title report is retained in the appraiser's work files.

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.

The parcel sizes have been calculated by the engineering firm of BV Engineering as shown on the recorded tract map. We have relied on their calculations in estimating acreage. Our value estimate is, in part, based on the accuracy of this information.

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

Your appraisers 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 which 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 which 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 such 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

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appraisers, however, are not qualified to test for such substances or conditions.

The presence of such substances such as asbestos, urea formaldehyde, foam insulation, or other hazardous substances or environmental conditions may affect the value of the property. The value estimated herein is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, nor 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.

Our forecasts of future events which 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.

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

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

The appraisers will appear at the deposition, judicial, or administrative hearing with 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 proposed improvements or conformity to City, County, or any other agency building code is made. No responsibility for undisclosed structural deficiencies/conditions is assumed

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by the appraisers. No consideration has been given in this appraisal to personal property located on the premises; only the real estate has been considered unless otherwise specified.

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

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 Santa Ana Unified School District, its Underwriter and Legal Counsel may publish this report in the Official Statement for this Community Facilities District.**

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

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

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

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## 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, Orange County, the City of Irvine and the subject market areas.

### Southern California Regional Overview

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

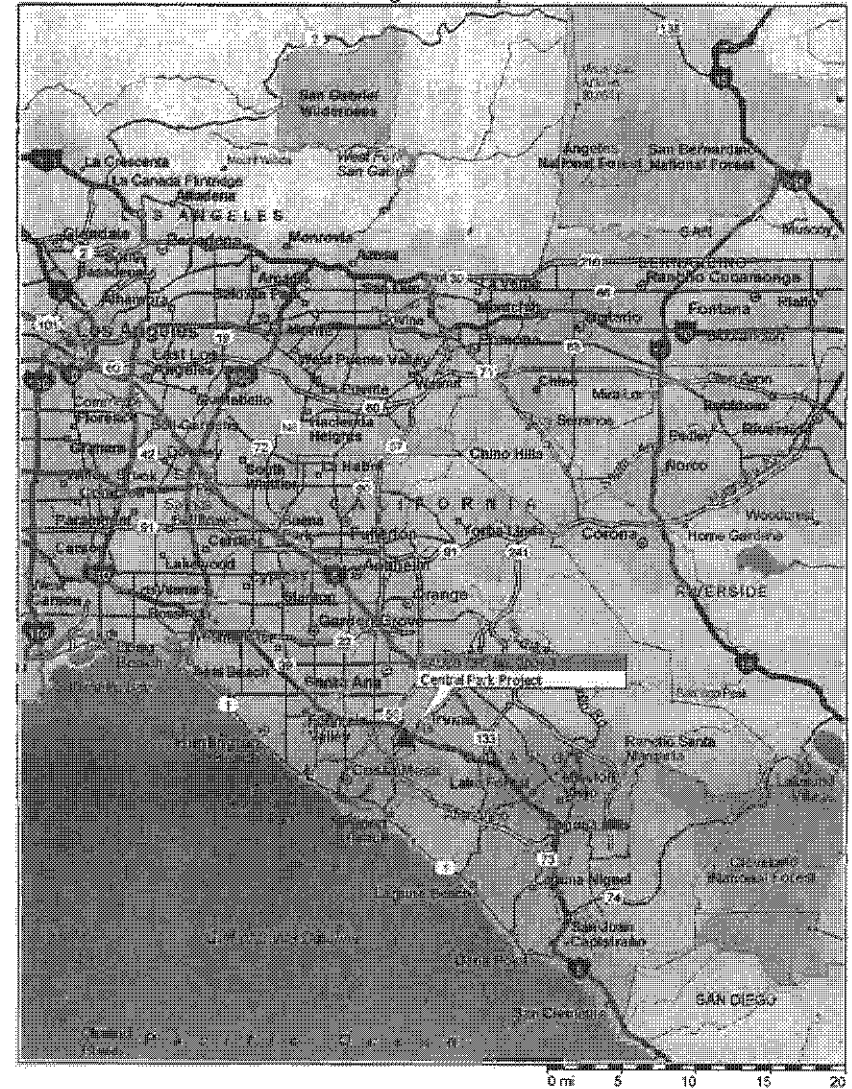
### Population

The Southern California region has added about 7.6 million new residents since 1980 as indicated in the table shown on page 16. According to the California Department of Finance, the most recent data available indicate that as of January 2005, the regional population stood at over 20.9 million. If the region were an individual state, it would rank as one of the most populous in the nation.

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

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Regional Map



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As of January 2005 the population of the six-county area stood at 20,970,900 persons. Looking toward the future it is estimated that the region's population will continue to climb as new residents seek out the southern California area. During the economic downturn from 1992 through 1996, and continuing through 2005, the population growth rate declined compared to the growth experienced in the late 1980s.

Population Trends  
1980-2005

Year	Population	Average Annual Change	
		Number	Percent
1980 <sup>1</sup>	13,359,673	--	--
1981	13,571,785	212,112	1.6%
1982	13,868,300	296,505	2.2%
1983	14,179,920	311,530	2.2%
1984	14,483,010	303,090	2.1%
1985	14,795,200	312,190	2.2%
1986	15,189,600	394,400	2.7%
1987	15,613,100	423,500	2.8%
1988	16,027,400	414,300	2.7%
1989	16,460,900	433,500	2.7%
1990	17,029,545	568,545	3.5%
1991	17,334,500	304,955	1.8%
1992	17,646,800	314,300	1.8%
1993	17,892,100	243,300	1.4%
1994	18,081,400	189,300	1.1%
1995	18,220,500	139,100	0.8%
1996	18,371,600	151,100	0.8%
1997	18,546,100	184,500	1.0%
1998	18,914,300	358,200	1.9%
1999	19,265,700	341,400	1.8%
2000	19,592,700	327,000	1.7%
2001	19,790,300	196,600	0.9%
2002	19,890,700	131,400	0.7%
2003	20,249,800	359,100	1.8%
2004	20,602,700	352,500	1.7%
2005	20,970,900	368,200	1.8%

<sup>1</sup> April 1, 1980, 1990, and 2000, all other years January 1  
Source: California Department of Finance. 5/05

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

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

## Employment

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

Southern California Region  
Employment Trends  
1983-2004<sup>1</sup>

Year	Employment	Average Annual Change	
		Number	Percent
1983	5,691,000	--	--
1984	5,960,100	269,100	4.7%
1985	6,198,400	238,300	4.0%
1986	6,384,500	186,100	3.0%
1987	6,664,000	279,500	4.4%
1988	6,903,800	239,800	3.6%
1989	7,096,000	192,200	2.8%
1990	7,215,200	119,200	1.7%
1991	7,038,200	(177,000)	(2.5%)
1992	6,834,400	(203,800)	(2.9%)
1993	6,731,100	(103,300)	(1.5%)
1994	6,766,600	37,300	0.6%
1995	6,901,000	132,400	2.0%
1996	7,020,400	119,400	1.7%
1997	7,236,800	216,200	3.1%
1998	7,585,400	348,600	4.8%
1999	7,789,100	203,700	2.7%
2000	7,018,200	(771,000)	(11.0%)
2001	8,015,300	997,100	14.2%
2002	8,003,100	(12,200)	(0.2%)
2003	8,028,800	25,700	0.3%
2004	8,145,600	116,700	1.5%

<sup>1</sup> 2004 benchmark  
Source: Employment Development Department 4/05

in the Southern California region, average annual non-agricultural employment has grown from 5,691,000 jobs in 1983, to a peak employment of 8,015,300 in 2001. Employment declined to 8,003,100 in 2002. This decline was mostly caused by a 40,100

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job decrease in Los Angeles County. In 2004, employment climbed to a new record level, 8,145,500. This was in spite of Los Angeles County only adding an additional 10,000± jobs. This represents an increase of over 350,000 new jobs over the past five years.

As the economy entered into an economic recession during the latter part of 1990, employment growth slowed. The average annual gain in 1990 was approximately 119,200 jobs or 1.7%. In 1992 when the full weight of the recession was felt, area employment suffered the highest annual decline in jobs registered in the last decade, losing nearly 204,000 jobs or a percentage decrease of 2.9%. This was followed by further employment declines of 103,300 jobs in 1993. It appears that by the middle of 1994, the economic recovery finally began to take hold in the Southern California region. The employment data for 1994 indicated a slight increase of 37,300 jobs or 0.6% for 1994. The adverse employment issues experienced in the prior three years had abated. The annual average employment for 1995 exhibited a gain of 132,400 new jobs or a 2.0% increase, and for 1996 an estimated 119,400 new jobs were added. In 1997, total non-agricultural employment stood at 7.2 million, finally exceeding the prior high in 1990. As of year-end 2002, employment was over 8.0 million. Forecasts prior to September 11, 2001, indicate that job growth would continue to be positive in 2001 and increase moderately over the next one to two years. However, with the terrorist attack on the United States and the conflict with Iraq, most economists are saying we were in a flat to slightly declining economy, during 2002 and first half of 2003, but that we began recovery during the second half of 2003. 2003 showed a small increase over the previous high mark in 2001. 2004 had a moderate gain over 2003.

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

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1994 through 2004, as the economy rebounded, residential construction increased bringing back more than the construction jobs lost during the recession.

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

The Southern California economy, which historically depended heavily on aerospace and defense related employment, has been 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. Some of the manufacturing and aerospace jobs permanently displaced from the economy were slowly being replaced with administrative, marketing and research employment. It is reasonable to assume that similar stagnant growth in this area will be experienced during the current economy.

The employment group that has contributed most to the employment growth in the region is the service sector. Since 1980, the majority of all new jobs have been created in the service category. The service sector was the leader in new job growth during the years that followed the economic recovery from the 1990 recession.

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

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

### Orange County

Orange County, in some aspects, has mirrored the trends of the Southern California region, while other characteristics have charted a unique direction.

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

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

### Population

Orange County has added over 1,000,000 new residents since 1980 as illustrated in the following table. The most recently released population data indicates that as of January 2005, the countywide population stood at 3,058,900 residents. Annual population gains from natural increase and immigration have ranged from 33,911 to 70,689 persons annually, since 2000. These gains represent annual changes of 1.2% to 2.6%.

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Population Trends  
1980-2005<sup>1</sup>

Year	Population	Average Annual Change	
		Number	Percent
1980	1,932,921	-	-
1981	1,979,591	41,670	2.2%
1982	2,024,243	49,652	2.5%
1983	2,065,305	41,062	2.0%
1984	2,103,275	37,970	1.8%
1985	2,143,600	40,325	1.9%
1986	2,193,200	49,600	2.3%
1987	2,243,500	50,300	2.3%
1988	2,292,300	48,800	2.2%
1989	2,344,200	51,900	2.3%
1990	2,410,688	66,488	2.8%
1991	2,443,500	32,832	1.4%
1992	2,489,500	45,000	1.8%
1993	2,533,100	44,600	1.8%
1994	2,569,000	35,900	1.4%
1995	2,597,200	28,200	1.1%
1996	2,632,300	35,100	1.4%
1997	2,677,500	45,200	1.7%
1998	2,722,300	44,800	1.7%
1999	2,775,600	53,300	2.0%
2000	2,846,289	70,689	2.6%
2001	2,880,200	33,911	1.2%
2002	2,930,500	50,300	1.7%
2003	2,978,800	48,300	1.6%
2004	3,017,300	38,500	1.4%
2005	3,058,900	39,600	1.3%

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

Source: California Department of Finance, U.S. Census 5/05

During the economic downturn from 1992 through 1996, the population growth rate declined compared to the growth experienced in the late 1980's. 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 and foreign immigration. As indicated on the preceding table, population has increased 45,000± persons during 1996 and 1997, over 53,000 persons in 1999, and over 70,000± persons in 2000. This increase was the highest in over two decades. As expected due to the slowdown in the economy during 2000, the population increased by only 34,000± persons, then increased by almost

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50,000 persons in 2001 and 2002. During the last two years, the increase was 38,500 persons and 39,600 persons, respectively.

The areas within the County which will continue to experience the largest share of the new population growth will be the areas of Irvine and Tustin where former military bases are to be reused and developed with a multitude of uses including housing. It is expected that South Orange County will continue to provide housing opportunities as development continues south of the master planned community of Ladera Ranch.

### Employment

Orange County is one of the most diverse economies in the nation, with aerospace, financial services, research and development, and tourism the major industry groups. In conjunction with the population growth experienced in the past decade, the employment base has continued to expand and diversify. The County is an employment center for surrounding areas, especially the inland areas of Riverside and San Bernardino Counties.

As of April 2005, Orange County had an unemployment rate of 3.5%, compared to the California rate of 5.2%. The most common measure of employment growth is the increase in nonagricultural wage and salary employment. During the 1980's, the Orange County employment base expanded rapidly as the area became a financial and service center in the Southern California region.

Total nonagricultural employment grew from 869,200 jobs in 1983 to 1,172,400 jobs in 1990. This represented an increase of nearly 300,000 new jobs created in the county during the period from 1983 through 1990. The annual average employment figure for 1991 fell by 28,700 jobs and a further 17,700 jobs in 1992, the steepest employment declines in over 20 years. During 1993, an additional 10,600 jobs disappeared. This sharp drop in the number of jobs was a direct result of the economic recession which hit the California market area in late 1990. The economic situation began to improve by mid-1994, and the 1994 annual average indicates an addition of 11,400 new jobs from the 1993 annual average. The 1995 annual average employment was up nearly 25,000 new

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jobs for a gain of 2.2%. During 1996, 32,500 new jobs were added bringing the total employment to 1,184,200, which was higher than the previous high exhibited in 1990. During 1997, total employment increased to 1,245,000, a 5.1% growth. For 1998, total employment was 1,293,400, up 48,400 new jobs over 1997. This growth continued in 1999 with a total of 1,345,100, up 57,700 new jobs from 1998. For 2000, employment increased 43,800 jobs, or 3.3%. Prior to the terrorist attack on the United States, the Chapman Report predicted a 2.4% growth for 2001. However, the actual growth was only 1.8%, or 24,800 jobs. Clearly, job growth was negatively impacted, but not as much as other counties with less diversification. Job growth was negative in 2002, with a loss of 10,700 jobs. Job growth in 2003 increased to 22,500 jobs. In 2004, the total non-farm employment was 1,460,000, an increase of 2.4% or 34,500 jobs.

Employment Trends 1983-2004<sup>1</sup>

Year	Employment	Average Annual Change Number	Percent
1983	869,200	-	-
1984	932,600	63,400	7.3%
1985	978,000	45,400	4.6%
1986	1,022,000	44,000	4.5%
1987	1,069,100	47,100	4.6%
1988	1,129,800	60,800	5.7%
1989	1,156,700	26,800	2.4%
1990	1,172,400	15,700	1.4%
1991	1,143,700	(28,700)	(2.4%)
1992	1,126,000	(17,700)	(1.5%)
1993	1,115,400	(10,600)	(0.9%)
1994	1,126,800	11,400	1.0%
1995	1,161,700	34,900	2.2%
1996	1,184,200	32,500	2.8%
1997	1,245,000	60,800	5.1%
1998	1,293,400	48,400	3.9%
1999	1,345,100	57,700	4.0%
2000	1,388,900	43,800	3.3%
2001	1,413,700	24,800	1.8%
2002	1,403,000	(10,700)	(0.8%)
2003	1,425,500	22,500	1.6%
2004	1,460,000	34,500	2.4%

<sup>1</sup> 2003 benchmark  
Source: Employment Development Department - 6/05

During the period from 1990 through 1994, the employment decline came at the expense of aerospace and defense related firms. Employment among the individual

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Industry categories reflects fundamental changes in the Orange County 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. As construction activity decreased due to the recession in 1990, construction employment declined significantly. Construction employment began to increase in 1994 as residential construction rebounded. The resurgence in residential construction was a result of renewed consumer confidence in the economy and lower interest rates. However, the December 1994 Orange County bankruptcy, now resolved, put an immediate halt to such resurgence. Starting in 1997, and continuing into 2005, consumer confidence returned and residential home sales continued to be strong, with continued price increases. Reportedly, home sales came to a near stop, in the immediate aftermath of the terrorist attack. However within Orange County, traffic of new home projects returned to near normal levels subsequent to the first month following the attack. During the almost four years since the attack, the market has continued to improve, with prices at record high levels and standing inventory at record low levels. Due to the very limited supply of new homes in Orange County, most experts are predicting continuing near normal sales activity.

Since the peak manufacturing employment in 1988, the number of manufacturing jobs in Orange County declined nearly 20% as of 1995. Between 1995 and 2000, there was a 10% increase in jobs, including almost 25,000 new jobs. However, since 2000, manufacturing jobs have declined over 15%. Due to the high labor, capital, and housing costs, many Orange County manufacturing firms have expanded or relocated some of their manufacturing operations to adjoining areas such as Riverside, San Bernardino, and San Diego counties to take advantage of the labor force and lower land costs. In several cases, due to the perceived high cost of doing business in Orange County, firms have relocated outside of California. The majority of the manufacturing firms remaining in the County are small operations.

Transportation and public utilities employment tend to mirror population growth. Employment in the trade sector expanded rapidly following the recessions in 1986

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and 1994. During the recent years, the trade group has grown in response to the growth in retail activity within the County.

The finance, insurance, and real estate ("FIRE") category has expanded by 35% during the last ten years. During the recession from 1991 to 1994, the FIRE category reflected the decline in the financial services industry and the slowdown of the real estate market. Some manufacturing jobs which have left the County are being replaced with management, administrative and clerical employment.

Since 1990, over 315,000 new jobs have been created in the service sector, with 89,800 jobs added since 2000. The service sector will continue to play a major role in employment growth during the next few years. Government employment is expected to grow at a rate proportionate to the area population. The Orange County bankruptcy had some minor negative impact on local government employment as County personnel were reduced as a cost savings measure, however, government jobs are up 20% since the bankruptcy.

The ten largest employers in Orange County are shown below.

Company/Institution	No. of Employees
Walt Disney Co.	21,000
University of California, Irvine (UCI)	15,500
Boeing Co.	11,160
St. Joseph Health System (St. Joseph)	8,975
Albertsons Inc.	8,700
Tenant Healthcare Corp. (Tenant)	8,389
Yum! Brands Inc.	6,500
SBC Communications, Inc. (SBC)	6,668
Target Corp.	5,436
Cal State Fullerton	4,799

Source: Orange County Business Journal - 2004 Book of Lists

The employment growth in Orange County resumed as the economy rebounded from the recession in 1996, but at a level moderately lower than during the late 1980s.



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Every year since 1996 had a new record employment level until 2002. A new record employment level was reached in 2003 and again in 2004. Factors that will affect employment growth include the direction of the national and local economy, and consumer confidence. Due to the terrorist attack on September 11, 2001, and the Iraq conflict, consumer confidence has been negatively impacted. However, the impact to Orange County has been minimal. The County experienced a mild recession in 2002 and the first half of 2003, but that began recovery during the second half of 2003 which has continuing into 2005.

### Income

The 2005 median household income in Orange County is estimated to be \$66,895 and the average household income is \$88,789. These figures are significantly above the Southern California region average. The higher income level is due to the higher percentage of financial, insurance, real estate, and business service employment which typically have higher wage scales.

**Orange County  
Household Income Distribution  
2005**

Income Range	Households	Percent 1/
Less than \$14,999	73,170	7.47%
\$15,000 - \$24,999	72,661	7.40%
\$25,000 - \$34,999	83,029	8.47%
\$35,000 - \$49,999	133,493	13.62%
\$50,000 - \$74,999	189,064	19.29%
\$75,000 - \$99,999	139,945	14.27%
\$100,000 - \$149,999	163,642	16.70%
\$150,000 or more	125,237	12.73%
Total	989,031	100.0%
Median Household Income		\$66,895
Average Household Income		\$88,789

1/ Percent of total distribution  
Source: Clantias 6/05

Approximately 44% of the County's households have annual income over \$75,000. This high income level, in part, provides the financial means to support the continued demand in the residential market.

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### Retail Sales

For Orange County, taxable retail sales have increased from \$8.5 billion in 1980 to an estimated \$32.28 billion in 2003 (the most recent data). During the period from 1987 to 1989, annual increases ranged from \$1.1 to \$1.3 billion, or 7.1% to 9.6%. As a result of the recession, retail sales declined by 4.4% during 1991. A slight gain of 0.6% occurred during 1992, and retail sales remained static at \$16.8 billion in 1993. The 1994 data indicates sales were 4.4% higher. A similar gain is shown for 1995. Retail sales increased 6.5% in 1996 to \$19.45 billion, and by 7.9% in 1997 to \$20.90 billion. The 1994, 1995, and 1996 retail sales gains were the first significant increase in retail sales since 1989. The 1997 and 1998 taxable sales showed continued growth with a 7.9% increase, and a 7.0% increase. Sales for 1999 and 2000 increased 10.4% and 10.9% to \$27.49 billion. In 2001 the sales growth declined to 3.8% or \$28.52 billion. For 2002, sales increased 4.0%, up to \$29.65 billion. During 2003, taxable retail sales totaled \$32.29 billion, this was an 8.9% increase.

**Retail Sales Trends<sup>1</sup>  
1985-2003**

Year	Taxable Retail Sales ('000's)	Average Annual Change Number ('000's)	Percent
1985	\$13,007,407	—	—
1986	\$13,720,814	\$ 713,407	5.3%
1987	\$15,036,523	\$1,315,709	9.6%
1988	\$16,105,905	\$1,069,382	7.1%
1989	\$17,447,540	\$1,341,634	8.3%
1990	\$17,488,433	\$ 39,894	0.2%
1991	\$16,721,000	(\$ 766,433)	(4.4%)
1992	\$16,810,194	\$ 89,194	0.5%
1993	\$16,812,710	(\$ 6,484)	(0.1%)
1994	\$17,554,336	\$ 741,625	4.4%
1995	\$18,260,182	\$ 705,847	4.1%
1996	\$19,450,797	\$1,189,615	6.2%
1997	\$20,953,323	\$1,502,526	7.3%
1998	\$22,453,107	\$1,499,784	7.2%
1999	\$24,768,574	\$2,315,467	10.4%
2000	\$27,486,000	\$2,697,426	10.9%
2001	\$28,510,000	\$1,024,000	3.8%
2002	\$29,646,818	\$1,127,818	4.0%
2003	\$32,278,697	\$2,631,879	8.9%

<sup>1</sup> Retail stores, taxable retail sales total  
Source: State Board of Equalization

1/05

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The retail sale data is *not* adjusted for inflation so the real decline in retail sales which occurred during the recessionary period is greater than the unadjusted numbers indicate.

The decline during the early 1990s recession was likely caused by several factors working in conjunction. First, consumer confidence fell sharply during the early 1990's recession due to increasing unemployment and uncertainty in the job market. Household appliance purchases and other big ticket item purchases were postponed. Secondly, the retail market had shifted from traditional malls anchored by "department stores" to specialized superstore, warehouse/club stores and "off-price" centers. These chain operations offer retail goods at reduced prices due to lower operating costs and lower profit margins. This may have contributed to the overall decline in the total retail sales figure. The resurgence in retail sales between 1994 and 2000 was a direct result in renewed consumer confidence. During the recent recession and the terrorists attack on the United States, consumer confidence weakened as evidenced by the lower retail sales growth during 2001 and 2002. The decline in the stock market also added to the decline in consumer wealth which directly impacts retail sales. In 2003, the sales increase in dollars was the second largest in history, 2004 sales figures have not been reported.

### Real Estate

During 1990, the slowdown in the national economy and the problems within the savings and loan industry resulted in slower sales activity in most Southern California real estate markets, including the Orange County area. Further declines occurred through 1991, 1992, and 1993 as lenders remained cautious and developers found financing for new projects difficult to obtain. Beginning in 1994, some homebuyers realized mortgage loan rates were at their lowest levels in over 20 years and entered the housing market.

As the national economy, and to a lesser degree the local economy, began an economic recovery, the Federal Reserve Bank increased the federal fund rate during 1994 and early 1995. Although the Federal Reserve kept the federal funds rate stable during most of 1995, short term and long term interest rates fluctuated during 1996. Rates

## HRA

remained stable in 1997, 1998, and early 1999. In mid-1999 and 2000, the Federal Reserve increased interest rates. However, rates have declined rapidly since 2001, to record low levels, although rates have recently increased slightly from the record low levels. Recently, local mortgage rates are in the mid to high 5% range. It appears that the motivation behind the monitoring of interest rates, to keep inflationary pressures in check, is working. Should the economic recovery accelerate above an "acceptable" growth rate, it is the Federal Reserve Board's contention that inflation will increase. Two to three percent increases in long term rates would have a dampening affect on home sales. However, given the recent events, a major increase in long-term rates is not likely for the next six to twelve months.

Even with anticipated slowing in population growth, California will be adding approximately one million new residents every two years. Although the 1980's witnessed a substantial amount of new home building, this activity did not keep pace with the influx of people. According to Hanley Wood Market Intelligence, there is again pent-up demand for housing. The problem in most markets, including Orange County, is affordability. The rapid increases in values in the late 1980's caused a tremendous affordability gap in the coastal metropolitan areas. This led to unprecedented growth in the Inland Empire areas of San Bernardino and Riverside Counties as people sought affordable priced housing. Currently, the affordability index is at historically low levels.

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

County	No. Sold - All Homes			Median Price - All Homes		
	April 2004	April 2005	Pct. Chg.	April 2004	April 2005	Pct. Chg.
Los Angeles	10,749	10,259	-4.2%	\$387,000	\$447,000	15.5%
Orange County	4,877	4,547	-6.7%	\$623,000	\$676,000	10.1%
San Diego	6,024	6,345	+12.3%	\$439,000	\$494,000	10.3%
Riverside	6,116	5,718	-6.5%	\$338,000	\$374,000	11.4%
San Bernardino	3,354	4,007	+13%	\$299,000	\$304,000	32.8%
Ventura	1,426	1,516	+6.2%	\$483,000	\$526,000	9.5%
Southern California	32,916	31,431	-4.5%	\$387,000	\$445,000	15.0%

Source: DataQuick 5/05

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During the period from 1988 through 1989, housing values appreciated at rates approaching an average of 15% per annum throughout much of Orange County and Southern California. During the period from 1990 through 1993 as the economic recession influenced all segments of potential homebuyers, the rate of house price appreciation fell dramatically with decreases of approximately 4% to 6% per annum. During 1996 home prices stabilized, and most new subdivisions experienced significant price increases from 1997 to the present time. The combined median new home price, which includes attached and detached products, exceeded the \$300,000 barrier for the first time in history in March 1998 and as of April 2005 is at \$887,000. Median new home prices increased 140% in just over six years. The median price increased 37.7% over the past 12 months. Sales volumes increased during 2003 and the first half of 2004, to near record levels, but have been declining over the last year. Standing unsold inventory is at historically low levels with about a one-month supply. However, unsold inventory is significantly higher than one year ago.

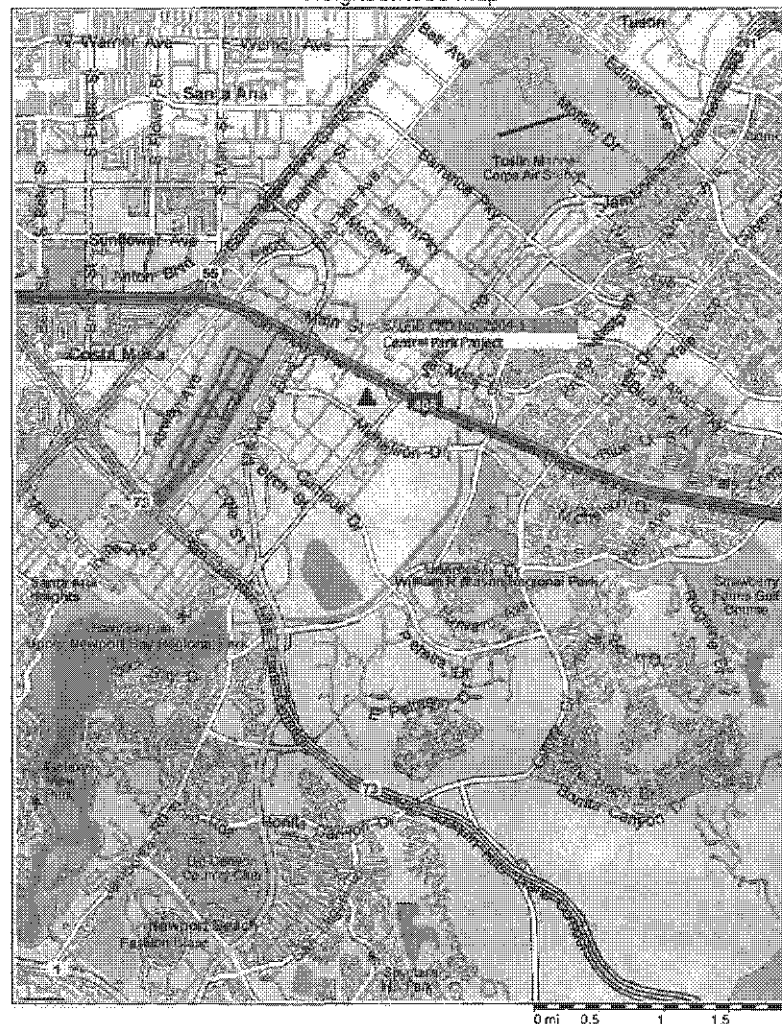
### City of Irvine

The City of Irvine is located in central Orange County. It was incorporated on December 28, 1971, though the City's origins date back to the 1860's. It is adjacent to Tustin and Santa Ana to the west, Lake Forest to the east, Newport Beach to the south and the unincorporated area of Orange County to the north. The more rural unincorporated areas of Orange County are located northeast of the City limits. Irvine is accessible from the Santa Ana Freeway (I-5), the San Diego Freeway (I-405), and the Costa Mesa Freeway (S-55), while three toll roads are adjacent to the City. Please refer to the next page for a neighborhood map of the District.

In 1864, James Irvine and two partners purchased the large ranch, which had been assembled through Mexican and Spanish land grants. In 1876, Irvine bought out his partners. In 1894, Irvine's son, James Irvine II, incorporated the land holdings as The Irvine Company. For decades, the ranch was used for agriculture and grazing. But as urbanization continued to move south from Los Angeles County during the early 1960s, the company's directors announced plans to undertake a comprehensive planning effort

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Neighborhood Map



## HRA

that would guide the ranch's future development. Through the years, the company's land holdings have diminished as homes have been sold and as land deemed sensitive for environmental or public recreational uses has been conveyed to governmental agencies to ensure preservation and public access. Today, approximately 44,000 acres remain under the company's stewardship.

The City of Irvine is the geographical and historical heart of The Irvine Ranch. Irvine has a population of approximately 180,000 persons. The City's most prominent business center is Irvine Spectrum, one of the Country's major business, research and technology centers. The Greater Irvine Spectrum Area employs approximately 55,000 people at approximately 2,500 companies. Core growth industries are automotive design; biotech; broadband; computers and computer peripherals; computer software, and medical devices. Irvine also is home to the University of California, Irvine, one of the Country's best public research universities, built on land donated by The Irvine Company to the University of California.

Irvine has shared in the rapid growth of the region, particularly during the 1970s, 1980s and 1990s. Nearly all of this population growth has been the result of people moving to the newer job markets in Orange County. Irvine has a current population of about 180,800 according to the California Department of Finance. This is almost triple the population in 1980 of 62,100. The primary cause of the population growth is home buyers attracted to the newer residential developments within the City's remaining vacant acreage. The City has about 55,000 housing units, with about 40% as single-family units and 55% multi-family units. Almost 60% of the housing units are owner occupied.

### Population

As of the 2000 Census, Irvine had a population of 143,072 persons or a 30% increase over its 1990 population. The State of California estimated the 2005 population at 180,800 persons for the City of Irvine, a 26.4% increase. There are almost 55,000 dwelling units in the City.

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### Income Levels

The City of Irvine has an income distribution substantially higher than the countywide distribution. The median household income for Irvine is \$83,891, which is significantly higher than the countywide figure. The average household income in the City is \$106,247, which is also much higher than the countywide figure.

City of Irvine  
Household Income Distribution  
2005

Income Range	Households	Percent
Less than \$15,000	5,272	8.12%
\$15,000 - \$24,999	3,270	5.04%
\$25,000 - \$34,999	3,380	5.21%
\$35,000 - \$49,999	6,121	9.43%
\$50,000 - \$74,999	10,938	16.85%
\$75,000 - \$99,999	9,750	15.02%
\$100,000 - \$149,999	13,497	20.80%
\$150,000 or more	12,669	19.53%
Total	64,897	100.0%
Median Household Income		\$83,891
Average Household Income		\$106,247

Source: Claritas

6/05

### Retail Sales

In 2003, the City generated retail sales of \$2,676,430,000 or 8.3% of the County's total retail sales. The retail sales increased 34.5% from the City's 1999 level, while the County increased 30.3% during the same period. Annual sales for 2004 have not been reported. Although on a statewide basis, sales were reportedly up over 10%.

### Employment

The Irvine area has an employment level of 168,000 persons. The unemployment rate for this area is 3.1%, lower than the countywide rate. The top ten employers in this area are shown on the following table. There are 9,813 businesses in Irvine.

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Companies/Institution	Employment
University of California, Irvine	15,500
St. John Knits	2,746
Allergan	2,200
Verizon Wireless	2,129
Toshiba	1,914
Freedom Communications	1,875
Option One Mortgage	1,800
Parker Corp.	1,667
Edwards Lifesciences	1,557
B. Braun Medical	1,221

The major commercial/industrial planning areas in the City include the Irvine Business Complex on the west side of the City, and the Irvine Spectrum on the east side. These are the major tax and employment bases. Consistent with residential planning areas, both employment areas are developed with strict landscape and architectural standards imposed by the City.

The Irvine Business Complex (IBC), located near the Orange County Airport, covers the 4,000 acres originally called the Irvine Industrial Complex. The name change reflects a zoning change that paved the way for development of office buildings and hotels. This is the largest master-planned industrial park in the nation, with well over 3,600 firms employing more than 100,000 people. The Irvine Business Complex is a portion of the greater airport area. The subject property is located in the Irvine Business Complex. Some of the largest employers in the IBC include Ernst & Young, Argent, Sun Microsystems, Edison International, Balboa Capital, Entrepreneur Magazine, Toyota, Prudential, Siebel, Yum! Brands, Smith Barney, and Wells Fargo.

The Irvine Spectrum is a 3,600-acre employment base adjacent to the confluence of the San Diego and Santa Ana Freeways. Within the Irvine Spectrum, the 257-acre Irvine Technology Center is a center for high technology oriented industry and the 227-acre Irvine Bioscience Center provides for the City's growing medical and science industries. The Irvine Bioscience Center includes the 200-bed Irvine Medical Center hospital. Working with the University of California-Irvine, these centers are planned to make Irvine a focal point of technology. In the middle of the Spectrum

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development is the 373-acre Irvine Center, which now consists primarily of office space and includes hotels, restaurants, cinemas and retail services. High profile firms in the Spectrum include Lincoln Mercury, Mazda, Verizon Wireless, Broadcom, Toshiba, Canon, Cisco, Advanced Sterilization Products, Baxter Healthcare and Bristol-Myers Squibb.

The 900-acre Irvine Industrial Center provides a large existing light industrial base. The Spectrum 5 area is currently being developed and planned for 500 acres of light industrial and high technology land uses. The Spectrum section of Irvine is expected to provide 100,000 new jobs over the next 15 to 20 years.

The University of California at Irvine is a major employer in its own right, providing over 15,000 local jobs, but its ties to the private sector have given rise to a massive R&D business park adjacent to the campus called University Research Park. At full build-out, the park will contain approximately 2.4 million square feet and is already home to 44 firms including Cisco, America Online, Skyworks, Canon and Conexant.

Two other major employment centers are located nearby, but outside the Irvine City limits.

The 600-acre mixed-use development, known as Newport Center, with ocean views is one of the Southern California's most sought after office locations. Newport Center includes 4.0 million square feet of office space, two major hotels, including a Four Seasons, and Fashion Island, a 1.2 million square foot retail center. Major employers in Newport Center include the Irvine Company, Pacific Life, UBS Paine-Webber Inc., Prudential Securities, Inc., PIMCO, Stradling Yocca Carlson and Rauth, and O'Melveny and Myers, LLP.

The South Coast Metro is adjacent to Irvine and is one of the most prestigious employment centers in Southern California. It combines 2.7 million square feet of office

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space with 2.7 million square feet of retail, including South Coast Plaza, the highest grossing mall in the U.S. It also includes the Orange County Performing Arts Center and the South Coast Repertory. Major employers in the South Coast Metro include IBM, EquiCo., Bearing Pointe, and Equifax.

### Transportation

Irvine has very good freeway access provided by Interstate 405 (San Diego Freeway), which runs through the southern portion of the City and Interstate 5 (Santa Ana Freeway), the major north/south freeway in California. These freeways merge together at a major interchange situated in the southeast portion of the City. Both freeways intersect with State Highway 55 (Costa Mesa Freeway) to the west and northwest. From there, the Costa Mesa Freeway extends north to the Riverside Freeway providing access into Riverside and San Bernardino counties and west into Los Angeles. The Costa Mesa Freeway continues southwest from Irvine to Costa Mesa and Newport Beach. The Santa Ana Freeway generally bisects the City. It extends northwest to Los Angeles and further to Ventura County and central California. To the south, it provides access to San Clemente and ultimately to San Diego and the international border with Mexico.

Also available is the Eastern Transportation Corridor, toll roads (the San Joaquin Hills Transportation Corridor and the Foothill Transportation Corridor) that run from the Riverside Freeway near Anaheim to Tustin, merging into Jamboree Road about three miles north of the subject.

Access to the neighborhood is primarily via the San Diego Freeway (I-405) directly north of the subject site. There are on and off-ramps from Jamboree Road. Jamboree Road is the main north/south arterial street serving the area. The San Diego Freeway provides access to Long Beach and West Los Angeles to the northwest and south Orange County and San Diego to the southeast. The San Diego Freeway connects with the Costa Mesa Freeway roughly 2 miles west of the subject site. The John Wayne Orange County airport is located one mile west. The S-73 Tollroad is located 1.5 miles south.

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### Immediate Neighborhood

The subject property is located at the eastern edge of the Irvine Business Complex at the intersection of the I-405 and Jamboree Road. Specifically, the subject is at the northwest corner of Jamboree Road and Michelson Drive. Jamboree Road has a full interchange with the I-405 (San Diego Freeway). Surrounding uses have historically included offices, R&D, manufacturing and hotel uses.

At the northeast corner of Jamboree Road and Michelson Drive is a major mixed use project known as Park Place. This project contains 1.75 million square feet of office, but is entitled for a total of 5.0 million square feet of development. In total, Park Place contains 105 acres of land. Park Place is the location of the Marquee at Park Place, a 232-unit condo project situated in two 18-story towers. The project, scheduled for completion in 2006, is completely sold out at prices between \$630,000 and \$1,800,000 per unit.

South of the subject is the headquarters for St. John Knits, one of the largest employers in Irvine. Additional mixed-use of older industrial buildings continues south of St. John Knits.

On the east side of Jamboree Road, south of Michelson Drive are several newer apartment and condo projects. These include Villa Sienna with 1,442 existing apartments, Toscana with 563 existing apartments, Watermark with 534 apartments, that have been converted into for-sale condos and the Preserve, a new 404-unit condo project now under construction. In addition, site work is beginning on the Plaza Irvine, a 202 unit condo project to be built in two high-rise buildings at the corner of Jamboree Road and Campus Drive.

To the west of the subject are two high-rise office parks with hotels and restaurants. About one-mile west is the John Wayne Airport.

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About one-mile southeasterly of the subject is the San Joaquin Wildlife Sanctuary. The University of California, Irvine is about two miles southeast of the subject.

Although located in the City of Irvine, the subject property is located in the boundaries of the Santa Ana Unified School District. However, it is anticipated that the students will attend the Irvine Schools which only require the parents to apply for attendance to the Irvine School District.

### Conclusions of Area Analysis

The strength of the economy for Orange County is evident in the relatively stable employment and, correspondingly, population of the County. While the employment and population figures have shown continued growth, local unemployment has consistently been below the national and state averages. The rebound from the past recession has shown significant gain in population and employment numbers. Most economists predict a continuation of expansion for one to two years to come, although at a more moderate pace.

As the economy moved out of the previous recession mode, a return to growth and economic stability for the County occurred. This was due, in part, to the diverse economic base for the area. Additionally, the availability of developable land in the County, receptiveness of local communities to new business, a strong labor pool, and the mild climate have in the past attracted new residents and business.

The community of Central Park West will offer affordable housing (as compared to many nearby communities) while building a good reputation. The area provides good schools and community amenities, which are desirable characteristics for families as well as young and established professionals. Local growth provides an economic and employment base for retail and service businesses that will be supplemented by jobs resulting from the development of the surrounding business parks. The industrial and retail development of the Irvine Business Center and the Spectrum in Irvine, has generated strong interest in the area. Local development will result in continued demand for housing.

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### SITE ANALYSIS

#### Location

The subject parcel, known as Central Park West, is located at the northwest corner of Michelson Drive and Jamboree Road, south of the San Diego Freeway (I-405) in the City of Irvine, Orange County, California.

#### Current Site Condition

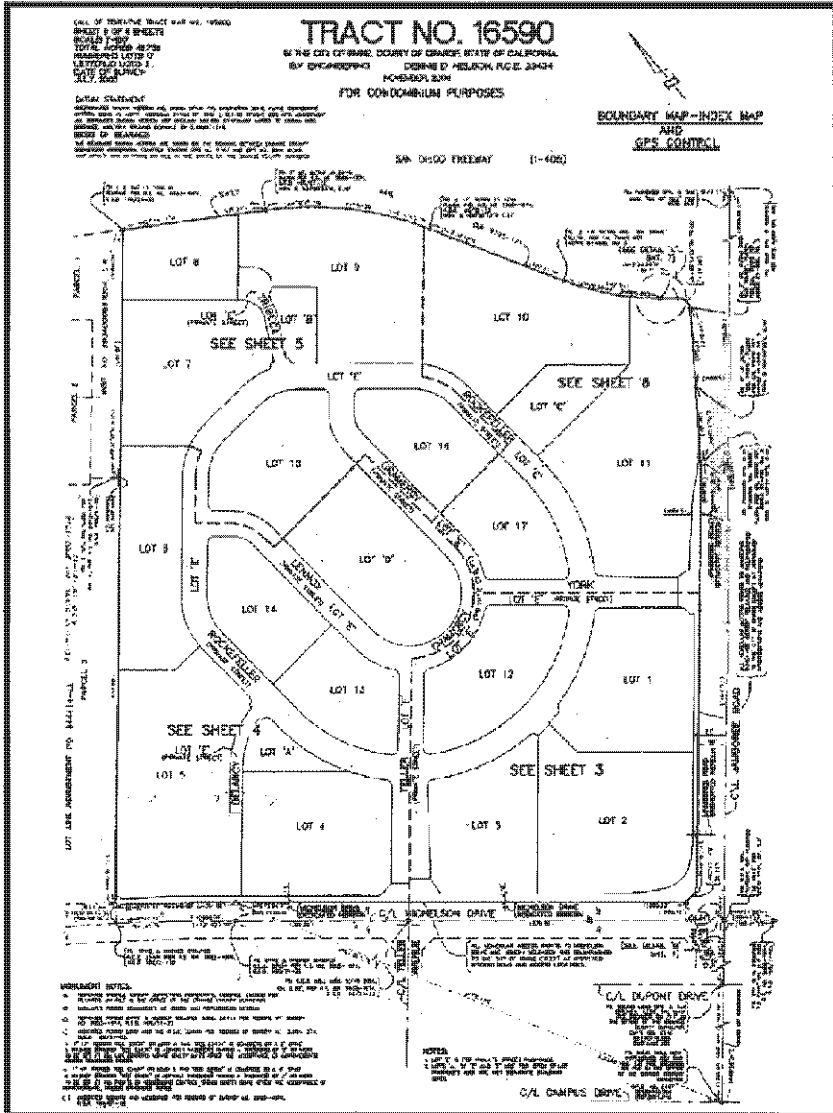
The subject property has been under site construction since April 2005. Minimal site grading is completed. The last remaining prior building was recently demolished, which allows site grading to begin in earnest. As of the valuation date, over 30% of the grading was complete within the District. None of the merchant builder projects are under construction. All perimeter streets adjacent to the District are complete. Additional improvements are planned for Jamboree Road and Michelson Drive, which are expected to be reimbursed by the City of Irvine's CFD. Please refer to the Addenda for a summary of the costs to complete for the subject parcels as of June 1, 2005.

#### Size and Shape

The overall shape of the subject District is rectangular. Tract No. 16590 contains 42.76 gross acres and 30.562 net acres that is currently proposed to be developed with 1,300 attached dwelling units. Lot 8 of Tract 16590 is proposed for 62 affordable units and is not a part of the valuation of CFD No. 2004-1. A copy of the CFD No. 2004-1 boundary map was included on page 4. The next page displays Tract Map No. 16590.

#### Soils and Geology

We were provided with a geotechnical report prepared by Leighton and Associates, Inc. dated January 27, 2005, for Lennar KFPLB, LLC. The report concluded that the proposed development is feasible from a geotechnical standpoint provided their recommendations included in the report are incorporated in the project plans. For purposes of this appraisal, the soil is assumed to be of adequate load-bearing capacity to support all uses considered under our conclusion of highest and best use.



This appraisal is based on the specific assumption that the property is suitable for development as proposed and supported by our highest and best use analysis. This appraisal report is also based on the fact that there are no hazardous materials contaminating the soil. No representation is made by the appraisers concerning the soil conditions.

Topography/Drainage

CFD No. 2004-1 in its entirety consists of a large flat parcel throughout the planned community. The neighborhoods will be built on the flat areas. The parcels do not offer significant view potential.

The land is under construction with mass-grading just beginning. Prior to site construction in April 2005, the land had been the former Parker-Hannifin headquarters site. For purposes of this valuation, the subject property is valued in its "As Is" condition, as of the valuation date.

It is assumed for purposes of this appraisal that the builder will fulfill all grading/drainage requirements of the City of Irvine prior to any building construction.

Zoning

The subject property, which is a portion of the 1,510 acres within the Irvine Business Complex, is currently zoned 5.0 IBC, by the City of Irvine. Allowed uses include: residential, retail, and office. Tract No. 16590 has an approved zoning for Mixed Use. This zoning allows for 20 to 125 dwelling units per acre. Specifically, Tract No. 16590 will allow up to 1,380 units of townhomes, flats, lofts and high-rise homes. The maximum density is 45+ dwelling units per net acre. The General Plan Designation for this tract is mixed-use.

The subject property has a recorded final tract map as of the date of value. Tract Map No. 16590 was recorded on May 19, 2005, as Instrument No. 2005-000385873. The tract map includes 17 developable lots, 3 pocket parks, a 2+ acre central park, and private streets.



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The subject property is approved for a maximum of 1,380 residential condominium units, 90,000 square feet of office space and 19,700 square feet of retail space, according to the Master Plan. The City's Planning Commission has approved the Master Plan and established design guidelines for the proposed development (04-2511). The General Plan has been approved and Supplemental Environmental Impact Report has been adopted (04-2509). The zoning on the subject property has been changed from 5.1 IBC Multi-use to 5.0A IBC Mixed-use (04-2510). The Zone allows for a mix of non-residential and residential uses on the same site. Tentative Tract Map No. 16590 was approved in 2004 along with the Park Plan (04-1512). The Development Agreement between the City of Irvine and KFPLB Michelson Jamboree LLC (prior owners) recorded on October 29, 2004.

According to an interview with the City's Planning Department, there are no additional discretionary permits required for development of the retail, restaurant and offices uses. However, development of the residential attached units will require a Condition Use Permit (CUP) for each project. There are design guidelines already established for development of the District. Assuming the builder's proposed developments are similar to those guidelines, the CPU process should take approximately 6± months. All developments will require precise grading permits and building permits before building or unit construction can begin.

The City of Irvine has an affordable housing requirement for all residential developments within the City. Fifteen percent of the proposed dwelling units are to satisfy the affordable housing requirements for Very Low Income, Low Income and Moderate Income households. Each income level is to be fulfilled with 5% of the dwelling units for each income level. Income Levels I and II; Very Low Income, require that family income not be more than 50% of the County median income. Income Level III, Low Income, requires the household income not be more than 80% of the County median income. Income Level IV, Moderate Income, requires the household annual income not be more than 120% of the County median income.

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The fifteen percent requirement would mean that 207 dwelling units are needed to fulfill the affordable housing requirement, assuming maximum development of 1,380 dwelling units. However, a Central Park Affordable Housing Plan dated June 16, 2004, has been accepted by the City with substantial revisions to the City requirements. The Plan states that the developer intends to satisfy the affordable housing requirements for Central Park by constructing for-sale units on-site. Some of the for-sale units will be three bedroom units. Because the IBC, in which the District is located, contains several thousand "market rate" rental units and for-sale units that satisfy the Level IV requirements, the developer requested the City waive the 5% Moderate Income requirement. The developer received additional credits with a for-sale program and providing three bedroom units. The net result was that 62 affordable housing units are required for development of the District, assuming 18 of the 62 units will be three bedroom units. This requirement is being satisfied with the development of Lot 8 within Tract 16590.

### Access and Circulation

Regional access to the area is provided by the San Diego (I-405) Freeway. Interstate 405 runs in a southeasterly direction from Los Angeles through Orange County, merging with the I-5 Freeway at the border of Irvine and Lake Forest, bisecting the Saddleback Valley and continuing southeast to San Diego. Access to the subject's immediate area is via Jamboree Road and Michelson Drive. Jamboree Road is a major north/south thoroughfare traversing the Irvine, Tustin, and Newport Beach communities. Jamboree Road has a full interchange with the I-405 Freeway adjacent to the subject. Michelson Drive is a major east/west thoroughfare which runs from the John Wayne Airport easterly to Jeffery Road/University Drive.

It appears that the interior streets, which include cul-de-sac type extensions will offer adequate access to the dwellings and minimize traffic. The streets within the development will be asphalt paved, with concrete curbs, gutters, and sidewalks. Direct access will be provided from two main entrances on Jamboree Road and Michelson Drive for the Central Park West development. However, each project will be separately gated.

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### Easements

The appraisers have been provided with one title report that covers Tract No. 16590. The report is dated June 3, 2005 and identified as order number 70029 34-23. As of the date of the title report, the land was under the ownership of Lennar KFPLB, LLC. The majority of the easements revealed are for public utilities, public streets, aviation easement, and do not appear to have an adverse impact on value. The title report discloses a \$105,000,000 trust deed encumbering the property. A copy of the title report is retained in the appraiser's work files. This appraisal is contingent upon the fact that there are no easements, encroachments, or conditions that would adversely impact the value of the property. The title report discloses notices of special tax lien for both Santa Ana Unified School District CFD No. 2004-1 and City of Irvine CFD No. 2004-1.

### Utilities

As of the date of this appraisal, all of the utilities are available to Central Park West. The utilities required to support the subject property to its highest and best use are provided by the following companies/agencies:

Electricity:	Southern California Edison
Natural Gas:	Southern California Gas Company
Telephone:	SBC/Pacific Bell
Fire:	Orange County Fire Authority
Police:	City of Irvine
Transit:	Orange County Transit District
Water:	Irvine Ranch Water District
Sewer:	Irvine Ranch Water District

### Earthquake, Flood Hazards, and Nuisances

The subject property, as of the date of valuation, was not located in a designated Earthquake Study Zone as determined by the State Geologist. However, all of Southern California is subject to seismic activity. The subject property is located in a Zone "X" flood designated area according to Federal Emergency Management Agency Community Panel No. 0602220286H, effective date February 13, 2004. This designation references an area of minimal flooding, which is outside the 500-year flood plain. Flood insurance is not required.

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The subject site is impacted by noise from the existing I-405 Freeway and both Jamboree Road and Michelson Drive. Although a "sound wall" is to be built on the property's north line, adjacent to the I-405 Freeway, the entire site will be impacted by noise. The subject site will also be impacted by aircraft noise. This will be from take offs and landings of commercial jets at John Wayne Airport and the over-flights of small private planes that circle around the airport for landings.

### Hazardous Material/Toxic Waste

The Site was a manufacturing and research industrial complex operated by Parker Hannifin Corporation from 1970 to 2000. Various jet, helicopter, and aerospace components were designed, built and tested on the facility. These operations included the use of numerous hazardous chemicals including chlorinated solvents and various petroleum hydrocarbons. During removal of two underground storage tanks in 1986, petroleum hydrocarbons and a common degreaser (tetrachloroethene [TCE]) were detected in shallow soil and groundwater near the southwest corner of the site. Numerous soil and groundwater investigations were subsequently completed. In 1991, a groundwater treatment system was designed and installed. A soil vapor extraction system was designed and installed in 1995. Both treatment systems operated until July 2003 when they were shut down with permission from the California Regional Water Quality Control Board – Santa Ana Region (RWQCB). Only residual amounts of soil and groundwater contamination remained onsite at that time.

Lennar KFPLB, LLC completed demolition of all former structures in early May 2005. There was removal of over 15,000 tons of soil impacted with petroleum hydrocarbons and volatile organic compound from eight areas of the site throughout the demolition activities. Four of these eight areas were known before demolition work started. The remaining four were discovered during demolition activities.

The subject property has been under environmental monitoring and remediation since 1990. All of the costs associated with environmental issues are the responsibility of the original owner that caused the contamination, Parker-Hannifin. *It is a specific*

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*contingency of the appraisal and values included herein, that any additional costs associated with further remediation are born by Parker-Hannifin and there is no time delay in site or unit construction. It is a specific assumption of this appraisal that the site is free of any environmental hazards.*

It is our understanding that the City will require an additional Site Assessment for each lot within the District upon further development of each condominium lot. *It is a specific assumption and contingency of this appraisal and value that no further remediation will be required and the timeline for development as currently envisioned will be met.*

### Environmental Issues

The subject parcel was formerly used for industrial manufacturing and R&D purposes. No rare or threatened species were observed on the subject parcel.

### Transportation

Vital to an area's growth and economic expansion are its transportation facilities for both business and residents. The following is a summary of the existing transportation facilities available in the area.

Rail:	Amtrak stops in Irvine and Tustin.
Truck:	11 major trucking lines serve Orange County.
Air:	John Wayne Airport (1 mile), Los Angeles International Airport (50 miles)
Bus:	Orange County Transit District, Dial-A-Ride, Park-N-Ride.
Water:	Long Beach Harbor/Port of Los Angeles (40 miles).
Highways:	Santa Ana Freeway (Interstate 5) San Diego Freeway (Interstate 405) Costa Mesa Freeway (State 56) Eastern Transportation Corridor (S-241). San Joaquin Transportation Corridor (S-73)

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### 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. Except in limited circumstances, real estate tax increases are limited according to Proposition 13 to a maximum of 2% per year. If the property is sold, real estate taxes are normally subject to modification to the then current market value.

The basic levy for the properties is 1%. In addition, there are taxes and assessments for Metropolitan Water District, Irvine Ranch Water District, and Vector Control. The subject parcel will be subject to CFD 2004-1 Special Taxes, for the Santa Ana Unified School District and special taxes for the City of Irvine CFD No. 2004-1. The developed projected total tax rate is at 1.5%± of the initial base sales prices of the individual homes. The office of David Taussig & Associates has estimated the Special Taxes on the undeveloped land within CFD No. 2004-1. The Special Taxes for the individual homes are also estimated.

The subject property is identified as Orange County Assessor Parcel No. 445-091-07. The parcel is assessed as an improved headquarters/R&D facility for fiscal year 2004/2005 as of January 1, 2004. The total assessed value is \$46,300,028 and a total tax of \$504,502.44. The tax bill has been paid. The County Tax Collector's records show the following tax rate for the property within Tax Rate Area 26-037.

26-037	Percent
Basic Levy-City, County, School, & Dist.	1.00000
Metro Water Dist-D-MWDCC	0.00560
RSCCD 2002 Bond	0.02726
Santa Ana U BD 02B	0.02213
Santa Ana U B000	0.01903
Santa Ana U BD 02A	0.00946
Total	1.08348

In addition to the above taxes, Special Assessments and User Fees include:

Vector Control Charge	\$ 6.24
MWD Water Standby Charge	\$ 427.00
MOSQ. Fire Ant Assessment	\$ 170.72
Landscape & Lighting #1	\$1,755.84

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### IMPROVEMENT DESCRIPTION

#### General

The subject was previously improved with research and development buildings, which have recently been demolished. From now until September 2005, the site work consisting of grading, infrastructure, and streets are expected to bring the site to a super-pad condition. Utilities will be stubbed to each condominium lot.

The proposed improvements include office, retail and residential developments. The office will total 90,000 square feet and the retail 19,700 square feet. The office building will be a five-story Class "B" steel and glass structure. The design and appeal will be competitive with near-by office buildings, especially the newer buildings in Park Place. The retail building is proposed to be a one-story Class "D" frame-stucco retail building, comparable to the newer retail centers along Jamboree, south of the subject. Both buildings will incorporate the design features of the residential projects within Central Park West.

The residential developments are proposed to include low, mid and high-rise buildings, with varying densities. The current plans are for eight low-rise projects totaling 390 dwelling units; five mid-rise projects, totaling 608 dwelling units; and one high-rise project, totaling 240 dwelling units. All of the market rate units area currently planned to be built in phases with three to 12 buildings per project. The high-rise project is planned to include two buildings. Affordable housing units are required as part of this project. Lot B is currently planned to be developed with 62 affordable dwelling units, which is exempt from the special tax lien, and therefore, not valued in this appraisal. Central Park West will not be gated; however, each community is proposed to be gated.

The eight low-rise projects will include three basic product types. The Luxury Townhomes are currently proposed to be three stories consisting of 6-plex, 5-plex and 4-plex alley loaded buildings with attached garages. The densities will be around 22 units per acre. The Brownstone Villas are proposed to be three and four stories

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consisting of 6-plex and 4-plex courtyard buildings with attached garages. This project is expected to include townhouse units and flats. The densities will be around 27 units per acre. The Brownstone Townhomes are proposed to be three stories consisting of 6-plex and 4-plex courtyard buildings with attached garages. Similar to the Brownstone Villas, this project is expected to offer townhomes and flats. The densities should be around 31 units per acre.

The five mid-rise projects are currently proposed to include two basic product types. The Luxury Flats are proposed to be three stories over podium (semi-subterranean) parking. The units are expected to be condominium flats with the top floor offering townhome units. These projects are expected to be elevator served. The densities should be around 52 units per acre. The Lofts are proposed to be four stories over podium (semi-subterranean) parking. The units are expected to include flats and lofts and to be elevator served. The densities should be around 67 units per acre.

The high-rise project is currently proposed to include 12 stories over parking. The project is proposed to include condominium flats and penthouse townhome units on the top floor. The density should be around 122 units per acre.

Within Central Park West, four parks are planned. The parks are expected to include greenbelt areas, a swimming pool and a recreation center. Development of the 2+ acre Central Park and the three pocket parks are the responsibility of the master developer, Lennar KFPLB, LLC.

The vertical construction costs are preliminary and subject to change. The costs are for the construction of the buildings and garages and are reported to include all of the construction costs and fees from building permit to sale of the units. The costs for the low-rise and mid-rise projects and are estimated at \$172.00 per square foot. The cost for the high-rise building is estimated at \$338.00 per square foot. In addition to the vertical construction costs, there are costs associated with in-tract development. The additional builder costs are reported at 2.3% of home price for the low- and mid-

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rise products and 0.6% of home price for the high-rise product. All of the vertical construction costs and in-tract costs have been provided by the developer, Lennar KFPLB, LLC or their consultants. *It is a specific contingency of this appraisal that the construction costs are similar to what actual construction costs will be.*

Lot	Acres	Use	Description & No. of Buildings	Avg. Size	Density	Units
1	1.014	Retail	1-story		N/A	19,700 GF
2	2.471	Office	5-story		N/A	90,000 SF
3	1.611	Residential	Lofts/N/A	1,245	66.4	107
4	2.068	Residential	Brownstones TH/6 bldgs.	1,400	30.7	64
5	3.093	Residential	Brownstone Villas/6 bldgs.	1,650	26.6	83
6	1.622	Residential	Brownstone Villas/8 bldgs.	1,660	27.1	44
7	1.970	Residential	High-Rise Condos/2 bldgs.	1,549	121.8	240
8	N/A	N/A	N/A	N/A	N/A	N/A
9	2.421	Residential	Lofts Loop Rd/10 bldgs.	925	68.2	165
10	2.506	Residential	Lofts Loop Rd/7 bldgs.	925	68.2	177
11	3.189	Residential	Brownstones TH/12 bldgs.	1,400	31.0	99
12	1.407	Residential	Luxury Flats/4 bldgs.	1,945	51.9	78
13	1.099	Residential	Luxury TH/3 bldgs.	2,150	21.8	24
14	1.184	Residential	Luxury TH/3 bldgs.	2,150	22.0	26
15	1.560	Residential	Luxury Flats/4 bldgs.	1,595	51.9	81
16	1.176	Residential	Luxury TH/3 bldgs.	2,150	22.1	26
17	1.082	Residential	Luxury TH/3 bldgs.	2,150	22.2	24
30.962 Taxable						1,238

CFD No. 2004-1  
Unit Square Footage Calculations

Lot	Living Area Sq.Ft.	No. of Units	Total Area Sq.Ft.
3	1,245	107	133,215
4	1,400	64	89,600
5	1,650	83	136,950
6	1,660	44	72,600
7	1,549	240	371,760
8	N/A	N/A	N/A
9	925	165	152,625
10	925	177	163,725
11	1,400	99	138,600
12	1,945	78	151,710
13	2,150	24	51,600
14	2,150	26	55,900
15	1,595	81	129,195
16	2,150	26	55,900
17	2,150	24	51,600
	1,416	1,238	1,754,980

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### Conclusion of the Improvements

As of the date of value, the appraisers have not been provided with plans or specifications for the proposed improvements. This appraisal assumes that when built, the 1,238 dwellings within CFD No. 2004-1 will be good quality and will meet the market demands for the subject area at that time.

### Functional Utility

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

### Remaining Economic Life

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

### Homeowner's Association

All of the projects within the District will have individual Homeowner's Associations. Thirteen of the fourteen projects will have monthly dues that range between \$250.00 per month and \$400.00 per month, according to the developer and their consultant. The high-rise condominium project will have Homeowner's Association dues between \$300.00 and \$400.00 per month, except for the penthouse units which will range between \$700.00 and \$750.00 per month.

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### 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.

#### Legal Considerations

The legal factors influencing the highest and best use of the subject property are primarily governmental regulations such as zoning and building codes.

The subject property is currently zoned 5.0 IBC, by the City of Irvine. Allowed uses include: residential, retail, and office.

Tract No. 16590 was approved and recorded on May 19, 2005. This tract has an approved zoning for Mixed Use. This zoning allows for 20 to 125 dwelling units per acre. Specifically, Tract No. 16590 could have up to 1,380 units of townhomes, flats, lofts and

<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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high-rise condominiums. The overall density is 43± dwelling units per net acre based on the current plans to develop 1,307 units. The General Plan Designation for this development is Mixed-Use.

The subject property is approved for a maximum of 1,380 residential condominium units, 90,000 square feet of office space and 19,700 square feet of retail space, according to the Master Plan. The City's Planning Commission has approved the Master Plan and established design guidelines for the proposed development (04-2511). The General Plan has been approved and Supplemental Environmental Impact Report has been adopted (04-2509). The zoning on the subject property has been changed from 5.1 IBC Multi-use to 5.0A IBC Mixed-use (04-2510). The Zone allows for a mix of non-residential and residential uses on the same site. The Development Agreement between the City of Irvine and KFPLB Michelson Jamboree LLC (prior owners) recorded on October 29, 2004.

According to an interview with the City's Planning Department, there are no additional discretionary permits required for development of the retail, restaurant and offices uses. However, development of the residential attached units will require a Condition Use Permit (CUP) for each project. There are design guidelines already established for development of the District. Assuming the builder's proposed developments are similar to those guidelines, each CUP process should take approximately 6± months. All developments will require precise grading permits and building permits before building or unit construction can begin.

Although not formalized in the Development Agreement, the subject property is encumbered with an agreement between the City of Irvine and the developer to provide affordable for-sale housing units within the District. The City usually requires that 15% of the dwelling units of any project be set aside for affordable units. Typically 5% of the total units shall be reserved and restricted to Very Low Income households; 5% shall be reserved and restricted to Low Income households; and 5% shall be reserved and restricted to Moderate Income households.

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However, only 62 for-sale affordable units were required within the Central Park West project according to the Affordable Housing Plan dated June 16, 2004. Current plans are to provide 69 affordable for-sale units in the District. These units will be included in a four-story condominium building on Lot 8 of Tract 16590. The proposed uses conform to the City of Irvine's master plan requirements. According to a representative at the City of Irvine's Planning Department, the Affordable Housing Plan for the Central Park West development meets the intent of the General Plan and ordinances.

### Physical and Locational Considerations

The physical and locational characteristics of the subject property, CFD No. 2004-1, are considered good for the proposed uses. Central Park West in its entirety is rectangular in shape and consists of 42.758 gross acres. The subject property is a natural extension of existing residential developments located in the City of Irvine. The subject's neighborhood was originally zoned for office manufacturing and headquarters use. However, many properties in the "Jamboree Road Corridor" are being rezoned to high density residential uses. Development for attached products in other communities has met with excellent response from the market. The subject area is established and offers a large employment base near the District.

All necessary utilities are available with some further extension necessary within the subject development. The utility capacity to serve the site is reported to be adequate for the proposed improvements. All street improvements, including sidewalks, curbs and gutters are in place along each of the streets which the District fronts. Central Park West will be improved with paved streets, curbs, sidewalks and gutters. The site's access and configuration are good. Topography is level. The subject parcels do not appear to present any development constraints. This report and the values included herein assume there are no soils problems or hazardous conditions that would have an adverse impact to development of the District. As previously discussed, rough grading on the subject property has begun. Central Park West is essentially in less than rough-graded site condition.

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

### Market Conditions and Feasibility

The financial feasibility of the development of the subject property is based on its ability to generate sufficient income and value in excess of the costs to develop the property to its highest and best use. Please refer to the Valuation section of this report, which gives support to the financial feasibility of the District.

*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. For a project the size and complexity of CFD No. 2004-1, there will be divergent opinions, often based on the same base data, as to the anticipated absorption time-frame of the undeveloped land. Unforeseen national and regional economic and/or social changes will affect the time-frame of real estate development.*

This independent study is titled Market Absorption Study CFD No. 2004-1 (Central Park) Santa Ana Unified School District prepared by Empire Economics, Inc., dated June 21, 2005. A summary of the estimated absorption is included in the Addenda. None of the 14 residential projects that will be located in this District have started construction or sales. Empire Economics has estimated a monthly absorption of 3 to 7 units per month for the various residential projects. First occupancies are projected for 2007 with final sales in 2011. No absorption projections were made for the retail or office uses. Our estimate is that the retail space will absorb as residential units are built out. We would expect first retail occupancies in 2007 and lease up in 2008. Office occupancies could begin in 2007 or 2008 and take up to two years to reach stabilized occupancy.

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### Residential Demand

Residential development in Central Orange County, particularly in the areas of Irvine, Tustin and Newport Beach has been excellent. Prior to 2004, unemployment had remained relatively low. Employment improved during 2004 and most economists are expecting improvement to continue in the near term. The demand for housing in Orange County continued to be strong even throughout the economic slowdown. This is due, in part, to the limited new housing units in the County and historic low interest rates.

During the past 8 years, price increases occurred and incentives/concessions disappeared. The general consensus is that current demand for residential land exceeds supply. Both land sales and home sales have shown annual double-digit appreciation from 1996/1997 to the present time.

The national economic recovery is headed for positive growth and is the best seen in the last two decades. Many economists are predicting that the overall economy will grow by 3.5 percent or better in 2005. According to the State EDD, job growth in Orange County was 2.4% in 2004. The Chapman forecast shows job growth slightly declining to 1.8% by year-end 2005. The projected job growth equates to an increase in the number of payroll jobs in the County by 24,300 jobs to 1,466,300.

Population in Orange County has continued to grow and is expected to continue, but at a more moderate pace as some residents move to a less expensive area. These factors would indicate that demand for executive homes will increase while demand for the traditional mid-level housing will decrease. However, with the low mortgage rates more first time homebuyers are able to qualify for affordable condominiums and single family residences. Affordability in Orange County has declined to a 16-year low, with the affordability index dropping to 11%. As of April 2005 the median home price for existing and new homes was \$576,000, which was up 10.1% from April 2004, a new record high median price. As of the first quarter 2005, the median new home (attached

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and detached) price was \$887,000, which was up 37.7% from one year ago and a new record high.

For purposes of the Highest and Best Use analysis of this appraisal report, the Competitive Market Area ("CMA") is defined as the Central portion (Irvine, Tustin, Santa Ana, Orange, Garden Grove, Anaheim and Buena Park) of Orange County.

The median new attached priced home in Orange County reached \$566,000 during the first quarter of 2005. The median priced new attached home in the Central market area was \$531,250 during the first quarter of 2005. The Central submarket was the least expensive market in Orange County at \$531,250 per home, and \$397 per square foot.

During the first quarter of 2005, the subject's submarket did not sell any attached homes priced under \$400,000; 115 attached homes priced between \$400,000 and \$499,999 were sold; 114 attached homes priced between \$500,000 and \$599,999 were sold; 97 detached homes priced between \$600,000 and \$749,000 were sold; 9 attached homes priced between \$750,000 and \$999,999 were sold; and 78 attached homes priced over \$1,000,000 were sold.

Within the Central submarket there are 23 active attached projects, which is the same as the beginning of the quarter and 14 more than the same time last year. The subject's market area reports 63 standing (built, but unsold) inventory units and 66 unsold units under construction. This is less than a one week absorption time for the completed units and the units under construction. Total inventory, which includes units built, under construction and future construction, totals 1,188 units which equates to a 12.3 month supply at the current sales rate. One year ago total inventory was at 307 units, and the months to absorb based on last year's sales rate was 4.5 months. This indicates that future competition could be very strong if the market declines or all units are built.



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The supply/demand balance for both completed and under construction attached product is below the 5 to 6 month normal range. The low inventory is further evidence of the need for additional product, particularly in the more affordable price range.

As illustrated on the following pages, all product types within the market area have experienced good absorption. The first page summarizes the 3 actively selling high-rise attached projects considered most similar to the subject's high-rise project. As indicated, the monthly absorption has ranged from 13.6 units per month to 23.5 units per month. All of the projects are located in the subject's immediate market area and are priced similarly to that proposed for the subject. The 13 additional comparable projects are all located in the City of Irvine or in Tustin. All of the projects are actively selling or have recently sold out. The subject's proposed sizes and price range are similar to the actively selling projects in the City. In general, absorption has ranged from 6 to 10 dwelling units per month.

### Future Competitive Supply

Since the early 1990s, the residential component of the IBC has grown from a single, 403-unit apartment community to 2,943 luxury apartments in four separate communities and 261 upscale, mid-rise condos. Developers have also discovered a strong market for high-rise condominiums in Irvine. At this time, there are 434 luxury high-rise condominiums under construction in two separate developments near Central Park West. The strong demand for high-end multi-family product in a metropolitan setting has been proven by significant presales. Marquee at Park Place, a 232-unit high rise, is 100% presold, and The Plaza Irvine's first tower (101 units) is 100% presold. Prices in these high-rise developments range from \$600,000 to \$3.5 million. The following paragraphs summarize the new high-rise condominiums in the subject's immediate market area.

**Watermarke** – Sares-Regis is near completion on this 534-unit project, which is at the northwest corner of Campus Drive and Carlson Avenue. The project was originally intended to be a rental property, but midway through construction, the owners decided to convert the property to condominiums. At this time, approximately half of the

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Central Park Market Area Comparable Residential Project Summary Attached Single Family Homes June 12, 2005										
No.	Project, Builder & City	Units	Lot Size	Price Range	Size Range	S/Sq. Ft. Range	No. Released	No. Sold	Start Dt.	Overall Mo. Abs.
	Subject Hi-rise	221	Hi-rise	\$411,000	900	\$456.67	0	0		
	Lennar Homes Irvine			\$507,000	1,150	\$440.87				
				\$593,000	1,400	\$423.57				
				\$669,000	1,650	\$405.45				
				\$739,000	1,900	\$388.95				
	Subject Hi-rise	19	Hi-rise	\$1,465,000	2,300	\$636.96	0	0		
	Lennar Homes Irvine			\$1,569,000	2,600	\$603.46				
1	Marquee Park Place Boea Development Irvine	232	Hi-rise	<i>prices as of 12/2004</i>			232		232 Jul-03 Sold Out Dec-04	13.6
				\$629,500	1,275	\$493.73				
				\$635,000	1,347	\$471.42				
				\$734,300	1,454	\$505.02				
				\$649,000	1,492	\$434.99				
				\$897,000	1,520	\$590.13				
				\$1,545,000	1,980	\$780.30				
				\$1,779,000	1,984	\$896.67				
				\$1,695,000	2,062	\$822.02				
				\$1,398,000	2,093	\$677.65				
2	The Plaza Opus West Irvine	202	Hi-rise	\$639,500	1,175	\$544.26	202	152 Nov-04	21.9	
				\$600,000	1,335	\$449.44				
				\$800,000	1,430	\$559.44				
				\$900,000	1,675	\$537.31				
				\$900,000	1,790	\$502.79				
				\$1,500,000	1,946	\$770.81				
				\$1,800,000	1,995	\$902.26				
				\$1,500,000	2,383	\$629.46				
				\$1,600,000	2,677	\$597.68				
				\$2,200,000	2,680	\$820.90				
				\$2,700,000	3,585	\$757.36				
				\$3,500,000	4,290	\$815.85				
3	Watermarke Regis Homes Irvine	534	Hi-rise	\$311,000	635	\$489.76	350	250 Jul-04	23.5	
				\$369,000	726	\$508.26				
				\$390,000	818	\$476.77				
				\$425,000	842	\$504.75				
				\$500,000	1,123	\$445.24				
				\$554,000	1,250	\$443.20				
				\$655,000	1,438	\$455.49				
				\$654,000	1,467	\$445.81				
				\$639,000	1,782	\$358.59				

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Central Park Market Area Comparable Residential Project Summary Attached Single Family Homes June 12, 2005									
No.	Project, Builder & City	Units	Lot Size	Price Range	Size Range	\$/Sq. Ft. Range	No. Released	No. Sold Start Dt.	Overall Mo. Abs.
	Subject Lofts/Flats	342	Condo	\$290,000 \$330,000 \$370,000 \$410,000	700 850 1,000 1,150	\$414.29 \$388.24 \$370.00 \$356.52	0		0
	Subject Lofts	107	Condo	\$395,000 \$435,000 \$475,000 \$515,000	1,050 1,200 1,350 1,500	\$376.19 \$362.50 \$351.85 \$343.33	0		0
	Subject Brownstone	163	TH	\$483,000 \$527,000 \$569,000 \$608,000	1,175 1,325 1,475 1,625	\$411.06 \$397.74 \$385.76 \$374.15	0		0
	Subject Brownstone	127	Condo	\$585,000 \$628,000 \$670,000 \$708,000	1,425 1,575 1,725 1,875	\$411.23 \$398.73 \$388.41 \$377.60	0		0
	Subject Luxury Flats	159	Condo	\$650,000 \$695,000 \$740,000 \$800,000 \$785,000 \$845,000 \$890,000 \$935,000	1,400 1,550 1,700 1,750 1,850 1,900 2,050 2,200	\$464.29 \$448.39 \$435.29 \$457.14 \$424.32 \$444.74 \$434.15 \$425.00	0		0
	Subject Luxury TH	100	TH	\$817,000 \$877,000 \$937,000 \$997,000	1,850 2,050 2,250 2,450	\$441.82 \$427.80 \$416.44 \$406.94	0		0
4	Jasmine Shea Homes Quail Hill Irvine	204	TH	<i>prices as of 12/2004</i> \$372,990 \$518,990 \$511,990 \$536,990 \$624,990 \$588,990 \$587,990 \$447,990	822 1,155 1,174 1,181 1,324 1,330 1,387 1,426	\$453.76 \$449.34 \$436.11 \$454.69 \$472.05 \$442.85 \$423.93 \$314.16	204	204 Jul-02 Sold Out Feb-05	6.6

Central Park Market Area Comparable Residential Project Summary Attached Single Family Homes June 12, 2005									
No.	Project, Builder & City	Units	Lot Size	Price Range	Size Range	\$/Sq. Ft. Range	No. Released	No. Sold Start Dt.	Overall Mo. Abs.
5	Casalon John Lain Homes Quail Hill Irvine	165	TH	<i>prices as of 12/2004</i> \$637,990 \$673,990 \$670,489 \$697,490 \$721,189	1,553 1,582 1,592 1,695 1,702	\$410.81 \$426.04 \$421.16 \$411.50 \$423.73	165	165 Sep-02 Sold Out Feb-05	5.7
6	Ambridge William Lyon Homes Quail Hill Irvine	128	TH	\$505,990 \$525,990 \$560,990 \$618,990	1,099 1,447 1,468 1,823	\$460.41 \$363.50 \$382.15 \$339.54	112	108 Jan-04	6.5
7	Cachette Pulte Homes Woodbury Irvine	110	Condo	\$672,000 \$682,000 \$755,000	1,580 1,640 1,959	\$425.32 \$415.85 \$385.40	78	78 Nov-04	10.9
8	Garland park William Lyon Homes Woodbury Irvine	116	Condo	\$524,990 \$614,990 \$616,990 \$660,990	1,355 1,737 1,878 1,971	\$387.45 \$354.05 \$328.54 \$335.36	76	76 Nov-04	10.6
9	Lombard Court William Lyon Homes Woodbury Irvine	150	Condo	\$406,800 \$434,760 \$472,800 \$517,790 \$546,920 \$554,840 \$536,830 \$533,850	1,068 1,135 1,205 1,526 1,537 1,552 1,569 1,635	\$380.90 \$383.05 \$392.37 \$339.31 \$355.84 \$357.50 \$342.15 \$326.51	78	78 Nov-04	10.9
10	Cortile California Pacific Homes Woodbury Irvine	120	TH	<i>prices as of 6-19-05</i> \$505,000 \$545,000 \$570,000 \$630,000	1,030 1,145 1,275 1,497	\$490.29 \$475.98 \$447.06 \$420.84	64	64 Nov-04	8.9

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Central Park Market Area Comparable Residential Project Summary Attached Single Family Homes June 12, 2005									
No.	Project, Builder & City	Units	Lot Size	Price Range	Size Range	\$/Sq. Ft. Range	No. Released	No. Sold Start Dt.	Overall Mo. Abs.
11	Treo Brookfield Homes Woodbury Irvine	135	TH	\$647,000 \$703,000 \$681,000 \$745,000	1,824 1,960 2,026 2,165	\$354.71 \$358.67 \$336.13 \$344.11	78	78 Nov-04	10.9
12	Serissa Lennar Homes Northwood Irvine	88	TH	\$735,000 \$787,000 \$865,000	1,585 2,146 2,492	\$463.72 \$366.73 \$347.11	88	88 Apr-04 Sold Out May-05	6.8
13	Wright's Landing John Laing Homes Tustin Field Tustin	58	TH	\$518,880 \$536,880 \$599,880	1,588 1,832 1,661	\$326.75 \$330.20 \$361.16	58	58 May-04	4.6
14	Ametia John Laing Homes Tustin Field Tustin	140	TH	<i>prices as of 6/25/2005</i> \$529,880 1,546 \$342.74 \$527,880 1,578 \$334.52 \$596,880 1,938 \$307.99			50	50 May-04	3.9
15	Lindy's Crossing John Laing Homes Tustin Field Tustin	52	Duplex	<i>prices as of April 2005</i> \$682,880 1,610 \$424.15 \$724,880 1,610 \$400.49 \$738,880 1,935 \$381.85 \$746,880 2,143 \$348.52			52	50 May-04 Sold Out Apr-05	4.5
16	Corrigan John Laing Homes Tustin Field Tustin	126	Duplex	\$579,880 \$579,880 \$584,880 \$612,880	1,354 1,367 1,390 1,488	\$428.27 \$424.20 \$420.78 \$411.68	98	98 May-04	7.7

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property is rented, and the other half is being marketed as condominiums. The owners plan to sell out the entire project, and are only offering short-term leases to existing rental tenants.

**The Preserve** - Opus West has an approved masterplan and tract map, and is currently in the framing stage. This project is at the southeast corner of Jamboree Road and Dupont Drive. The property is entitled for the construction of 404 apartments. However, the project is approved for conversion to condos. The project is being built in three four-story buildings on a 6+ acre site. The project includes two four-story parking structures. The project is currently listed for sale, based on a retail condo price of \$450,000 per unit.

**Park Place Towers** - Bosa Development has submitted an application to build 566 condos in four high-rise towers on the eastern edge of Park Place. The pricing is expected to be similar to those of Marquee at Park Place, which Bosa sold out in January of 2005. There was some initial debate over whether the development agreement for Park Place would relieve them from having to apply for a GPA/Zone change. It appears that a GPA/Zone change will be required, but the process will probably be expedited because the City has been reviewing their plans for some time. According to the City of Irvine Planning Department, the GPA/Zone change application could be approved in the summer or fall of 2005. A tract map could be approved shortly thereafter, making it possible to begin construction in the fourth quarter of 2005. Bosa expects to begin marketing the units by the end of the year. First move-ins are expected in mid-2007.

In addition, Maguire Partners own lands in Park Place that would allow an additional 1,002 condos to be built, but there are no known plans to do so. The GPA/Zone change would apply to these units as well.

**The Plaza Irvine** - An affiliate of Opus West is building a luxury 202-unit, 2-tower residential high-rise on a site at the northeast corner of Jamboree Road and

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Campus Drive. First move-ins are expected in late 2006. Current asking prices are in the \$640,000 to \$3.5 million range. The sales office opened in mid-November of 2004. Initially, the sales office could only accept fully refundable reservation deposits, but in the first week of December 2004, the Department of Real Estate issued a white report on one tower (101 units), allowing the execution of sales contracts with homebuyers.

Sales have been strong. Currently, a total of 152 units were reserved or under contract representing an average sales rate of 22± units per month over a marketing period that included the holiday season, which is usually a sluggish period for real estate sales.

**Campus Center III** – Opus West has plans to build a third high-rise residential tower on a site adjacent to The Plaza Irvine. Construction could begin in early 2006 and marketing is expected to begin in mid-2006. Pricing is expected to be similar to that at The Plaza Irvine. First move-ins are expected in late 2007.

**2801 Kelvin** – John Laing Homes has submitted a GPA/Zone change application and a tract map application simultaneously. They want to build 248 condos. It takes 12 to 18 months to get a tract map approved; however, their plans could be affected by the overlay district being contemplated by the City, which could delay the project or make it untenable. Construction is expected to begin in the fourth quarter of 2006. A sales office is expected to open in mid-2007 and first move-ins are expected to occur in the first quarter of 2008.

**2801 Alton Parkway** – Starpointe Ventures and William Lyon Homes are seeking entitlements for 179 condominiums (previously reported by the City as 184 units) at the northeast corner of Jamboree Road and Alton Parkway. Approval is expected in June of 2005. The owners have made arrangements to sell the property to a developer once approval is received. Construction is expected to begin in the fourth quarter of 2005 and first move-ins are anticipated in the first quarter of 2007. The sales office is expected to open in the fourth quarter of 2006.

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**The Lofts at Von Karman** – West Millennium Homes received tract map approval for 115 units over four levels of parking on October 21 of 2004. They can now apply for a grading permit. West Millennium reported that construction will begin in the third quarter of 2005. They expect to begin marketing in the second quarter of 2006. First move-ins could occur by the end of 2006.

**Main Street Condos** – West Millennium Homes has submitted a preliminary application to build 90 units on a site next door to the Lofts at Von Karman. They own the site, which includes an office building occupied by H&R Block. They would like to build the condos in an area that currently serves as a parking lot for the office building. The condos would be built over a parking structure that would serve both the condos and the office building. Construction is expected to begin in the first quarter of 2006. Marketing could begin by the first quarter of 2007, and first move-ins could occur in the third quarter of 2008.

**Carlyle Irvine Residential** – KB Home submitted a GPA/Zone change application for this 156-unit condo development in November 2004. They have not yet submitted a tract map or a CUP application. It normally takes six months to process a GPA/Zone change and four months to process a tract map and CUP. Construction is not expected to begin until the second quarter of 2006. Marketing could begin the second quarter of 2007 and first move-ins could occur in the fourth quarter of 2008.

### Office Demand

In the first quarter of 2005, the Orange County office market expanded to approximately 91.9 million square feet. Demand for office space continued into the new year, pushing overall net absorption above 1.0 million square feet. This continued absorption has led landlords to firm up their rents, yet the average asking lease rate has remained constant this quarter at \$2.05 per square foot. However, this unvarying rate represents a 4% increase since the last year and yet a 1.4% decrease over the last five years. This 12-month increase still seems to be the beginning of the much-anticipated rent spike forecasted for the next two years.

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Orange County vacancy rates dropped to 9.6% this quarter representing an overall decrease of 9.4% since last quarter. The South Orange County market area championed the largest vacancy drop of 16.9%, versus last quarter, while Central Orange County actually saw a slight increase in vacancy of just over 1%. Even though Central Orange County had a minor increase in vacancy, the market area sits in the number two spot behind North Orange County with the tightest vacancy in the County at 9.4% and 6.2%, respectively.

Completed construction for the quarter included two buildings in the Greater Airport Area, adding 34,359 square feet of Class A office space. Additionally, a 17,414 square foot Class B office building was completed in South Orange County. The Greater Airport Area currently has 389,237 square feet under construction, of which 119,237 square feet is undergoing rehabilitation, being converted from industrial space to two-story Class B office space and is expected to be complete the end of next quarter. South Orange County has 137,050 square feet of Class B space under construction and a single 70,000 square foot Class A building, which is fully leased and expected to complete in the second quarter of this year.

The barely visible negative absorption in Central Orange County did not affect Orange County's strong total absorption of 1,012,962 square feet. For the quarter, the Greater Airport Area accounted for just over 50% of the total absorption with South Orange County not too far behind with 396,103 square feet of absorption, or just over 30%. This quarter's absorption is more than triple what it was one year ago.

While lease rates for the County remained flat over last quarter, there were some increases within the areas such as North Orange County, which increased \$0.13 per square foot. West Orange County's lease rate rose an additional \$0.03 to \$1.84 and South Orange County increased \$0.04 to \$2.12 per square foot. The Central Orange County stayed flat at \$1.72 per square foot whereas the Greater Airport Area decreased one cent to end the quarter at \$2.19 per square foot. As the vacancy for individual cities, markets and the County as a whole begin to creep below 10%, and

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given the minimal construction that is expected, it is quite possible lease rates will increase.

### Retail Demand

After an impressive 2004, the Orange County retail market declined slightly in the first quarter of 2005. Despite continued strong employment and surging sales, vacancy rates inched upward to 4.5% and average asking lease rates dropped a cent to \$2.28 in the County. Net absorption, albeit positive at 36,000 square feet, was dramatically lower from the first quarter of last year.

Rising slightly this quarter to 4.5%, Orange County vacancy rates adjusted to reflect high lease rates and more space coming onto the market. The North County submarket experienced the most dramatic shift in vacancy pushing up to 5.2%, while the Central Coast continues to tighten down to 3.8%. All center types increased their vacant space except for neighborhood centers, which saw a nearly 25% drop from last quarter. Vacancy rates still remain at historic all time lows, down more than 4% in the past year, but smaller and less profitable retailers are getting squeezed out of the market by skyrocketing rents.

Leveling off from last year's 10% price hikes, average asking lease rates fell one cent to \$2.28 per square foot throughout the County. While causing no concern in the short-term, this rate drop was the first time in two years that rent decreased. The South County was the exception, as rents in the submarket increased dramatically to \$2.68 due to tight supply of space and tremendous demand from retailers to be in this affluent area. Driven by high foot traffic and high-end retailers, Power and Specialty centers still command the larger rents with an average about \$2.75 per square foot.

Totaling 1.3 million square feet, Orange County retail construction has picked up considerably over the past year and is expected to push past the 2 million mark by the end of the year.

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Pulling back in the first quarter, net absorption slowed to 36,000 square feet. Faced with less expensive areas in Southern California to set up shop, retail activity in Orange County, although positive, compared to first quarter of last year dropped off significantly. The Central and North County dipped into negative absorption while the Central Coast submarket remains positive and continues to stay strong in the region.

### 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 Master Plan are the most productive uses that will be allowed at the present time. Current zoning and approved uses indicate that other alternative uses are not feasible at this time.

The residential development should continue to meet with excellent response from the market. Given the steady demand for residential product in Central Orange County, and limited supply, it is our opinion that development as proposed provides the highest land value and is, therefore, maximally productive.

Given the development of the various residential products, the proposed retail uses are supported. The current office vacancy rate in Central Orange County and location of the site supports development for office use.

### 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 which will generate the greatest level of future benefits possible from the land.

After reviewing the alternatives available and considering this and other information, it is the opinion of the appraisers that the highest and best use for the subject property, as vacant and as improved, is for residential, retail and office development similar to that proposed within CFD No. 2004-1. The projects appear to have the location,

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features, and pricing structure to obtain an acceptable sales and lease rate under normal financing and market conditions.

### **As Vacant**

After reviewing the alternatives available and considering this and other information, it is these appraisers' opinion that ultimate development of a variety of residential for-sale projects, retail uses and office uses are considered the highest and best use of the property.

### **As Improved**

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

# HRA

## VALUATION METHODOLOGY

### Basis of Valuation

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

### Valuation Approaches

Three basic approaches to value are available to the appraiser:

#### **Cost Approach**

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

#### **Income Approach**

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

#### **Direct Comparison Approach**

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

# HRA

**Developmental Analysis** is a form of appraisal by direct comparison for estimating land value. It is based upon the premise that one would not pay more for a parcel of land than its contributory value to the economic enterprise of developing the parcel into condominium units. It essentially treats land as one of the raw materials required for developing a master planned community. If one is able to prepare a reasonably reliable forecast of the condominium and site improvements that can be developed on that parcel of land and identify all of the costs and required profit margins, what is residual or left over is what is available to acquire the land.

The commercial land is valued by the Direct Comparison Approach. 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 Direct Comparison Approach is used for the valuation of land when sufficient comparable sales are available. Their sales prices would be considered the best indicators of value, assuming the sales are current and in a similar land condition. The residential land is proposed for attached product with densities from 22 to 122 units per acre. We were not able to uncover sufficient recent comparables sales to complete a Direct Comparison Approach to value for the land proposed for 1,238 dwelling units. Therefore a Developmental Analysis was completed.

The Developmental Analysis residuals to a bulk "As Is" estimate of value by identifying all required costs to improve the land to completed dwelling units. The Developmental Analysis residuals to a bulk land value estimate by identifying the associated costs of absorption and required profit margin. This analysis is considered an appropriate method for estimating value, when projecting revenue over a market supported absorption period and associated costs can be reasonably estimated. The Developmental Analysis is used to estimate the bulk value of the land within the District proposed for 1,238 dwelling units and two commercial lots proposed for retail and office uses.

# HRA

## VALUATION UNDEVELOPED LAND COMMERCIAL USES

### General

Included in this portion of the appraisal are both of the undeveloped commercial sites, totaling 4.385 net acres, within the boundaries of CFD 2004-1. Each undeveloped parcel has been identified within the Site Analysis section of this report. Approximately 1.914 acres are located in Lot 1 and 2.471 net acres in Lot 2. Both parcels are being graded. Lot 1 is to be improved with 19,700 square feet of retail buildings and Lot 2 is to be developed with 90,000 square feet of office space.

### Direct Comparison Approach

The Direct Comparison Approach is based upon the premise that, when a property is replaceable in the market, its value tends to be set by the purchase price necessary to acquire an equally desirable substitute property, assuming no costly delay is encountered in making the decision and the market is reasonably informed. In appraisal practice, this is known as the Principle of Substitution.

This approach is a method of analyzing the subject property by comparison of actual sales of similar properties. These sales are evaluated by weighing both overall comparability and the relative importance of such variables as time, terms of sale, location of sale property, and lot characteristics. For the purpose of this report, the unit of comparison is the price per square foot of net usable area for the commercial land.

We have surveyed commercial land sales used for retail commercial and office uses in the Orange County area. The table on the following page summarizes the comparables considered most helpful in valuing the subject's commercial sites. Individual data sheets follow the sales summary. The sites are valued in a finished lot condition, ready for development.

# HRA

## Commercial Land Sale Summary

### Finished Condition

<u>Data No. &amp; Location</u>	<u>Sale Date</u>	<u>Intended Use</u>	<u>Acres</u>	<u>Sales Price</u>	<u>Price / S.F.</u>
Data No. 1 N/S Michelson Dr. 550' W/O Von Karman Ave. Irvine	6/9/2005	Office	1.21 Footprint 4.50 Pro-Rata	\$10,500,000	\$198.21
Data No. 2 20342 SW Acacia St. Newport Beach	12/20/2004	Office	1.36	\$3,182,760	\$53.73
Data No. 3 30111 Niguel Rd. Laguna Niguel	4/15/2004	Office	1.27	\$1,700,000	\$30.73
Data No. 4 2500 Allon Pkwy. Irvine	3/2/2004	Office	2.14	\$2,233,000	\$23.95
Data No. 5 NEC Jamboree Rd. & Campus Dr. Irvine	12/9/2003	Office	4.83	\$7,135,000	\$33.91
Data No. 6 26322-62 SW Anacia St. Newport Beach	3/26/2003	Office	2.18	\$3,875,000	\$38.70
Data No. 7 1400 W. St. Gertrude Santa Ana	12/15/2004	Retail	0.82	\$125,000	\$26.84
Data No. 8 14796 Sand Canyon Irvine	9/30/2004	Retail	0.41	\$835,000	\$46.75
Data No. 9 200-299 Bristol St. Costa Mesa	6/28/2004	Retail	0.72	\$850,000	\$30.28
Data No. 10 NWC Purloia Pkwy. & Sandieback Pkwy. Lake Forest	4/1/2004	Retail	0.52	\$750,000	\$33.11
Data No. 11 408 W. Katella Ave. Anaheim	8/29/2003	Retail	1.02	\$2,700,000	\$80.77



## HRA

### COMMERCIAL LAND SALE NO. 1

Location: North side Michelson Drive, 560 feet west of Von Karman Avenue, 1850<sup>1</sup> Von Karman Avenue, Irvine

APN: 445-081-30

Buyer: Crescent Irvine, LLC

Seller: Z West America Corp

Site Size: 1.206 acres (footprint)  
4.50 acres (pro-rata portion of the entire project)

Zoning: 5.1, Irvine

Use: Proposed for 270,000± square feet of office

Condition of Site: Finished

Recording of Sale: June 9, 2005

Sale Price: \$10,500,000

Price/Sq.Ft.: \$199.21 for footprint  
\$53.57 for pro-rata site area

Special Assessments: None

Financing: All cash to seller

Verification: Broker

Remarks: This sale is not located in a CFD/AD. The property is the last buildable parcel in an existing office park development with three other existing office buildings. The total site area of the entire project is 15± acres. The total footprint area is 4± acres. The project consists of significant common areas and an existing parking structure. The purchase price includes a pro-rata share of the parking structure.

## HRA

### COMMERCIAL LAND SALE NO. 2

Location: 20342 SW Acacia Street, Newport Beach (Santa Ana Heights)

APN: 439-392-07, 08, 09 (portion)

Buyer: Micky Motors, LLC

Seller: Birch Bayview Plaza II, LP

Site Size: 1.36 acres

Zoning: PC

Use: Office building

Condition of Site: Finished site, building under construction

Recording of Sale: December 20, 2004

Sale Price: \$3,182,760

Price/Sq.Ft.: \$53.58

Special Assessments: None

Financing: All cash to seller

Verification: Listing broker

Remarks: This is a resale of a portion of Land Sale No. 6. This sale is not located in a CFD/AD.

## HRA

### COMMERCIAL LAND SALE NO. 3

Location: 30111 Niguel Road, Laguna Niguel  
APN: 653-151-21  
Buyer: La Niguel, LLC  
Seller: Cyrus Bastani  
Site Size: 1.27 acres  
Zoning: PC  
Use: Intended for a medical office building  
Condition of Site: Finished site at sale date  
Recording of Sale: April 15, 2004  
Sale Price: \$1,700,000  
Price/Sq.Ft.: \$30.73  
Special Assessments: None  
Financing: All cash to seller  
Verification: Listing broker  
Remarks: This property is not in a CFD/AD. Construction is scheduled to begin within three months.

## HRA

### COMMERCIAL LAND SALE NO. 4

Location: 2500 Alton Parkway, Irvine  
APN: 435-033-29 (portion)  
Buyer: Waterworks Partners II, LLC  
Seller: B. Braun Medical  
Site Size: 2.14± acres  
Zoning: 5.1-Irvine  
Use: Intended for medical office use  
Condition of Site: Finished site at sale  
Recording of Sale: March 2, 2004  
Sale Price: \$2,233,000  
Price/Sq.Ft.: \$23.95  
Special Assessments: None  
Financing: All cash  
Verification: Listing broker  
Remarks: This property is not in a CFD/AD. The property is currently under construction with a 30,000± square foot office building.

## HRA

### COMMERCIAL LAND SALE NO. 5

Location: Northeast corner of Jamboree Road and Campus Drive, Irvine

APN: 445-181-14, 15, 16, 17

Buyer: Campus Center Irvine, Inc.

Seller: Prudential Insurance Co. of America

Site Size: 4.83 acres

Zoning: 5.1 - Irvine

Use: Approved for 265,000 square feet of office space

Condition of Site: Mass graded at sale

Recording of Sale: December 9, 2003

Sale Price: \$7,135,000

Price/Sq.Ft.: \$33.91

Special Assessments: None

Financing: All cash to seller

Verification: Buyer

Remarks: This property is not in a CFD/AD. After being purchased based on a high-rise office use, the property was rezoned for high-density residential use and is currently being improved with attached dwellings.

## HRA

### COMMERCIAL LAND SALE NO. 6

Location: 20322-20352 S.W. Acacia Street, Newport Beach (Santa Ana Heights)

APN: 439-392-07, 08, 09; 439-381-24

Buyer: Birch Bayview Plaza II, LP

Seller: Guity-Mehr

Site Size: 2.18± acres

Zoning: PC

Use: Office buildings totaling about 48,000 square feet

Condition of Site: Finished site at sale date

Recording of Sale: March 26, 2003

Sale Price: \$3,675,000

Price/Sq.Ft.: \$38.70

Special Assessments: None

Financing: All cash to seller

Verification: Listing broker

Remarks: This property is not in a CFD/AD. The property is now improved with three office buildings.

## HRA

### COMMERCIAL LAND SALE NO. 7

Location: 1400 West St. Gertrude Place, Santa Ana  
APN: 408-471-14  
Buyer: Sergio Nastaro  
Seller: Camada Corp.  
Site Size: 0.62± acres  
Zoning: C-2  
Use: Proposed for retail commercial site  
Condition of Site: Finished site at sale date  
Recording of Sale: December 15, 2004  
Sale Price: \$725,000  
Price/Sq.Ft.: \$26.84  
Special Assessments: None  
Financing: All cash to seller  
Verification: Buyer & Seller  
Remarks: This property is located in an inferior area of Santa Ana. No construction has been completed. This sale is not located in a CFD/AD.

## HRA

### COMMERCIAL LAND SALE NO. 8

Location: 14796 Sand Canyon, Irvine  
APN: 104-583-03  
Buyer: Bruce Gibson, et. ux.  
Seller: Javad Andalibian  
Site Size: 0.41± acres  
Zoning: GC  
Use: Proposed for retail use  
Condition of Site: Finished site at sale  
Recording of Sale: September 30, 2004  
Sale Price: \$835,000  
Price/Sq.Ft.: \$46.75  
Special Assessments: None  
Financing: All cash to seller  
Verification: Public documents  
Remarks: This property is located in "Old Town" Irvine, adjacent to the I-5 Freeway. This is a vacant pad within a retail center and adjacent motel. This sale is not located in a CFD/AD.

## HRA

### COMMERCIAL LAND SALE NO. 9

Location: 200-299 Bristol Street, Costa Mesa  
APN: 418-182-05  
Buyer: Reza Bahea, et al.  
Seller: Heung IL, Inc.  
Site Size: 0.72 acres  
Zoning: C-1  
Use: Proposed retail use  
Condition of Site: Semi-finished at sale date  
Recording of Sale: June 28, 2004  
Sale Price: \$950,000  
Price/Sq.Ft.: \$30.29  
Special Assessments: None  
Financing: \$522,500 cash down payment, balance carried by seller.  
Verification: Public records  
Remarks: This property is located adjacent to a self-service car wash, on a lot with inferior visibility. This sale is not located in a CFD/AD.

## HRA

### COMMERCIAL LAND SALE NO. 10

Location: Northwest corner Portola Parkway and Saddleback Parkway, Lake Forest  
APN: 612-201-01 (portion)  
Buyer: Edward Putnam, et al  
Seller: Foothill-Pacific Gateway  
Site Size: 0.52 acres  
Zoning: PC  
Use: Intended for veterinary clinic  
Condition of Site: Finished condition  
Recording of Sale: April 1, 2004  
Sale Price: \$750,000  
Price/Sq.Ft.: \$33.11  
Special Assessments: Property is in CFD  
Financing: All cash to seller  
Verification: Seller and listing broker  
Remarks: This property is in a newer retail center with an existing 24-Hour Fitness. The site does not have street access and must be accessed through adjacent properties. This sale is located within a CFD in Foothill Ranch.

## HRA

### COMMERCIAL LAND SALE NO. 11

Location: 409 West Katella Avenue, Anaheim  
APN: 082-270-82  
Buyer: Price Legacy Corp.  
Seller: Ursini Trust  
Site Size: 1.02 acres  
Zoning: SP92-1  
Use: Intended for retail commercial use  
Condition of Site: Finished at sale date  
Recording of Sale: August 29, 2003  
Sale Price: \$2,700,000  
Price/Sq.Ft.: \$60.77  
Special Assessments: None  
Financing: All cash to seller  
Verification: Seller  
Remarks: This property was purchased to assemble with adjacent properties for the construction of the Anaheim Gardenwalk Shopping Center. This property is about one block east of Disneyland. This sale is not located in a CFD/AD.

## HRA

### Finished Site Value – Office Use

#### Analysis

We have reviewed and inspected all of the six office land sales (Data Nos. 1-6). The adjustments considered for the comparables were for financing, economic changes between date of value and recorded sale date, location, site characteristics and builder fee obligations. The individual adjustments made to the comparable sales are illustrated on the adjustment grid on page 88.

#### Adjustments

##### Property Rights

All the data cited involve a 100% transfer of the fee simple interest in the properties from the seller to the buyer. As a result, no adjustment for property rights is necessary to the data.

##### Financing

All the data cited were cash transactions or cash down payments followed by institutional acquisition and development loans. These terms result in essentially all cash paid to the seller. Thus, for these transactions, adjustments for financing terms are not required.

##### Conditions of Sale

Conditions of sale are those motivational factors affecting either the buyer or the seller. Though a transaction may be "arms-length," a buyer or seller may have extenuating circumstances that impact the sales price. No additional adjustments are necessary.

##### Market Conditions

An investigation into the general market pricing trends and consideration based upon interviews and surveys of developers and other market participants was conducted. Two of the sales occurred in 2003, three land sales occurred in 2004, while one sale just closed in June 2005. The market has continued to improve during this time frame. There

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were significant price increases between early 2004 and June 2005. Adjustments appear indicated. Based on the market, we have estimated a 15% increase in price for Data Nos. 3, and 4. Data Nos. 5 and 6 required a 20% increase.

### General Location

The subject site is considered superior in general location to all of the land sales except Data No. 1, due to the subject's proximity to existing high-end development and infrastructure. Upward adjustments of 10% to 15% are indicated.

### Development Potential and Entitlements

All the data cited sold with final tract maps. Development potential is considered similar.

### Size

Assuming all other factors are similar, larger sites tend to sell for less on a per square foot basis, than smaller sites due to economies of scale. There is also a smaller market for larger and more expensive land parcels, thus limiting the marketability of very large sites. However, the subject and all the sales are within the typical range of sites for office development. We have not adjusted for site size due to the typical size range included in the analyses.

### Special Tax Obligations

None of the comparable sales, Data Nos. 1 through 6, are encumbered with CFD or AD special tax liens. All six sales require downward adjustment based on the present value of the special tax over the term of the bond. We have estimated the downward adjustment at 7%.

### Access and Visibility/Site Location

In general, all of the comparables are considered similar sites with similar access. However, Data Nos. 2, 3, 4 and 6 do not have corner influence and Data Nos. 2, 3, 4 and

## HRA

6 are considered in-fill development. Data Nos. 2, 3, 4 and 6 required a 15% upward adjustment.

### Conclusion

After adjustments, the comparable office land sales have value indicators that range from \$33.88 to \$57.12 per square foot. Five of the six sales are between \$41.91 to \$57.12 per square foot. Giving the most emphasis to Data No. 1, we have concluded on a value estimate of \$48.00 per square foot for Lot No. 2. The total indicated value is \$5,100,000 as shown below.

$$\begin{array}{r} \$48.00 \times 107,637 \text{ sq.ft.} = \\ \text{Say} \end{array} \quad \begin{array}{r} \$5,166,576 \\ \$5,100,000 \end{array}$$

Data No. Location	Date	Acreage	Price/Sq. Ft.	Time	Term	Lien	Lien	Adjustments		Social Tax	Acquire	Adjusted Price/Sq. Ft.
								Construction	General			
Data No. 1 1801 HARRISON CT. 500' WID. FRONT YARD 100' x 80'	04/29/05	1.21	\$199,251	0%	6/99-21	0%	0%	0%	0%	-7%	\$0.00	\$199,251
Data No. 2 20542 SW Acadia St Hemlock Branch	10/20/04	1.08	\$33,733	0%	6/03-73	0%	0%	0%	0%	-7%	15%	\$38,022
Data No. 3 29111 N. 29th Pl. Lynnwood	4/18/04	1.27	\$30,723	0%	3/03-33	15%	0%	0%	0%	-7%	15%	\$30,437
Data No. 4 260 Alper Drive Puyallup	9/28/04	2.14	\$23,953	15%	8/7-04	10%	0%	0%	0%	-7%	15%	\$30,280
Data No. 6 7480 Jamboree Rd. S. Carnation Dr. Burien	12/02/03	4.83	\$33,300	20%	1/00-08	10%	0%	0%	0%	-7%	0%	\$41,911
Data No. 8 28222 SW Acadia St Newport Beach	2/28/03	2.18	\$34,793	20%	1/03-04	15%	0%	0%	0%	-7%	10%	\$37,122
Data No. 7 4401 W. 5th Carlton Seattle Area	12/7/2004	0.62	\$30,644	5%	1/01-18	25%	0%	0%	0%	-7%	20%	\$38,893
Data No. 3 14700 Sand Canyon Irvine	8/30/04	0.41	\$48,733	0%	1/03-08	0%	0%	0%	0%	-7%	0%	\$48,111
Data No. 9 201-288 Brent St. Columbia	02/29/04	0.72	\$32,233	6%	1/1-00	10%	0%	0%	0%	-7%	10%	\$35,934
Data No. 10 1800 Pacific Pkwy. S. Surrey Langley Forest	4/1/2004	0.32	\$31,111	8%	8/04-07	10%	0%	0%	0%	0%	10%	\$41,122
Data No. 11 190 W. Koster Ave. Auburn	02/27/03	1.27	\$20,773	10%	3/03-05	10%	0%	0%	0%	-7%	20%	\$42,111

Commercial Land Sales Adjustment Grid

Finished Site Value – Retail Use

Analysis

We have reviewed and inspected all of the five retail land sales (Data Nos. 7-11). The adjustments considered for the comparables were for financing, economic changes between date of value and recorded sale date, location, site characteristics and builder fee obligations. The individual adjustments made to the comparable sales are illustrated on the adjustment grid on page 88.

Adjustments

Property Rights

All the data cited involve a 100% transfer of the fee simple interest in the properties from the seller to the buyer. As a result, no adjustment for property rights is necessary to the data.

Financing

All the data cited were cash transactions or cash down payments followed by institutional acquisition and development loans. These terms result in essentially all cash paid to the seller. Thus, for these transactions, adjustments for financing terms are not required.

Conditions of Sale

Conditions of sale are those motivational factors affecting either the buyer or the seller. Though a transaction may be "arms-length," a buyer or seller may have extenuating circumstances that impact the sales price. No additional adjustments are necessary.

Market Conditions

An investigation into the general market pricing trends and consideration based upon interviews and surveys of developers and other market participants was conducted. One of the sales occurred in 2003, while four sales were in 2004. The market has



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remained fairly stable over the last two years. We have estimated a 10% upward adjustment for the 2003 sale and a 5% increase for the 2004 sales.

### Location

The subject site is considered superior in general location to all of the retail land sales except Data No. 11, due to the subject's proximity to existing high-end development and infrastructure. Upward adjustments of 5% to 25% are indicated. Data No. 11 requires a downward adjustment of 50% due to its Disneyland location.

### Development Potential and Entitlements

All the data cited sold with final tract maps. Development potential is considered similar.

### Size

Assuming all other factors are similar, larger sites tend to sell for less on a per square foot basis, than smaller sites due to economies of scale. There is also a smaller market for larger and more expensive land parcels, thus limiting the marketability of very large sites. However, the subject and all the sales are within the typical range of sites for retail development. We have not adjusted for site size due to the typical size range included in the analyses.

### Special Tax Obligations

Only Data No. 10 of the comparable sales, Data Nos. 7 through 11, is encumbered with CFD or AD special tax liens. The remaining four sales require downward adjustment based on the present value of the special tax over the term of the bond. We have estimated the downward adjustment at 7%.

### Access and Visibility/Site Location

In general, all of the comparables are considered similar sites with similar access. However, none of the sales have corner influence and Data Nos. 7, 8 and 11 are

## HRA

considered an in-fill development. Upward adjustment of 10% is required for Data Nos. 9 and 10. Data Nos. 7 and 11 required a 20% upward adjustment. Due to its location adjacent to the I-5 Freeway, access and freeway visibility, Data No. 8 does not require adjustment.

### Conclusion

After adjustments, the comparable retail land sales have value indicators that range from \$35.94 to \$48.11 per square foot. Three of the five sales are between \$38.89 to \$42.11 per square foot. Giving the most emphasis to Data Nos. 10 and 11, we have concluded on a value estimate of \$40.00 per square foot for Lot No. 1. The total indicated value is \$3,300,000 as shown below.

\$40.00 x 83,374 sq.ft. =	\$3,334,960
Say	\$3,300,000

## HRA

### DEVELOPMENTAL ANALYSIS

#### General

To estimate the value of the undeveloped land subject to special tax within the District, a Developmental Analysis is completed. The land has a recorded condominium map approved for a maximum of 1,360 dwelling units. The current development plan, as of the date of value, is to build 1,238 market rate condominium units on 14 lots within Tract Map No. 16590. Lot 8 of Tract 16590 will be developed with 62 affordable dwelling units that will not be subject to special tax and therefore are not a part of the valuation. There are two commercial lots which will be developed for office and retail uses. The site costs used in the Development Analysis include all costs associated with bringing all of the land within the District from its "As Is" condition to super-pad condition, ready to sell to the builders. Additional in-tract costs are estimated as well as costs to build the condominium units and parking structures. The time-lines for the site construction costs, building construction costs and in-tract costs have been estimated by the developer, Lennar LFPLB, LLC. *It is a specific contingency of this appraisal that all of the costs associated with the improvements required to satisfy the Conditions of Map Approval for Tract 16590 and the Development Agreement with the City of Irvine have been provided to the appraisers and are included in the Developmental Analysis. It is also a specific contingency of this appraisal that the direct and indirect unit costs and time-lines for those costs are reasonable and similar to the costs and timing for the costs that will ultimately be required to build the condominiums when specific product improvements are identified.*

The developer has provided a summary of site development costs and costs incurred to date to bring the land to a super pad condition, ready to sell to the various builders. The total developer costs excluding the costs to be reimbursed from this CFD and the City of Irvine CFD are reported to be \$30,475,678. For purposes of this appraisal we have included the costs to be reimbursed from the District's CFD and the City of Irvine's CFD which is not scheduled to sell bonds until the 1<sup>st</sup> or 2<sup>nd</sup> quarter of 2006. In addition to the \$30,475,678 we have included the Fire Authority fees of \$900,000 plus the \$5,500,000 to be paid to the builder of the affordable housing development. In addition

## HRA

we have included \$13,996,500 of improvement costs and fees that will ultimately be reimbursed by the City of Irvine's CFD when the bonds are sold. Therefore the total costs to bring the land within the District from a raw condition to a super pad condition is estimated at \$50,872,178, of which \$9,070,535 have been spend as of the date of value. The remaining costs to complete are estimated at \$41,801,643, of which \$8,400,000 are subject to reimbursement for the SAUSD CFD. The costs include the costs to develop all of the parks within the District and the off-site tennis courts. According to the developer, the costs are all of the costs for the improvements to satisfy the Conditions of Map Approval and the Development Agreement with the City of Irvine. The costs include any possible reimbursements from the sale of bonds by the City of Irvine and the Santa Ana Unified School District. Because the sale of bonds for the City of Irvine are not scheduled to occur until the 1<sup>st</sup> or 2<sup>nd</sup> quarter of 2006, we have not given consideration to the proceeds of the proposed bond sale.

Funding from the sale of bonds for CFD No. 2004-1 are to reimburse the developer for the sewer and water facilities, estimated at \$2,000,000, Fire Authority fees, estimated at \$900,000 and school fees, estimated at \$5,500,000. The costs of the sewer and water facilities and Fire Authority fees are included in the developer's site costs. The school fees are included in the unit construction costs for the various proposed products. The total construction funds to be reimbursed from this bond issue are estimated at \$8,400,000.

The Developmental Analysis for estimating value is based upon the premise that one would not pay more for land and improvements than its contributory value to the economic enterprise of developing the parcel into single-family homes. It essentially treats land as one of the raw materials required for developing a subdivision. If one is able to prepare a reasonably reliable forecast of the related prices of the end-product and identify all the costs and required profit margin, what is residual or left over is what is available to acquire the property.

## HRA

In the case of the subject property, the residual value indicated by this discounted cash flow analysis reflects the "As Is" condition of the partially graded land with a recorded condominium map proposed for 1,238 for-sale residential units, 90,000 square feet of office use and 19,700 square feet of retail use. The steps in the Developmental Analysis are as follows:

1. Analyze the highest and best use and determine the land plan which will be utilized in the Developmental Analysis.
2. Estimate the finished product price which can be anticipated for the average size floor plan for the 998 mid-rise and low-rise condominium units and the average size floor plan for the 240 high-rise condominium units. Estimate and finished land price for Lots 1 and 2 proposed for commercial uses.
3. Estimate the absorption rate for the proposed products.
4. Estimate the direct and indirect costs, including marketing and G&A.
5. Estimate the required annual before-tax discount rate, including profit, required to attract a developer in light of the risks and uncertainties.

This Developmental Analysis considers the sale of homes to individual buyers.

### Proposed Product

Within the Highest and Best Use section of this report, market demand was discussed. We have been provided with a size range and average size for the proposed floor plans within the District. Please refer to the Proposed Improvement Description section of this report for the average size unit per proposed product. The weighted average for the mid-rise and low-rise condominium projects is 1,386 square feet. The average for the 240 unit high-rise condominium project is 1,549 square feet.

### Finished Product - Base Values

Base sales prices for the proposed projects have been provided by the master developer and supported by the Empire Economics study. We have reviewed the price per square foot ratios to actively selling projects in Irvine. Based on similar quality and functional utility to those projects currently selling, the proposed base sales prices appear

## HRA

supported. The appraisers have relied on the information provided by Empire Economics for the average sales price per project.

### Absorption

The discussions of absorption are included in the Highest and Best Use section of this report, and reflect a market supported absorption for the subject property. A review of the currently selling projects indicates absorption rates generally between 6 and 10 units per month for the townhome and traditional condominium projects and between 13 and 22± units per month for the high-rise condominium projects. The absorption estimates presented by Empire Economics generally indicate absorption of 4 to 5 units per month per product over the sell out of Central Park West with the exception of the high-rise project which is estimated to sell at 8+ units per month. The overall sales rate of 4 to 5 units per month for the low-rise and mid-rise projects should be sustainable for the sell-out of the District. The overall sales rate of 8+ units per month for the high-rise project should also be sustainable. Given the current status of the land and current development schedule, the two townhome projects and villas are expected to enter the market in 2007 with the balance of the projects entering the market in 2008.

### Site Development Costs

This analysis residuals to an "As Is" value for the subject property. As previously discussed, as of the date of value, the land is being graded and expected to be improved to super pad condition by the end of September 2005. The developer has provided a summary of site development costs and costs incurred to date to bring the land to a super pad condition, ready to sell to the various builders. The total cost to bring the land from a raw condition to a super pad condition is \$50,872,178. The appraisers have also been provided with a summary of the costs spent to date. Based on our review of the budget, \$9,070,535 has been spent which indicates the costs to complete to super pad condition, as of the date of value, is \$41,801,643.

## HRA

### **Building Costs**

Building costs include direct and indirect costs of vertical construction. The construction costs are estimated by the developer at approximately \$172.00 per square foot for the 13 low-rise and mid-rise projects which total 998 dwelling unit. The high-rise project has construction costs estimated at \$338.00 per square foot for the 240 dwelling units. Based on interviews with builders in the subject's market area, the estimated costs to build the condominium projects appear supportable. In addition to the vertical construction costs, the merchant builder will incur indirect in-tract costs. The estimated costs provided by the developer are 2.3% of the home sales price for the low-rise and mid-rise products and 0.6% of home sales price for the high-rise product.

### **Marketing and Warranty**

Marketing, sales and warranty expenses typically range between 5% and 8% of gross revenues. Based on the proposed products within a planned community we are estimating 5% of gross revenue for the subject. This category covers such expenses as advertising, sales office expenses, sales commissions, and warranty expense. We have concluded at the lower end of the range due to economies of scale of a planned community marketing program. These expenses are realized at the time of sale.

### **General and Administrative**

General and administrative costs typically range between 3% and 5%. Based on the proposed products within a planned community we are estimating G & A at 3%. This category covers such expenses as administrative, professional fees, taxes and miscellaneous costs. These expenses are realized at the time of sale.

### **Special Taxes**

Once the bonds are sold, the subject property is subject to special taxes. It is our understanding that the bonds are anticipated to sell in August 2005. The undeveloped land is subject to special tax and a deduction for the special tax is used in the discounted cash flow analysis beginning in the 3<sup>rd</sup> year, which reflects capitalized interest for 24 months. The deductions of special taxes used in the discounted cash

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flow reflect the projections of the District's Special Tax Consultant. The estimated tax for the undeveloped land is estimated at \$142,537 for fiscal year 2007/2008.

### **Inflation Factor**

For purposes of the discounted cash flow analysis, we have used constant dollars. We are of the opinion that in light of today's increasing interest rates, historic high sales prices and a plateauing trend in sales prices, that a prudent investor would not inflate revenue in their discounted cash flow analysis.

### **Discount Rate**

The final step in our discounted cash flow analysis is to estimate the appropriate discount rate in light of uncertainties and risks. There are various factors which go into selecting a discount rate for subdivisions such as the subject. Typically, when valuing a property, we assume an all cash transaction and then discount for time, risk and required profit margin. A publication from the Real Estate Research Corporation indicates the rate of return for a land investment assuming a three-to-five year holding period is 20% of gross sales.

We have also reviewed a survey which had 16 respondents. Two questions were presented to the land developer and merchant builder. The first was the anticipated profit margin as a percent of gross revenues. The anticipated holding period for the master planner/developer is three-to-eight years. Land developers were looking for a 20% to 30% return on gross sales, with an average of 22% to 25%. This is based on raw land prior to infrastructure. At this same time frame, the merchant builder was looking for a profit as a percentage of gross revenues of 8% to 12% with an average of 8%. The estimated holding period was one to two years for the merchant builder.

Interviews with land developers have indicated the following comments:

A representative from Hon Development, Orange County, indicated that minimum IRR requirements are 20 to 25%. For a large project with a projected 8 to 10 year hold, the return would be higher, say in the mid to upper 20's. Hon Development has participated in both smaller scale

## HRA

residential community developments and very large scale master planned community developments with a wide variety of products.

A representative from Grubb and Ellis who was involved in the sale of Northlakes, a 1,300 acre proposed, master planned community in Castain, Los Angeles County indicated that the undisclosed buyer's IRR requirement was approximately 30%. He stated that this is fairly typical of the market for partially entitled master planned community land of this size and development range.

A representative of Dale Fox Development who was the master land developer for Stevenson Ranch in Santa Clarita and in the business of buying, selling and developing land said a 25% IRR for land development is typical. For properties with significant infrastructure costs, he would expect a slightly higher IRR.

A representative of Newhall Land and Farming indicated that IRR's for land development deals should be in the low 20% range to 30% on an unleveraged basis, depending upon risk and length of the development period. Newhall Land is the master planned community developer of the community of Valencia and in the process of another large master planned community in California.

A representative of MSP California, LLC, was also interviewed. It is a company based in Denver, Colorado, but involved in several Southern California large land deals, mostly in Riverside County and a few in Santa Clarita. It considers itself a risk taker and expects the higher returns for entitling properties. For large land deals from raw unentitled to tentative map stage, the representative would expect an IRR of 35%, unleveraged or leveraged. From tentative map to paid sales to merchant builders, an unleveraged IRR of 25% to 30% would be expected.

A representative of Ekotec was also interviewed. Ekotec is an engineer and consultant to master plan developers including The Irvine Company. For unentitled property, the IRR requirements would be 20% to 30%. The lower end of the range would reflect those properties close to tentative maps.

A representative from Providence Realty Group who works with Security Capital and other private venture fund sources in acquiring land and joint venture partnerships in California and throughout the Pacific Southwest was also interviewed. He indicated that a yield rate in the low 20% range is required to attract capital to longer-term land holdings.

We also interviewed a representative from ESIE Land Company, formerly James Warrington Development. He indicated that merchant builder yield requirements were in the 20% range for traditionally financed tract developments. Larger land holding would require 25% to 30% depending

## HRA

on the goals/patience of the funding partner. Environmentally challenged or politically risky development could well run in excess of a 35% IRR with the possibility that some early entitlement/political work may be necessary before cooperative capital would become interested.

In addition to the above responses regarding discount rates, we interviewed several developers regarding the specific development of the subject property. It was concluded that the proposed development has a moderately higher risk than a typical planned community in several ways. All of the proposed products are condominiums which require development of the entire project at one time rather than in phases as with traditional detached product. While well located, if a downturn in the residential market should occur, the higher priced condominium developments could be negatively impacted. There are significant costs to be completed before home construction can begin, although completion to super pad condition is anticipated within four months of the date of value. Although the homes are relatively affordably priced within the Central Orange County market area, there are 1,238 attached dwelling units within the District plus support commercial and office developments.

Estimating value by use of a discounted cash flow analysis requires various assumptions and judgment by the appraiser. It is the appraisers' function to reflect the motives of real estate investors. The cash flow model needs to reflect the actual state of the market as of a specific time.

One negative aspect of a discounted cash flow is that often this analysis requires absorption rates that have not been proven and revenues that are proposed but not tested. However, in the case of the subject property, we have the benefit of market response both in sales activity and pricing of similar products in the City of Irvine. This discounted cash flow analysis reflects the current price structure, in an excellent market. The projected holding period is estimated for 6 years.

The discounted cash flow reflects a 6-year absorption period for the subject. A two to three-year holding period would be considered a typical period for a merchant builder. A six to eight-year holding period would be considered a typical period for a land

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developer. To reflect market risks in both the model assumptions and the discount rate results in the property being penalized twice for the same risk. The model assumptions reflect current pricing without appreciation. Additional risk in the model assumptions are possible negative economic factors in the future, increasing mortgage rates and a stabilizing residential market, resulting in flat or decreasing sales prices.

To build a discount rate, three components must be addressed: safe rate, risk rate and inflation rate. The safe rate is defined as that compensation paid to a lender or investor for the use of money. The risk rate is the compensation paid to the lender or investor to offset possible losses that occur when a borrower or investment fails to meet periodic payments or pay back borrowed funds. The inflation rate is defined as that compensation paid to the lender or investor to offset losses that may occur to the purchasing power of the payments received and the principal returned.

To estimate a discount rate appropriate for the subject property, we have begun with a safe rate that has averaged between 3% and 5% over time. Over the past decade, improved real estate investments have had a risk rate between 1.25 and 2.5 times the safe rate, while vacant or subdivision land has had a risk rate between 3 and 5 times the safe rate. Inflation has typically ranged between 3% and 5%. For the subject we have assumed a safe rate of 4%, a real estate risk rate of 4 times the safe rate and inflation of 3%, the indicated discount rate is:  $(4\% \times 4) + 3\% = 19\%$ .

Based on numerous interviews with informed investors, we have concluded with a discount rate of 18% without appreciation for the subject property in light of the entitlements, infrastructure time-line, non-specific cost data, proposed products, time-line for absorption, and specific market. Please refer to the following pages which illustrate the discounted cash flow analysis for the "As Is" value of the undeveloped land, proposed for 1,238 attached units and commercial land within CFD No. 2004-1 for the Santa Ana Unified School District.

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### Value Conclusion

Please refer to the following two pages which illustrates the Developmental Analysis with an estimated value of \$90,000,000 for the land being graded, proposed for 1,238 attached units and two lots proposed for retail and office developments within the District. The proposed products used in the analysis are what are currently envisioned by the master developer. The proposed number of units and proposed unit mix are estimates only as of the date of value, which could be subject to change depending on market demand and the merchant builders. Costs of home construction and site costs are estimated. It is important to note that the values are contingent upon several assumptions presented in the Developmental Analysis. It assumes stable market conditions and therefore a market for the proposed products and merchant builder land. The estimated value also assumes the costs and time-line for the costs used in the analysis are reasonable. If there is a change in the site costs or costs to build the condominiums, or the time-line for the costs, the value could change.

SAUSD CFD NO. 2004-1

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Product Description	Price/Sq Ft	No. Units	Dec-May 2007	June-Nov 2008	Dec-May 2010	June-Nov 2010	Dec-May 2011	June-Nov 2011	Total
			4	5	10	11	12	13	
Lots	\$488,000	107	37	30	0	0	0	0	107
Lots/Plots	\$368,000	348	60	50	50	50	42	0	342
Brownstone TH	\$548,780	183	23	20	0	0	0	0	163
Brownstone Villas	\$848,000	127	17	10	0	0	0	0	127
Luxury Flats	\$887,500	78	17	18	6	0	0	0	78
Luxury Flats	\$717,500	81	20	21	0	0	0	0	81
Luxury TH	\$807,000	170	15	13	10	0	0	0	100
High-rise Condos	\$583,000	221	50	50	21	0	0	0	221
High-rise Penthouse	\$1,517,000	18	4	4	3	0	0	0	18
<b>Total Residential Units</b>		<b>1,238</b>	<b>423</b>	<b>208</b>	<b>82</b>	<b>60</b>	<b>42</b>	<b>0</b>	<b>1,238</b>
Unsold Residential Units Per Semi-Annual Period			382	154	82	42	0	0	
Office Use Land	\$8,198,000	0.471	0.0	0.0	0.0	0.0	0.0	0.0	0.471
Retail Use Land	\$3,238,000	1.914	0.0	0.0	0.0	0.0	0.0	0.0	1.914
<b>Revenue/Product</b>									
Lots			\$12,288,000	\$8,108,000	\$0	\$0	\$0	\$0	\$48,666,000
Lots/Plots			\$17,506,000	\$17,509,000	\$7,700,000	\$17,509,000	\$14,703,000	\$0	\$119,700,000
Brownstone TH			\$12,874,258	\$12,825,000	\$0	\$0	\$0	\$0	\$39,120,258
Brownstone Villas			\$11,518,000	\$8,480,000	\$0	\$0	\$0	\$0	\$19,298,000
Luxury Flats			\$14,747,500	\$15,918,000	\$5,840,000	\$0	\$0	\$0	\$67,665,000
Luxury Flats			\$14,869,000	\$15,087,500	\$0	\$0	\$0	\$0	\$68,117,500
Luxury TH			\$13,850,000	\$13,800,000	\$8,010,000	\$0	\$0	\$0	\$90,700,000
High-rise Condos			\$29,180,000	\$29,150,000	\$ 2,243,000	\$0	\$0	\$0	\$128,843,000
High-rise Penthouse			\$8,968,000	\$8,968,000	\$4,551,000	\$0	\$0	\$0	\$28,823,000
Office Use Land			\$0	\$0	\$0	\$0	\$0	\$0	\$8,198,000
Retail Use Land			\$0	\$0	\$0	\$0	\$0	\$0	\$3,238,000
<b>TOTAL REVENUE</b>			<b>\$91,288,780</b>	<b>\$121,889,500</b>	<b>\$68,904,000</b>	<b>\$17,509,000</b>	<b>\$14,703,000</b>	<b>\$0</b>	<b>\$722,348,750</b>
Constant Dollars/No Appreciation			1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	
<b>Expenses</b>									
Developer Site Costs (\$41,801,843)			\$2,402,750	\$0	\$0	\$0	\$0	\$0	\$41,801,843
Builder Site Costs mid & low rise @ 2.3%			\$988,280	\$622,642	\$208,244	\$188,832	\$82,045	\$0	\$1,708,443
Builder Site Costs High rise @ 0.8%			\$77,824	\$0	\$0	\$0	\$0	\$0	\$848,608
Unit Cost: 998 DU @ \$172/SF			\$32,473,859	\$17,796,987	\$7,374,080	\$5,833,238	\$1,944,413	\$0	\$228,050,857
Unit Cost: 240 DU @ \$338/SF			\$81,278,802	\$0	\$0	\$0	\$0	\$0	\$7,255,127,077
Plus CFD Refinements			\$0	\$0	\$0	\$0	\$0	\$0	\$88,400,000
Less G & A Costs @ 3%			\$3,328,808	\$3,736,618	\$1,509,120	\$323,000	\$441,000	\$0	\$21,870,493
Less Marketing Costs @ 3%			\$8,884,538	\$8,178,025	\$2,615,200	\$873,000	\$735,000	\$0	\$38,117,488
Special Tax Undeveloped Land			\$0	\$0	\$0	\$0	\$0	\$0	\$142,837
<b>Total Expenses</b>			<b>\$98,790,183</b>	<b>\$29,221,369</b>	<b>\$11,808,524</b>	<b>\$7,389,271</b>	<b>\$3,173,357</b>	<b>\$0</b>	<b>\$468,235,728</b>
Net Before Discounting			\$78,598,597	\$93,218,131	\$58,095,478	\$10,107,828	\$11,529,643	\$0	\$263,714,022
Present Worth Factor at 16%			\$68,188,882	\$48,849,288	\$42,841,111	\$8,753,000	\$9,255,000	\$0	\$202,679,113
Discounted Cash Flow			<b>\$35,426,921</b>	<b>\$43,897,878</b>	<b>\$10,046,084</b>	<b>\$3,917,195</b>	<b>\$4,090,122</b>	<b>\$0</b>	<b>\$91,248,181</b>

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Assumes an August 2005 Bond Sale  
Assumes Cap'd Interest for 24 months

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Product Description	Price/Unit	No. Units	01-Jul-05	June-Nov 2005	Dec-May 2008	June-Nov 2008	Dec-May 2007	June-Nov 2007	Dec-May 2008	June-Nov 2008
			1	1	2	3	4	5	6	7
Lots	\$488,000	107	0	0	0	0	0	0	0	0
Lots/Plots	\$368,000	348	0	0	0	0	0	0	0	0
Brownstone TH	\$548,780	183	0	0	0	0	0	0	0	0
Brownstone Villas	\$848,000	127	0	0	0	0	25	23	25	25
Luxury Flats	\$887,500	78	0	0	0	0	0	0	0	17
Luxury Flats	\$717,500	81	0	0	0	0	0	0	0	20
Luxury TH	\$807,000	190	0	0	0	0	13	16	16	16
High-rise Condos	\$583,000	221	0	0	0	0	0	0	0	60
High-rise Penthouse	\$1,517,000	18	0	0	0	0	0	0	0	4
<b>Total Residential Units</b>		<b>1,238</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>38</b>	<b>39</b>	<b>41</b>	<b>112</b>
Unsold Residential Units Per Semi-Annual Period			1,238	1,238	1,238	1,238	1,198	1,089	857	816
Office Use Land	\$8,198,000	0.471	0	0.471	0.0	0.0	0.0	0.0	0.0	0.0
Retail Use Land	\$1,724,138	1.914	0	1.914	0.0	0.0	0.0	0.0	0.0	0.0
<b>Revenue/Product</b>										
Lots			\$0	\$0	\$0	\$0	\$0	\$0	\$13,850,000	\$13,860,000
Lots/Plots			\$0	\$0	\$0	\$0	\$0	\$0	\$17,500,000	\$17,500,000
Brownstone TH			\$0	\$0	\$0	\$16,402,600	\$16,402,500	\$16,402,500	\$16,402,500	\$16,402,500
Brownstone Villas			\$0	\$0	\$0	\$18,203,000	\$18,200,000	\$18,200,000	\$18,200,000	\$18,200,000
Luxury Flats			\$0	\$0	\$0	\$0	\$14,747,500	\$0	\$15,015,000	\$15,015,000
Luxury Flats			\$0	\$0	\$0	\$0	\$0	\$0	\$14,360,000	\$14,350,000
Luxury TH			\$0	\$0	\$0	\$13,865,000	\$13,806,000	\$13,806,000	\$13,806,000	\$13,806,000
High-rise Condos			\$0	\$0	\$0	\$0	\$0	\$0	\$29,150,000	\$29,150,000
High-rise Penthouse			\$0	\$0	\$0	\$0	\$0	\$0	\$8,968,000	\$8,968,000
Office Use Land			\$0	\$8,198,000	\$0	\$0	\$0	\$0	\$0	\$0
Retail Use Land			\$0	\$3,238,000	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL REVENUE</b>			<b>\$0</b>	<b>\$8,400,000</b>	<b>\$0</b>	<b>\$68,207,800</b>	<b>\$68,207,800</b>	<b>\$68,207,800</b>	<b>\$741,873,000</b>	<b>\$142,848,600</b>
Constant Dollars/No Appreciation			1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000
<b>Expenses</b>										
Developer Site Costs (\$41,801,843)			\$0	\$1,126,848	\$4,808,808	\$5,127,783	\$7,709,102	\$2,482,750	\$2,482,750	\$2,432,750
Builder Site Costs mid & low rise @ 2.3%			\$0	\$0	\$4,414,870	\$2,079,738	\$906,380	\$906,380	\$906,380	\$906,380
Builder Site Costs High rise @ 0.8%			\$0	\$137,886	\$343,168	\$33,472	\$88,472	\$63,472	\$63,472	\$39,472
Unit Cost: 998 DU @ \$172/SF			\$0	\$0	\$10,688,008	\$32,473,859	\$32,473,859	\$32,473,859	\$32,473,859	\$32,473,859
Unit Cost: 240 DU @ \$338/SF			\$0	\$81,278,802	\$18,828,812	\$18,828,812	\$18,828,812	\$18,828,812	\$18,828,812	\$18,828,312
Plus CFD Refinements			(\$8,400,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less G & A Costs @ 3%			\$0	\$232,000	\$0	\$0	\$1,386,225	\$1,386,225	\$4,260,180	\$4,278,218
Less Marketing Costs @ 3%			\$0	\$470,000	\$0	\$0	\$2,310,375	\$2,310,375	\$7,963,899	\$7,127,028
Special Tax Undeveloped Land			\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Expenses</b>			<b>(\$8,400,000)</b>	<b>\$28,238,178</b>	<b>\$34,477,199</b>	<b>\$69,391,858</b>	<b>\$68,756,228</b>	<b>\$68,801,144</b>	<b>\$86,238,396</b>	<b>\$68,238,177</b>
Net Before Discounting			\$8,400,000	(\$17,832,178)	(\$39,477,189)	(\$58,231,858)	(\$12,548,728)	(\$12,303,848)	\$78,434,615	\$76,203,983
Present Worth Factor at 16%			1.000000	0.917431	0.841860	0.778183	0.728482	0.684831	0.592237	0.647038
<b>Total Discounted Value</b>			<b>\$8,400,000</b>	<b>(\$18,358,741)</b>	<b>(\$32,085,480)</b>	<b>(\$47,061,237)</b>	<b>(\$9,036,336)</b>	<b>(\$8,055,019)</b>	<b>\$44,978,188</b>	<b>\$41,740,892</b>

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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 opinion of Market Value has been formed as of June 1, 2005.

**NINETY MILLION DOLLARS**

**\$90,000,000**

The physical and legal condition of the land as of the date of value is given consideration. All remaining costs associated with the completion of development of the District, have been considered. All CFD reimbursable expenses supported by this bond issue have been considered. *It is a specific contingency of this appraisal that all of the site development costs to satisfy the Conditions of Map Approval and the Development Agreement with the City of Irvine and all of the builder site improvement costs and costs to construct the condominium buildings have been provided to the appraisers and are accurate.*

CONSULTING REAL ESTATE APPRAISERS

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### CERTIFICATION

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

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

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

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

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

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

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

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

No one provided professional assistance to the persons signing this report.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. In furtherance of the aims of the Appraisal Institute to develop higher standards of professional performance by its

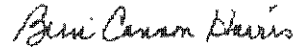
CONSULTING REAL ESTATE APPRAISERS



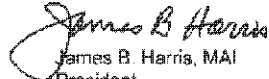
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Members, we may be required to submit to authorized committees of the Appraisal Institute copies of this appraisal and any subsequent changes or modifications thereof.

Respectfully submitted,



Berri J. Cannon Harris  
Vice President  
AG009147



James B. Harris, MAI  
President  
AG001846

## ADDENDA

**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 1962, 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 - 1988, 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 - 1999  
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.

**QUALIFICATIONS**

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

#### 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 60 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 J. 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***

American Savings Bank	NationsBank
Bank of America	Preferred Bank
Bank of California	Santa Monica Bank
Bank One	Sumitomo Bank
Coast S&L Assoc.	Tokai Bank
Commerce Bank	Uniuri Bank
Downey S&L Assoc.	Universal S&L Assoc.
Fremont Investment and Loan	Wallace Moir Company
First Los Angeles Bank	Wells Fargo Bank
Institutional Housing Partners	Weyerhaeuser Mortgage

#### ***Public Agencies***

Army Corps of Engineers	City of Oceanside
California State University	City of Palm Springs
Caltrans	City of Perris
Capistrano Unified School District	City of Riverside
City of Beaumont	City of San Marcos
City of Costa Mesa	City of Tustin
City of Encinitas	County of Orange
City of Fontana	County of Riverside
City of Fullerton	Eastern Municipal Water District
City of Hemet	Orange County Sheriff's Department
City of Honolulu	Ramona Municipal Water District
City of Indian Wells	Rancho Santa Fe Comm. Services District
City of Irvine	Saddleback Valley Unified School District
City of Lake Elsinore	Santa Ana Unified School District
City of Los Angeles	Val Verde Unified School District
City of Newport Beach	

#### ***Developers and Landowners***

Coto de Caza, Ltd.	Lennar Homes
DMB - Ladera	McLain Development
Foothill Ranch Company	Rancho Mission Viejo
Hon Development Co.	Santa Margarita Company
The Irvine Company	Sterling Development
Irvine Apartment Communities	Shapell Industries

#### ***Law Firms***

Arter & Hadden	McClintock, Weston, Benschopf,
Bronson, Bronson & McKinnon	Rocheport & MacCuish
Bryan, Cave, McPheeters & McRoberts	Palmiri, Tyler, Wiener, Wilhelm, & Waldron
Cox, Castle, Nicholson	Sonnenschein Nath & Rosenthal
Gibson, Dunn & Crutcher	Strauss & Troy

ESTIMATED RESIDENTIAL ABSORPTION SCHEDULES  
 SANTA ANA UNIFIED SCHOOL DISTRICT CPD NO. 2004-1  
 (CENTRAL PARK - LENNAR COMMUNITIES)

June 21, 2003 / Subject to Revision

Product Type/Size	Units	Units/Phase	Revenue/Phase	Revenue/Unit	Units	Units/Phase	Revenue/Phase	Revenue/Unit	Units	Units/Phase	Revenue/Phase	Revenue/Unit
			Thousands	\$/Sq. Ft.			Thousands	\$/Sq. Ft.			Thousands	\$/Sq. Ft.
Units/Phase	05	18	32	31	02	02	21	150				
Developed Status												
Units	653	343	189	122	78	41	202	261	12	138	130.25	
Revenue/Phase	0	0	0	0	0	0	0	0	0	0	0	0
Revenue/Unit	0	0	0	0	0	0	0	0	0	0	0	0
Revenue/Phase	6475.000	3370.000	8890.000	8070.000	3870.000	2070.000	3740.000	3837.000	2070.000	2070.000	2070.000	150.25
Revenue/Unit	6475.000	3370.000	8890.000	8070.000	3870.000	2070.000	3740.000	3837.000	2070.000	2070.000	2070.000	150.25
Average	6475.000	3370.000	8890.000	8070.000	3870.000	2070.000	3740.000	3837.000	2070.000	2070.000	2070.000	150.25
Units/Phase												
Phase 1	1,252	700	1,175	1,425	1,750	1,400	1,850	920	2,780			
Phase 2	1,032	650	1,125	1,575	1,000	1,450	2,240	1,150	2,000			
Phase 3	1,050	1,000	1,475	1,725	1,050	1,700	2,250	1,400				
Phase 4	1,100	1,100	1,475	1,675	2,000	1,800	2,400	1,800				
Phase 5												
Average	1,107	625	1,400	1,660	1,076	1,428	2,162	1,400	2,450			1,411
Value/Phase	3267	3318	8301	3263	5439	3442	5427	3117	8918			3409
Value/Unit	3267	3318	8301	3263	5439	3442	5427	3117	8918			3409
Commissions Charge	1st 2008	1st 2008	1st 2007	1st 2007	1st 2008	1st 2008	1st 2007	1st 2007	1st 2008			
2008	0	0	0	0	0	0	0	0	0			
2007	0	0	0	0	0	0	0	0	0			
2006	0	0	0	0	0	0	0	0	0			
2005	0	0	0	0	0	0	0	0	0			
2004	0	0	0	0	0	0	0	0	0			
2003	0	0	0	0	0	0	0	0	0			
2002	0	0	0	0	0	0	0	0	0			
2001	0	0	0	0	0	0	0	0	0			
Totals	0	0	0	0	0	0	0	0	0			

MEYERS GROUP MARKET STUDY (PORTION)

Cost Code	Description	Proposed Budget	Forecasted Budget	Rem. Budget to Forecast	Per Lot	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Forecast
<b>Land Improvements</b>													
100	DEVELOPMENT												
101	PURCHASE PRICE												
102	PLANNING	1,001,218	1,001,218	0	1,464	1,872,181	(841,963)						1,872,181
103	PERMIT DELIVERY	87,409	87,409	0	35	15,618	3,187						87,409
104	CONTR. ENGINEERING	1,008,735	1,008,735	0	396	144,097	345,088						1,008,735
105	TRUCK ENGINEERING	325,845	325,845	0	145	88,985	18,800						325,845
106	TRUCK ENGINEERING	10,000	10,000	0	3								10,000
107	UTILITY CONSULTANT	47,880	47,880	0	34		2,540						47,880
108	LANDSCAPE ARCHITECT	503,645	503,645	0	354	91,000	14,243						503,645
109	SEWERAGE CONSULTANT	1,344,811	1,344,811	0	1,415	3,188	69,978						1,344,811
110	LANDSCAPE ARCHITECT					88,985							88,985
111	LANDSCAPE ARCHITECT	410,141	410,141	0	314	307,280	87,150						410,141
112	TRUCK ENGINEERING	246,340	246,340	0	600	166,624	38,588						246,340
113	UTILITY FEES	1,361,478	1,361,478	0	1,426	1,007,675	100,000						1,361,478
114	GRADING	1,383,520	1,383,520	0	1,441								1,383,520
115	SEWERAGE CONSULTANT	1,118,505	1,118,505	0	1,439								1,118,505
116	MAINT. SPECIAL CONST.	399,011	399,011	0	362	176,531	832						399,011
117	SEWERAGE CONSULTANT												
118	TEMP. EARTHWORK	314,240	314,240	0	233								314,240
119	SEWER SYSTEM	306,000	306,000	0	1,017								306,000
120	WATER SYSTEM	1,294,254	1,294,254	0	1,867	1,440							1,294,254
121	SEWER DRAIN SYSTEM	1,018,509	1,018,509	0	743								1,018,509
122	SEWER IMPROVEMENTS	1,617,841	1,617,841	0	2,283								1,617,841
123	DRY DRAINAGE	1,015,000	1,015,000	0	777								1,015,000
124	PERMITTING SFT. WALLS												
125	SPECIAL ASPHALT	62,100,000	62,100,000	0	4,297								62,100,000
126	ENTRY PLATELS	100,000	100,000	0	77								100,000
127	ENTRY PLATELS	458,000	458,000	0	344								458,000
128	LANDSCAPE ARCHITECT	370,375	370,375	0	207	34,013	1,077						370,375
129	LABOR	872,740	872,740	0	649								872,740
130	SEWER												
131	CONTR. ENGINEERING	15,135,660	15,135,660	0	13,050								15,135,660
132	CONTINGENCY	1,409,532	1,409,532	0	1,024								1,409,532
133	ALLIANCE PARTNERSHIP												
134	PROPERTY TAXES												
<b>TOTAL IMPROVEMENTS</b>		<b>25,119,095</b>	<b>25,119,094</b>	<b>0</b>	<b>19,188</b>			<b>5,112,318</b>	<b>433,618</b>	<b>836,619</b>	<b>638,603</b>	<b>434,263</b>	<b>1,479,078</b>
<b>1 OTHER IMPROVEMENTS</b>		<b>1,707</b>	<b>67</b>	<b>694</b>									
<b>Contraflow</b>		<b>30,475,679</b>	<b>30,475,678</b>										

Beginning Inventory Balance			
Plus: Disbursement from above			
Less: Land Transfer at →		34423.5	
Inventory before Interest			
Annual Interest Rate:	9.00%		
Interest Cost		6364750	4870
Ending Inventory Balance			
	TEST: Should equal zero	14815183.13	

SITE DEVELOPMENT COST SUMMARY

Central Park (Parker Hannifin)  
Backbone

JDF Act up #: 83/088

Class Code	Description	Proposed Budget	Forecasted Budget	Rem. Budget to Forecast	Per Lot	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
						Jan-05	Jul-05	Jan-06	Jul-06	Jan-07	Jul-07	Jan-08
1128	BUY DELIVERY	-	-	-	-	-	-	-	-	-	-	-
1206	PLANNING	1,801,832	1,801,832	(0)	1,256	-	-	-	-	-	-	-
2094	PROFITING/DELIVERY	97,489	97,489	0	71	2,200	2,200	2,200	2,200	2,600	2,600	2,600
1441	CIVIL ENGINEERING	1,000,732	1,000,732	(0)	756	28,269	28,269	28,269	28,269	29,269	29,269	29,269
3141	CIVIL ENGINEERING	202,525	202,525	-	155	7,814	7,814	7,814	7,814	7,814	7,814	7,814
3142	TRAFFIC ENGINEERING	10,000	10,000	-	8	2,000	2,000	2,000	2,000	2,000	2,000	2,000
3143	UTILITY ENGINEERING	47,330	47,330	-	36	1,414	1,414	1,414	1,414	1,414	1,414	1,414
3145	LANDSCAPE ARCHITECT	393,245	393,245	-	298	14,541	14,541	14,541	14,541	14,541	14,541	14,541
3159	STRUCTURAL ENGINEERING	1,848,813	1,848,813	(0)	1,415	68,600	68,600	68,600	68,600	68,600	68,600	68,600
3279	ARCHITECTURE INCLUDING	-	-	-	-	-	-	-	-	-	-	-
3281	LEGAL	418,141	418,141	0	314	15,237	15,237	15,237	15,237	16,237	16,237	16,237
3283	PERFORMANCE TERMS	790,340	790,340	0	609	11,039	11,039	11,039	11,039	11,039	11,039	11,039
3285	IMPACT FEES	1,861,317	1,861,317	-	1,426	71,069	71,069	71,069	71,069	71,069	71,069	71,069
3466	CRANES	803,490	803,490	0	614	30,940	30,940	30,940	30,940	30,940	30,940	30,940
3467	PERGOVALS/ROLLS	2,125,305	2,125,305	0	1,629	104,870	104,870	104,870	104,870	104,870	104,870	104,870
3593	MAINT. SPECIAL CORSE	390,011	390,011	0	305	23,741	23,741	23,741	23,741	23,741	23,741	23,741
3704	RETENTION DETENT BASINS	-	-	-	-	16,655	16,655	16,655	16,655	16,655	16,655	16,655
3709	TEMP. EROSION CONTROL	334,240	334,240	-	259	16,655	16,655	16,655	16,655	16,655	16,655	16,655
3728	SOIL SYSTEM	100,000	100,000	-	78	7,814	7,814	7,814	7,814	7,814	7,814	7,814
3731	WATER SYSTEM	1,354,156	1,354,156	-	1,067	53,298	53,298	53,298	53,298	53,298	53,298	53,298
3761	STORM DRAIN SYSTEM	1,039,709	1,039,709	0	795	42,120	42,120	42,120	42,120	42,120	42,120	42,120
3762	STREET IMPROVEMENTS	1,637,841	1,637,841	0	1,283	80,000	80,000	80,000	80,000	80,000	80,000	80,000
3764	SOIL UTILITIES	1,015,499	1,015,499	0	778	49,000	49,000	49,000	49,000	49,000	49,000	49,000
3768	PERFORMANCE TERMS	-	-	-	-	-	-	-	-	-	-	-
3769	SPECIAL AGREEMENTS	6,790,000	6,790,000	-	5,287	492,100	492,100	492,100	492,100	492,100	492,100	492,100
3771	ENTRY FEATURES	100,000	100,000	-	77	4,000	4,000	4,000	4,000	4,000	4,000	4,000
3785	INTERIOR WALLS	400,000	400,000	-	314	19,230	19,230	19,230	19,230	19,230	19,230	19,230
3786	LANDSCAPE	730,375	730,375	-	567	35,000	35,000	35,000	35,000	35,000	35,000	35,000
3787	PERGO	803,490	803,490	-	624	39,460	39,460	39,460	39,460	39,460	39,460	39,460
3788	PERGO	-	-	-	-	-	-	-	-	-	-	-
3789	MISC. REPAIRABLES	(3,133,034)	(3,133,034)	-	(2,420)	(122,401)	(122,401)	(122,401)	(122,401)	(122,401)	(122,401)	(122,401)
3796	CONTINGENCY	1,400,572	1,400,572	-	1,106	70,904	70,904	70,904	70,904	70,904	70,904	70,904
3800	CALLING/STAMP/STAMP TO	-	-	-	-	-	-	-	-	-	-	-
3801	PROPERTY TAXES	-	-	-	-	-	-	-	-	-	-	-
NOT CERTAIN TO WIN						-	-	-	-	-	-	-
TOTAL IMPROVEMENTS		25,339,995	25,339,934	1	19,288	878,265	878,265	878,265	878,265	901,899	901,899	901,899
FORCASTED INVENTORY		1,307	673	634	-	0	0	0	0	0	0	0
Cumulative		30,475,679	30,475,678	-	-	0	0	0	0	0	0	0
Beginning Inventory Balance						16,076,579.76	17,031,734.77	17,819,845.77	13,624,935.06	14,435,054.36	15,251,263.65	16,076,602.94
Plus: Disbursement from above						828,565.01	(4,307,318.99)	701,659.79	701,659.29	701,659.29	658,619.29	178,351.60
Less: Land Transfer to →			34421.5			-	-	-	-	-	-	-
Inventory before Interest						16,904,949.77	12,724,415.77	13,222,305.06	14,326,994.36	15,139,713.65	15,910,922.94	16,735,262.23
Annual Interest Rate: 9.00%						-	-	-	-	-	-	-
Interest Cost			6304750	4870		126,290.00	97,489.00	161,430.00	107,400.00	113,500.00	119,680.00	127,700.00
Ending Inventory Balance						17,031,734.77	12,819,845.77	13,624,935.06	14,436,014.36	15,252,213.65	16,076,602.94	16,862,962.23
TEST 11 (Should equal zero)			1682518333			-	-	-	-	-	-	-

Central Park (Parker Hannifin)  
Backbone

JDF Act up #: 85/088

Class Code	Description	Proposed Budget	Forecasted Budget	Rem. Budget to Forecast	Per Lot	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
						Jan-05	Jul-05	Jan-06	Jul-06	Jan-07	Jul-07	Jan-08
1128	BUY DELIVERY	-	-	-	-	-	-	-	-	-	-	-
1206	PLANNING	1,801,832	1,801,832	(0)	1,256	-	-	-	-	-	-	-
2094	PROFITING/DELIVERY	97,489	97,489	0	75	2,200	2,200	2,200	2,200	2,600	2,600	2,600
1441	CIVIL ENGINEERING	1,000,732	1,000,732	(0)	756	28,269	28,269	28,269	28,269	29,269	29,269	29,269
3141	CIVIL ENGINEERING	202,525	202,525	-	155	7,814	7,814	7,814	7,814	7,814	7,814	7,814
3142	TRAFFIC ENGINEERING	10,000	10,000	-	8	2,000	2,000	2,000	2,000	2,000	2,000	2,000
3143	UTILITY ENGINEERING	47,330	47,330	-	36	1,414	1,414	1,414	1,414	1,414	1,414	1,414
3145	LANDSCAPE ARCHITECT	393,245	393,245	-	298	14,541	14,541	14,541	14,541	14,541	14,541	14,541
3159	STRUCTURAL ENGINEERING	1,848,813	1,848,813	(0)	1,415	68,600	68,600	68,600	68,600	68,600	68,600	68,600
3279	ARCHITECTURE INCLUDING	-	-	-	-	-	-	-	-	-	-	-
3281	LEGAL	418,141	418,141	0	314	15,237	15,237	15,237	15,237	16,237	16,237	16,237
3283	PERFORMANCE TERMS	790,340	790,340	0	609	11,039	11,039	11,039	11,039	11,039	11,039	11,039
3285	IMPACT FEES	1,861,317	1,861,317	-	1,426	71,069	71,069	71,069	71,069	71,069	71,069	71,069
3466	CRANES	803,490	803,490	0	614	30,940	30,940	30,940	30,940	30,940	30,940	30,940
3467	PERGOVALS/ROLLS	2,125,305	2,125,305	0	1,629	104,870	104,870	104,870	104,870	104,870	104,870	104,870
3593	MAINT. SPECIAL CORSE	390,011	390,011	0	305	23,741	23,741	23,741	23,741	23,741	23,741	23,741
3704	RETENTION DETENT BASINS	-	-	-	-	16,655	16,655	16,655	16,655	16,655	16,655	16,655
3709	TEMP. EROSION CONTROL	334,240	334,240	-	259	16,655	16,655	16,655	16,655	16,655	16,655	16,655
3728	SOIL SYSTEM	100,000	100,000	-	78	7,814	7,814	7,814	7,814	7,814	7,814	7,814
3731	WATER SYSTEM	1,354,156	1,354,156	-	1,067	53,298	53,298	53,298	53,298	53,298	53,298	53,298
3761	STORM DRAIN SYSTEM	1,039,709	1,039,709	0	795	42,120	42,120	42,120	42,120	42,120	42,120	42,120
3762	STREET IMPROVEMENTS	1,637,841	1,637,841	0	1,283	80,000	80,000	80,000	80,000	80,000	80,000	80,000
3764	SOIL UTILITIES	1,015,499	1,015,499	0	778	49,000	49,000	49,000	49,000	49,000	49,000	49,000
3768	PERFORMANCE TERMS	-	-	-	-	-	-	-	-	-	-	-
3769	SPECIAL AGREEMENTS	6,790,000	6,790,000	-	5,287	492,100	492,100	492,100	492,100	492,100	492,100	492,100
3771	ENTRY FEATURES	100,000	100,000	-	77	4,000	4,000	4,000	4,000	4,000	4,000	4,000
3785	INTERIOR WALLS	400,000	400,000	-	314	19,230	19,230	19,230	19,230	19,230	19,230	19,230
3786	LANDSCAPE	730,375	730,375	-	567	35,000	35,000	35,000	35,000	35,000	35,000	35,000
3787	PERGO	803,490	803,490	-	624	39,460	39,460	39,460	39,460	39,460	39,460	39,460
3788	PERGO	-	-	-	-	-	-	-	-	-	-	-
3789	MISC. REPAIRABLES	(3,133,034)	(3,133,034)	-	(2,420)	(122,401)	(122,401)	(122,401)	(122,401)	(122,401)	(122,401)	(122,401)
3796	CONTINGENCY	1,400,572	1,400,572	-	1,106	70,904	70,904	70,904	70,904	70,904	70,904	70,904
3800	CALLING/STAMP/STAMP TO	-	-	-	-	-	-	-	-	-	-	-
3801	PROPERTY TAXES	-	-	-	-	-	-	-	-	-	-	-
NOT CERTAIN TO WIN						-	-	-	-	-	-	-
TOTAL IMPROVEMENTS		25,339,995	25,339,934	1	19,288	1,475,074	2,856,855	3,339,163	3,461,362	4,019,917	4,284,406	4,549,916
FORCASTED INVENTORY		1,307	673	634	-	0	0	0	0	0	0	0
Cumulative		30,475,679	30,475,678	-	-	0						

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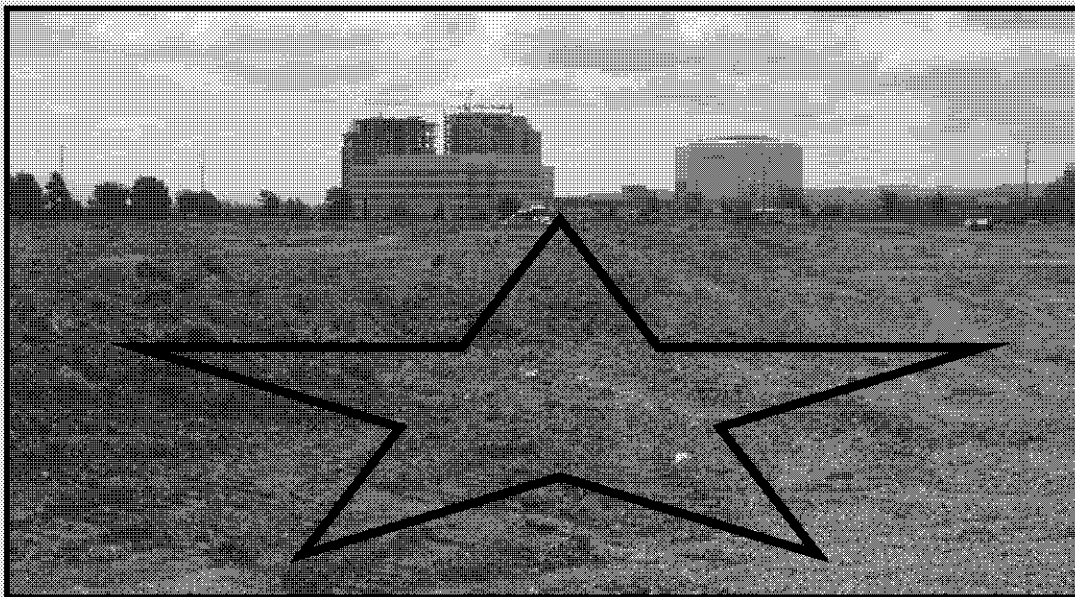
**APPENDIX D**  
**MARKET ABSORPTION STUDY**

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**MARKET ABSORPTION STUDY  
SUMMARY AND CONCLUSIONS**

**COMMUNITY FACILITIES DISTRICT NO. 2004-1  
(CENTRAL PARK)**

**SANTA ANA UNIFIED SCHOOL DISTRICT  
ORANGE COUNTY, CALIFORNIA**



**GRADING ACTIVITY IN A PORTION OF CFD NO. 2004 -1  
(NOTE: BUILDINGS IN BACKGROUND NOT PART OF CFD)**

**BY EMPIRE ECONOMICS, INC.**

**REVISED: JUNE 21, 2005  
(ORIGINAL STUDY: JUNE 1, 2005)**

## CERTIFICATION OF INDEPENDENCE

The Securities & Exchange Commission has recently taken action against Wall Street firms that have utilized their research analysts to promote companies that they conduct business with, citing this as a potential conflict of interest. Accordingly, Empire Economics (Empire), in order to ensure that its clients are not placed in a situation that could cause such conflicts of interest, provides a Certification of Independence. Specifically, the Certificate states that Empire performs consulting services for **public entities only** in order to avoid potential conflicts of interest that could occur if it also provided consulting services for developers/builders. For example, if a research firm for a specific Community Facilities District or Assessment District, were to provide consulting services to both the public entity as well as the property owner/developer/builders, then a potential conflict of interest could be created, given the different objectives of the public entity versus the property owner/developer.

Accordingly, Empire Economics certifies that the Market Absorption Study for the Santa Ana Unified School District CFD No. 2004-1 (Central Park) was performed in an independent professional manner, as represented by the following statements:

- Empire was retained to perform the Market Absorption Study by the Santa Ana Unified School District, not the District's property owner or the developer/builders.
  
- Empire has not performed any consulting services for the District's property owner nor the developer/builders during at least the past five years.
  
- Empire will not perform any consulting services for the District's property owner nor the developer/builders during at least the next three years.
  
- Empire's compensation for performing the Market Absorption Study for the District is not contingent upon the issuance of Bonds; Empire's fees are paid on a non-contingency basis.

Therefore, based upon the statements set-forth above, Empire hereby certifies that the Market Absorption Study for the Santa Ana Unified School District CFD No. 2004-1 (Central Park) was performed in an independent professional manner.

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Empire Economics, Inc.  
Joseph T. Janczyk, President

## INTRODUCTION TO THE BOND FINANCING PROGRAM

The Planned Community of Central Park is located at the northeastern corner of Route 405 and Jamboree Boulevard in the Santa Ana Unified School District in Orange County, California. According to Lennar Communities, the developer, Central Park is expected to have 1,238 housing units on 42.7 acres, and so it is regarded as being a high-density residential project. Specifically, there are various types of attached products, such as condominiums and townhomes, as well as hi-rise tower products; additionally, there are also some supporting office and retail products.

The Santa Ana Unified School District has retained Empire Economics Inc., an economic and real estate consulting firm, to perform a Market Absorption Study for the properties/projects that are expected to be included in the CFD No. 2004-1 (Central Park). The purpose of the Market Study for CFD No. 2004-1 is to perform a comprehensive analysis of the relevant economic and real estate factors in order to arrive at an estimate of the probable absorption schedules for the forthcoming residential projects.

Specifically, from the viewpoint of Bond Purchasers, the particular components of the infrastructure should be time-phased and location-phased in a manner that approximately coincides with the expected marketability/absorption of the projects in CFD No. 2004-1. Otherwise, to the extent that the infrastructure is not appropriately phased, then the following types of market inefficiencies may occur:

*On the one hand, if certain projects do not have the infrastructure that is required to support their development in a timely manner, then they would not be able to respond to the demand in the marketplace, resulting in a market shortage.*

*On the other hand, if too much infrastructure is built, then projects for which there is not presently a market demand would incur high carrying costs due to the market surplus, and this could adversely impact their financial feasibility.*

Thus, the Market Absorption Study formulates guidelines on the appropriate or optimal time-phasing and location-phasing of the infrastructure for the properties located in CFD No. 2004-1, Central Park.

# CFD NO. 2004-1 MARKET AREA



## CHARACTERISTICS OF THE EXPECTED PRODUCT MIX FOR THE PROJECTS IN CFD NO. 2004-1

The properties in CFD No. 2004-1, based upon their planning approvals as well as representations from the developer, Lennar Communities, are expected to have some 1,238 attached housing units; accordingly, their characteristics are now discussed.

- **Lofts:** There are expected to be 107 Loft units (8.6% of the units) which are 1-2 stories that have base prices of \$395,000 to \$515,000 for some 1,050 to 1,500 sq.ft. of living area, for a value ratio (price/living area) of \$357, on the average.
- **Lofts/Flats:** There are expected to be 342 Loft/Flat units (27.6% of the units) which are 1-2 stories that have base prices of \$290,000 to \$410,000 for some 700 to 1,150 sq.ft. of living area, for a value ratio (price/living area) of \$378, on the average.
- **Brownstone Townhomes:** There are expected to be 163 Brownstone Townhome units (13.2%) which are 3 stories that have base prices of \$483,000 to \$608,000 for some 1,175 to 1,625 sq.ft. of living area, for a value ratio of \$391, on the average.
- **Brownstone Villas:** There are expected to be 127 Brownstone Villa units (10.3%) which are 3 stories that have base prices of \$586,000 to \$708,000 for some 1,425 to 1,875 sq.ft. of living area, for a value ratio of \$393, on the average.
- **Luxury Flats A:** There are expected to be 78 Luxury Flat A units (6.3%) which are 1 story each (the building is multi-story) that have base prices of \$800,000 to \$935,000 for some 1,750 to 2,200 sq.ft. of living area, for a value ratio of \$439, on the average.
- **Luxury Flats B:** There are expected to be 81 Luxury Flat B units (6.5%) which are 1 story each (the building is multi-story) that have base prices of \$650,000 to \$785,000 for some 1,400 to 1,850 sq.ft. of living area, for a value ratio of \$442, on the average.
- **Luxury Townhomes:** There are expected to be 100 Luxury Townhome units (8.1%) which are 2-3 stories that have base prices of \$817,000 to \$997,000 for some 1,850 to 2,450 sq.ft. of living area, for a value ratio of \$422, on the average.
- **Hi-Rise Tower:** There are expected to be 221 Hi-Rise Tower units (17.9%) which are 1 story each (the two buildings are multi-story, up to 15 stories) that have base prices of \$411,000 to \$739,000 for some 900 to 1,900 sq.ft. of living area, for a value ratio of \$417, on the average.
- **Hi-Rise Tower Penthouses:** There are expected to be 19 Hi-Rise Tower Penthouse units (1.5%) which are 1 story each (located at the top of the multi-story buildings, up to 15 stories) that have base prices of \$1,465,000 to \$1,569,000 for some 2,300 to 2,600 sq.ft. of living area, for a value ratio of \$619, on the average.

So, for all of the 1,238 homes in CFD No. 2004-1 (Central Park), as a whole, their prices amount to some \$576,839 for some 1,411 sq.ft. of living area, for a value ratio of \$409, on the average.

Please refer to the following page for additional information on the projects in CFD No. 2004-1 (Central Park).

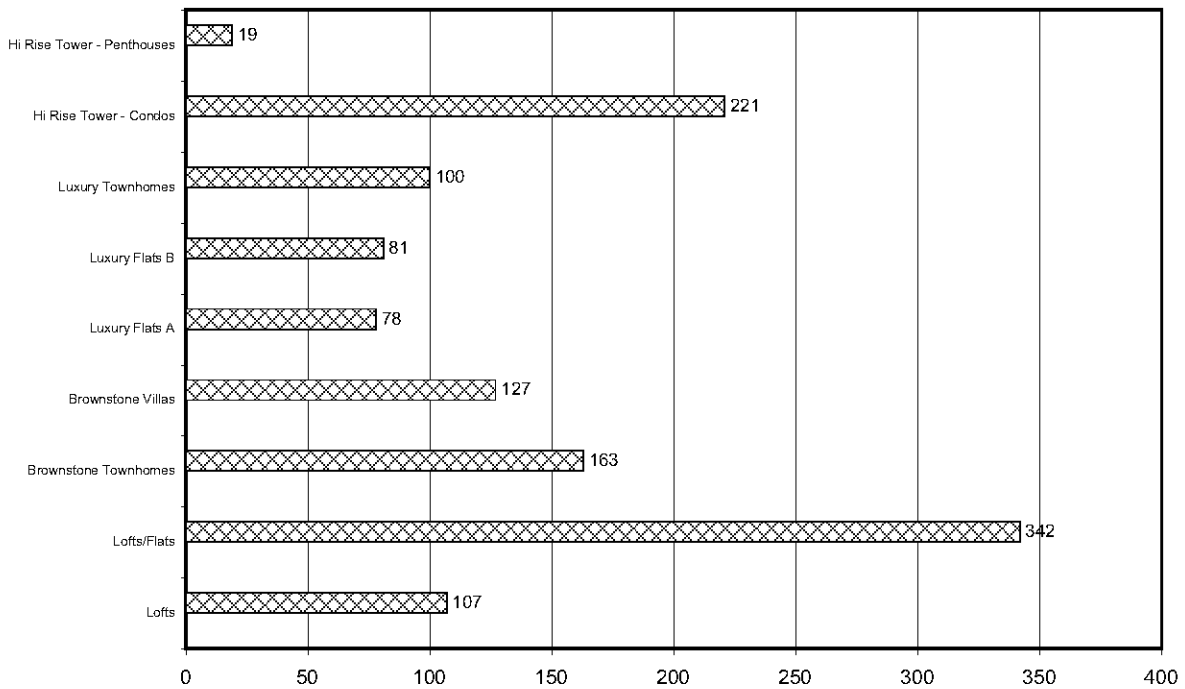
**EXPECTED PRODUCT MIX**  
**SANTA ANA UNIFIED SCHOOL DISTRICT CFD NO. 2004-1**  
**(CENTRAL PARK - LENNAR COMMUNITIES)**

June 21, 2005 ; Subject to Revision

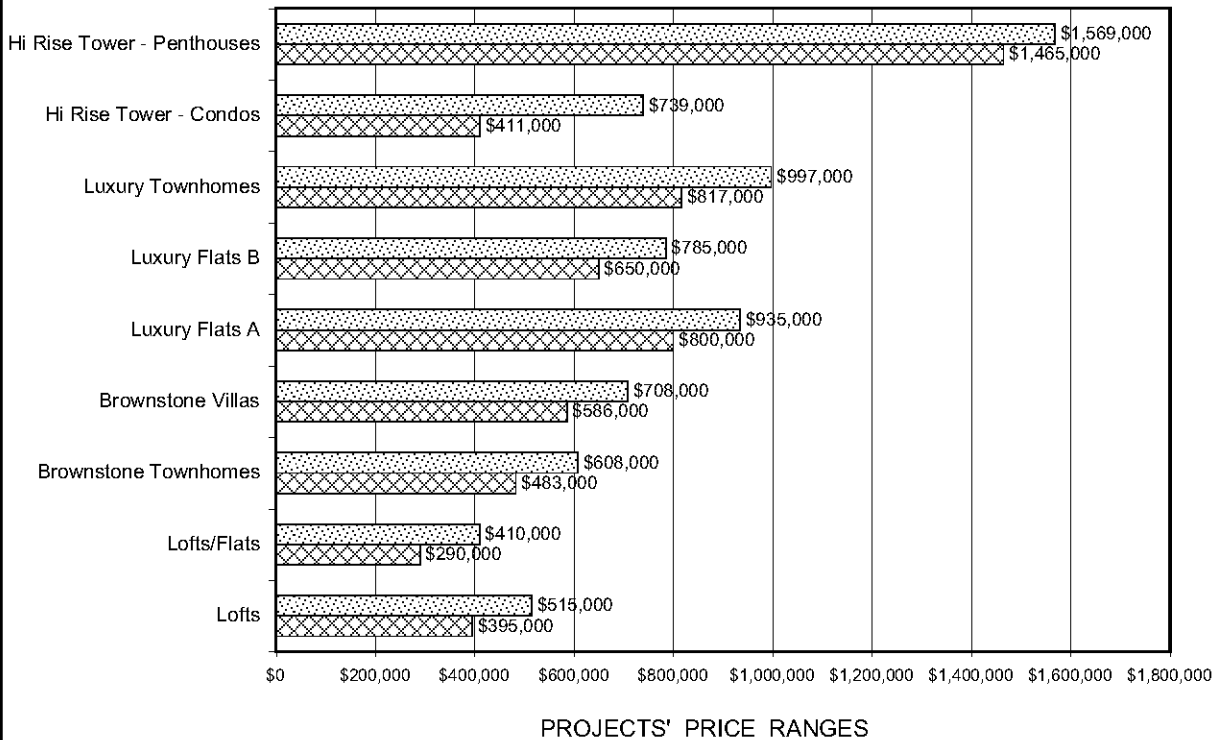
<b>Product Types &gt;&gt;&gt;</b>	<b>Lofts</b>	<b>Lofts/Flats</b>	<b>Brownstone Townhomes</b>	<b>Brownstone Villas</b>	<b>Luxury Flats A</b>	<b>Luxury Flats B</b>	<b>Luxury Townhomes</b>	<b>Hi-Rise Tower Condominiums</b>	<b>Hi-Rise Tower Penthouses</b>
<b>Units/Acre</b>	68	78	32	31	50	60	21	150	
<b>Development Status</b>									
Total	107	342	163	127	78	81	100	221	19
Escrows Closed	0	0	0	0	0	0	0	0	0
Forthcoming:	107	342	163	127	78	81	100	221	19
Share - Forthcoming	8.6%	27.6%	13.2%	10.3%	6.3%	6.5%	8.1%	17.9%	1.5%
<b>Prices - Estimated</b>									
Plan # 1	\$395,000	\$290,000	\$483,000	\$586,000	\$800,000	\$650,000	\$817,000	\$411,000	\$1,465,000
Plan # 2	\$435,000	\$330,000	\$527,000	\$628,000	\$845,000	\$695,000	\$877,000	\$507,000	\$1,569,000
Plan # 3	\$475,000	\$370,000	\$569,000	\$670,000	\$890,000	\$740,000	\$937,000	\$593,000	
Plan # 4	\$515,000	\$410,000	\$608,000	\$708,000	\$935,000	\$785,000	\$997,000	\$669,000	
Plan # 5								\$739,000	
Averages	\$455,000	\$350,000	\$546,750	\$648,000	\$867,500	\$717,500	\$907,000	\$583,800	\$1,517,000
<b>Living Area - Estimated</b>									
Plan # 1	1,050	700	1,175	1,425	1,750	1,400	1,850	900	2,300
Plan # 2	1,200	850	1,325	1,575	1,900	1,550	2,050	1,150	2,600
Plan # 3	1,350	1,000	1,475	1,725	2,050	1,700	2,250	1,400	
Plan # 4	1,500	1,150	1,625	1,875	2,200	1,850	2,450	1,650	
Plan # 5								1,900	
Averages	1,275	925	1,400	1,650	1,975	1,625	2,150	1,400	2,450
<b>Value Ratio</b>									
	\$357	\$378	\$391	\$393	\$439	\$442	\$422	\$417	\$619



PRODUCT MIX FOR CFD NO. 2004-1  
NUMBER OF HOMES



PRODUCT MIX FOR CFD NO. 2004-1  
EXPECTED HOUSING PRICES



# ROLE OF THE MARKET STUDY IN THE BOND FINANCING

The Market Absorption Study for CFD No. 2004-1 (Central Park) has a multiplicity of roles with regards to the Bond Financing; accordingly, these are now discussed.

Marketing Prospects for the  
Various Products Types  
  
Official Statement  
  
Prospective Bond Purchasers

Aggregate Levels of  
Special Tax Revenues

Maximum Special Taxes  
for the Residential Products  
Conforming to the Issuer's Policies

Share of Payments:  
Developer/Builders vs. Final-Users  
Determined by the Absorption Schedule

Appraisal of Property  
  
Discounted Cash Flow – Present Value  
  
Absorption Schedules

The Issuing Agency for the Bond Issue, the Santa Ana Unified School District, along with the Underwriter, can utilize the Market Absorption Study, Appraisal, and Special Tax Revenue to structure the Bond Issue for CFD No. 2004-1.

# METHODOLOGY UNDERLYING THE MARKET STUDY

To perform a comprehensive analysis of the macroeconomic and microeconomic factors that are expected to influence the absorption of the residential condominiums, townhomes and hi-rise tower products in CFD No. 2004-1, Empire's Market Absorption Study conducts a systematic analysis of the following factors:

## MACROECONOMIC FACTORS FOR CFD NO. 2004-1

- \* Market Supply  
Planning Projections
- \* Market Demand  
Economic Conditions
- \* Reconciliation
- \* Growth Potential for the  
Market Area

## MICROECONOMIC FACTORS FOR CFD NO. 2004-1

- Regional Development Patterns
- Socioeconomic: School and Crime
- Housing Price Trends and Patterns
- Competitive Market Analysis – Product Types
  - Residential
    - \*Location
    - \*Product Types
    - \*Prices
    - \*Special Taxes
    - \*Features/Amenities

## ABSORPTION SCHEDULES

- Each Product Type**
  - \*Residential - Attached  
Condominiums  
Townhomes  
Hi-Rise Towers
  - \*Market Entry to Build-Out

Therefore, the Market Absorption Study systematically proceeds from the macroeconomic analysis of the Market Region's future housing, industrial and commercial growth to the microeconomic analysis of the estimated absorption schedules for the residential condominiums, townhomes and hi-rise tower products in the Santa Ana Unified School District CFD No. 2004-1 (Central Park).

# RECENT/EXPECTED ECONOMIC TRENDS/PATTERNS

The purpose of this section is to discuss the recent/expected economic trends/patterns for the United States (US), California (CA), and Orange County (OC), including Gross Domestic Product, employment, housing starts, and mortgage rates.

## Recent /Expected Real Gross Domestic Product Trends/Patterns - Annually

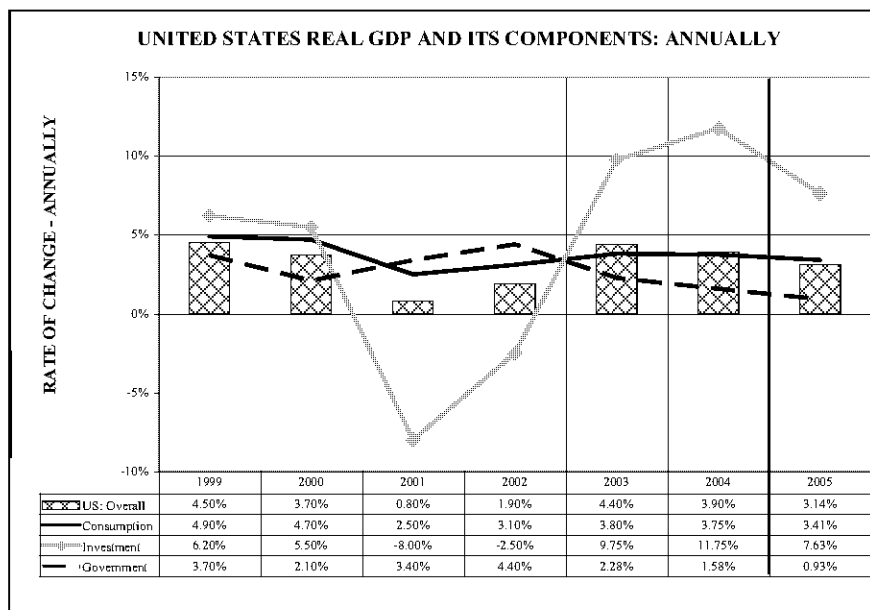
With regards to the recent/expected growth rates for Gross Domestic Product (GDP) for the United States economy, these are as follows:

- During 1999 and 2000, real GDP increased at strong rates of by 4.5% and 3.7%, respectively.
- Then, in 2001, as the economy slowed, real GDP increased by only 0.8%.
- In 2002 and 2003, when the economy rebounded, real GDP increased by 1.9% and some 4.4% respectively.
- For 2004, real GDP rose at a rate of 3.90%, as the economy continued to expand at a healthy rate.
- Then, for 2005, real GDP is expected to continue to rise, though at a somewhat slower rate, some 3.14%.

Next, with respect to the rates of change for the various components of real GDP during 2003 through 2005, they are as follows:

- Consumption, which increased at some 3.80% in 2003, decreased slightly to a rate of some 3.75% in 2004, and it expected to moderate further to a rate of some 3.41% in 2005.
- Business investment, which recorded an increase of some 9.75% in 2003, peaked at some 11.8% in 2004, and is expected to diminish to 7.63% in 2005.
- Finally, with respect to government purchases, these declined from 2.28% in 2003 to 1.58% in 2004 and then are expected to decline to some 0.93% in 2005.

Therefore, comparing the rates of growth for the various components of real GDP for 2005 as compared to 2004 reveals that the overall rate of growth is expected to moderate slightly, along with the rates of growth for each of the sectors as well, including consumption, investment and government spending.



## Recent/Expected Employment Trends/Patterns - Annually

With regards to the recent/expected growth rates for employment, these are now discussed for the United States, California, and Orange County economies, both on an annual as well as a quarterly basis.

For the United States economy, the recent trends/patterns for employment have been as follows:

- In 1999 and 2000, employment growth was strong, some 2.44% and 2.20%, respectively.
- Then, in 2001, due to the economic slowdown, employment was virtually stable.
- For 2002, employment declined by -1.13% followed by a smaller decline of -0.26% in 2003.
- In 2004, as the economy moved into its recovery phase, employment rose by some 1.13%.
- For 2005, the economy is expected to expand further with employment rising to 1.58%.

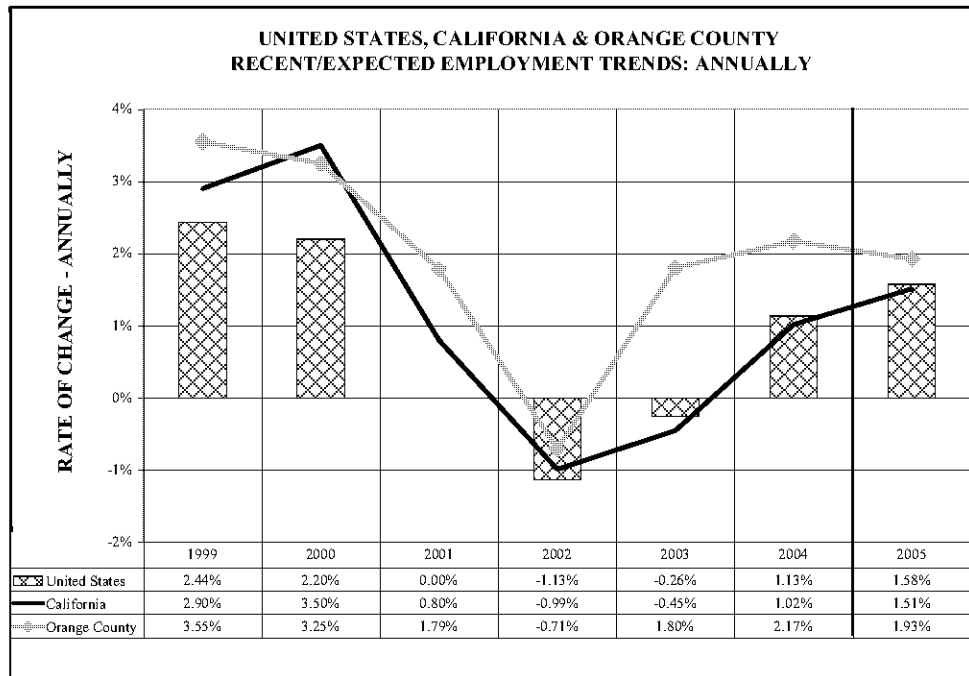
California's employment followed a generally similar pattern:

- Strong rates of employment growth in 1999 and 2000 of 2.9% and 3.5%, respectively.
- Then in 2001, employment rose only moderately, some 0.80%.
- However, in 2002 to 2003, employment declined to -0.99% and -0.45%, respectively.
- For 2004, the economy moved into a recovery, with an employment gain of 1.02%.
- In 2005, the economy is expected to expand further with employment rising to 1.51%.

Orange County, on a comparative basis, has performed favorably:

- Orange County experienced strong, though diminishing, rates of employment growth during 1999-2001, from 3.55% in 1999 to 1.79% in 2001.
- Then, in 2002, employment declined to some -0.71%.
- In 2003, the economy recovered, and employment increased at a rate of 1.80%
- For 2004, the rate of employment growth rose to 2.17%.
- In 2005, growth is expected to continue with employment moderating to some 1.93%.

Therefore, during 2005, the United States, California, and Orange County are expected to generally experience higher rates of employment growth.

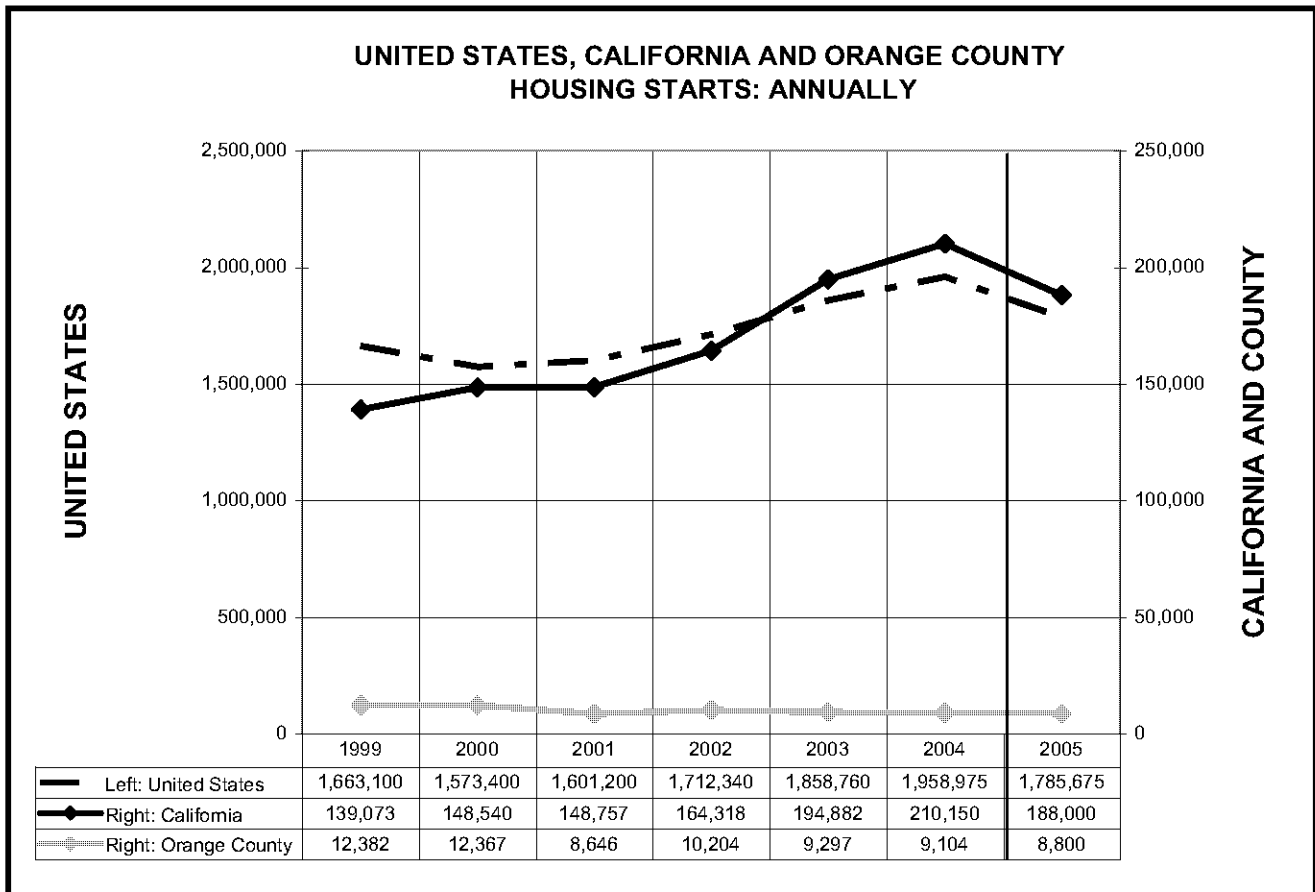


## Recent/Expected Trends/Patterns for Housing Starts - Annually

With regards to the recent trends and patterns for housing starts, they are as follows:

- The United States housing market experienced a strong recovery during the 2001 to 2004 time period, with the number of new homes rising from 1,573,400 in 2000 to 1,958,975 in 2004. For 2005, the United States housing market is expected to decrease somewhat, to 1,785,675, due to higher mortgage rates.
- For the California housing market, housing starts have had a strong recovery during 2000 to 2004, as the number of new homes rose from 139,073 in 1999 to 210,150 in 2004. The California housing market is expected to decrease somewhat in 2005 to some 188,000, again as a result of higher mortgage rates.
- Finally, with respect to Orange County, housing starts declined during the 2000-2004 time period, from 12,382 homes in 1999 to 9,104 homes in 2004, due to the scarcity of developable property. For 2005, the level of activity is expected to decline slightly, to some 8,800 homes, due again to the scarcity of developable property.

So, for 2005, the United States, California, and Orange County housing markets are expected to decline somewhat from their 2004 levels, due primarily to higher levels of mortgage rates and also, for Orange County, the scarcity of developable property.

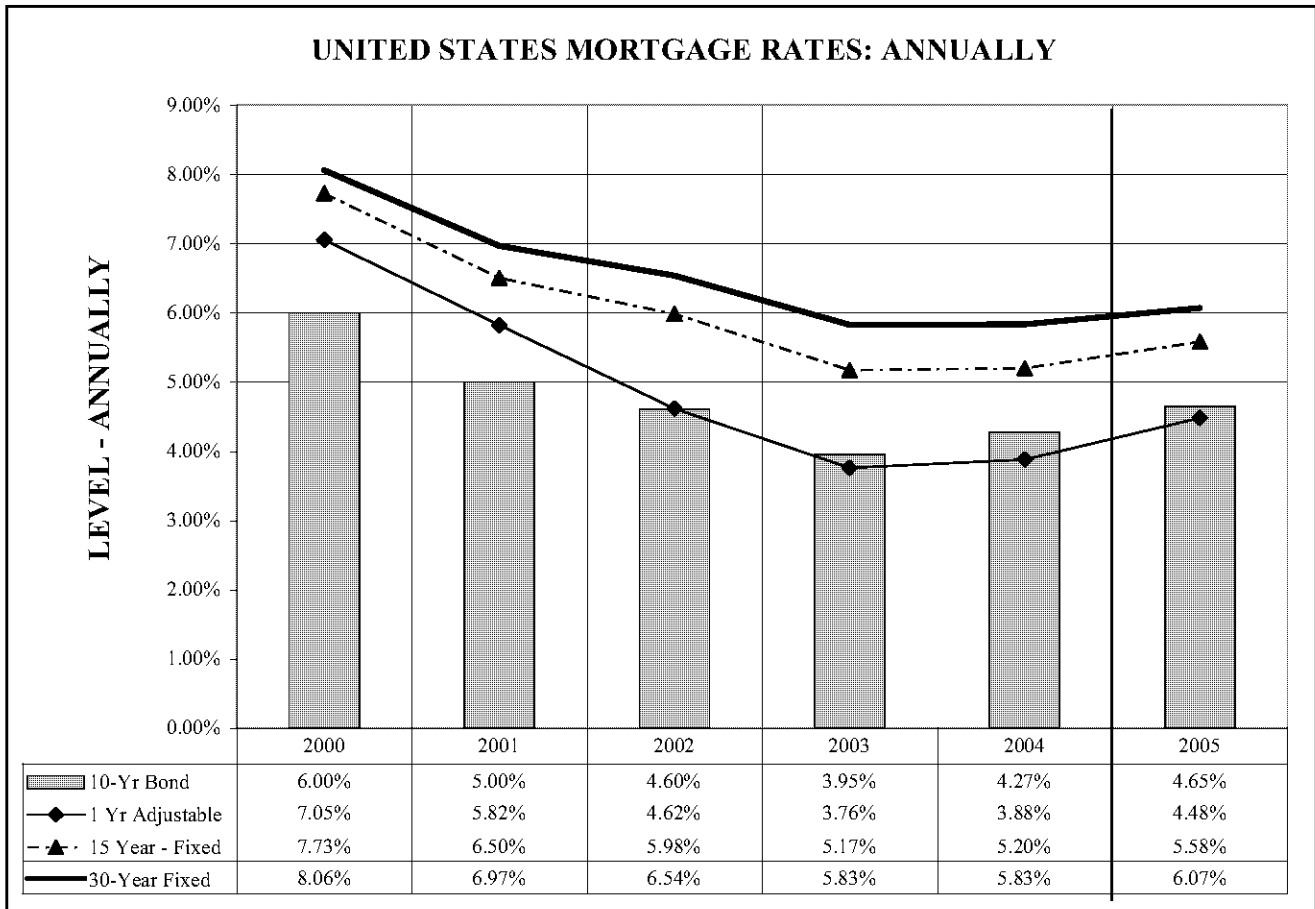


## Recent/Expected Trends in Mortgage Rates - Annually

The recent/expected trends/patterns for mortgage rates, including the 15 year fixed rate mortgage, as well as the 10-year Treasury Bond which influences the 15 year fixed rate mortgage, and also the 1-year adjustable, are now discussed:

- During the 2000 to 2003 time period, the rates on the 10 year Treasury Bond, 15 year fixed mortgage and the 1 year adjustable mortgage all declined: the 10-year Treasury Bond from 6.00% to 3.95% (-2.05%), the 15 year fixed mortgage from 7.73% to 5.17% (-2.56%), and the 1 year adjustable mortgage from 7.05% to 3.76% (-3.29%).
- From 2003 to 2004, the rates started to rise: on the 10-year Treasury Bond from 3.95% to 4.27% (+0.32%), the 15 year fixed mortgage from 5.17% to 5.20% (+0.03%), and the 1 year adjustable mortgage from 3.76% to 3.88% (0.12%).
- For 2005, as compare to 2004, the rates are expected to rise moderately, on the 10-year Treasury Bond from 4.27% to 4.65% (+0.38%), the 15 year mortgage from 5.20% to 5.58% (+ 0.38%), and the 1 year adjustable mortgage from 3.88% to 4.48% (+0.60%).

So, during 2005, financial rates are expected to rise at a moderate pace, the increase in the 10-year Bond will drive the 15 year fixed rates up by some 0.38% while the increases in the discount rate by the Federal Reserve Board will drive up the 1 year adjustable rate mortgages by some 0.60%.



# SOCIOECONOMICS CHARACTERISTICS: CRIME LEVELS AND THE QUALITY OF SCHOOLS

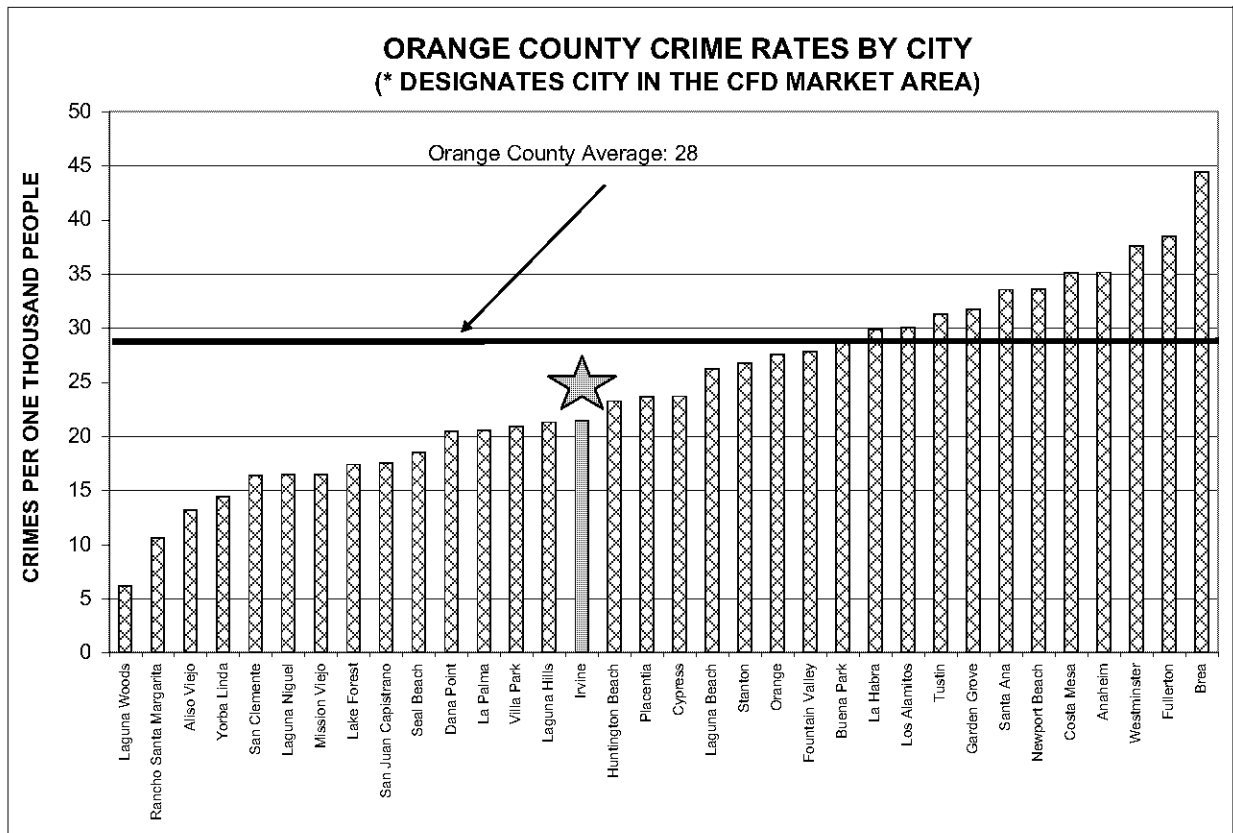
When households consider the purchase of a home, the primary factors are the location (relative to their place of employment) and price (within their income/affordability levels). Furthermore, secondary socioeconomic factors that are significant include the safety of the neighborhood as well as the quality of the schools; accordingly, these are now discussed

## Crime Levels and Neighborhood Safety

To gauge the safety of Orange County and the CFD No. 2004-1 Neighborhood Area, information on crime levels was obtained utilizing the Federal Bureau of Investigation (FBI) Index for the 2003 calendar year.

For California, as a whole, the average crime rate is approximately 40.2 per 1,000 people per year. For Southern California the rate is 39.1, slightly lower than the state, while for Orange County, the rate is only 27.9. So, Orange County has a significantly lower crime rate than either California or Southern California, and, as such, is a safer place to live.

According to the FBI index, Orange County has a crime rate of about 28 per 1,000 people per year. With respect to the CFD No. 2004-1 Neighborhood Area, consisting primarily of the City of Irvine, the crime rates is comparatively low, some 21.4.



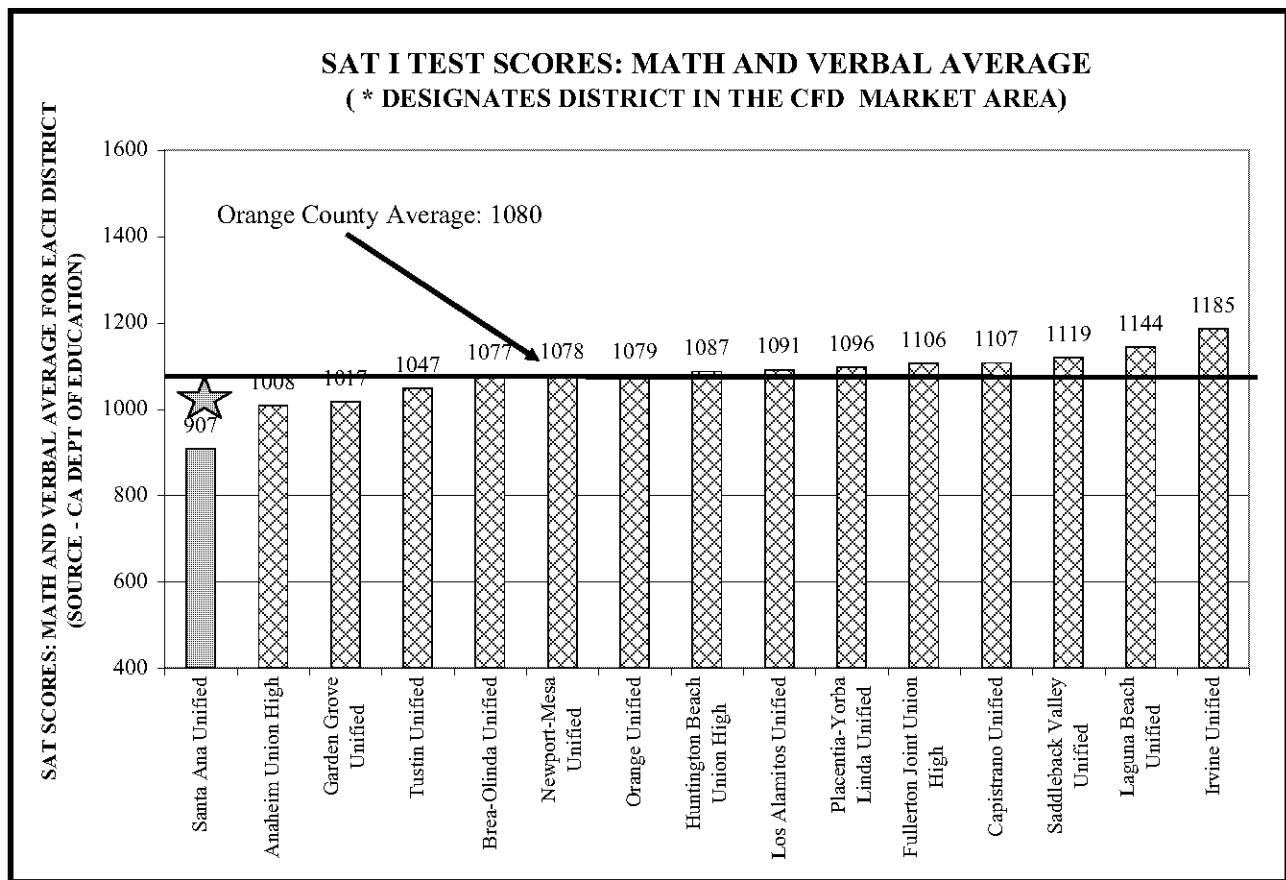


## Quality of Schools and Education

To gauge the quality of schools in Orange County and the CFD No. 2004-1 Neighborhood Area, information was compiled on educational achievement, specifically the SAT I scores.

For the Southern California counties, as a whole, the SAT I scores (with 1600 being the highest possible) were at a level of 1014 and this is similar to the scores for California as a whole, some 1015. While for Orange County, in particular, the SAT I scores amount to 1080, significantly higher than the overall averages for California and also Southern California.

For Orange County, the average SAT I score was 1080. For the school district in the CFD No. 2004-1 Neighborhood Area, the Santa Ana Unified School District, their SAT I score amounts to 907, and this is somewhat lower than for Orange County as a whole.



Therefore, from a socioeconomic perspective, Orange County has a lower crime rate and a higher educational achievement level than California and also Southern California, as a whole. Furthermore, within Orange County, the City of Irvine has a significantly lower crime rate but the Santa Ana Unified School District has a somewhat lower educational achievement level than the county as a whole. Therefore, the CFD No. 2004-1 Neighborhood Area and the City of Irvine are regarded as being generally desirable from a socioeconomic perspective.

## RECENT TRENDS IN MONTHLY HOUSING PAYMENTS FOR HOUSEHOLDS IN ORANGE COUNTY

The trends in monthly payment levels for households that purchase homes in Orange County are now analyzed, based upon a consideration of housing prices and mortgage rates during the 1988-2004 time period; accordingly, the primary factors underlying this analysis are as follows:

- The prices for homes in Orange County during 1988-2004 were estimated by using value ratios, the price per sq.ft. of living area, since this automatically adjusts for price changes due to differences in the sizes of the homes. For Orange County, the value ratio rose from \$180 in 1988 to a record level of \$349 in 2004.
- To calculate the price of a home using the value ratio, it is first necessary to specify the size of a typical home; the assumption made herein is that the home size is 1,600 sq.ft. of living area, and this remains constant during the entire time period.
- Accordingly, based upon the value ratios as well as the size of the home, the price of such a 1,600 sq.ft. home started at some \$198,676 in 1988 and rose to a record level of some \$557,950 in 2004.
- The down payment that the household makes is presumed to be 20%, and this remains constant during the entire time period.
- The mortgage rate is based upon the interest rate for households in the Los Angeles–Long Beach area: mortgage rates had a peak level of 9.93% in 1989, declined to 6.52% in 1994, increased somewhat during 1995-2001, and then declined to its lowest level of some 5.83% in 2003, followed by a rise to 5.89% for 2004.
- During the 1988-2004 time period, the rate of inflation amounted to some 44.9% on a cumulative basis. Inflation rates were in the 4.1%-5.4% range from 1988-1991, and then they declined to the 1.6%-3.4% range for 1992-2004. The inflation rate also serves as a general proxy of household income increases during this time period. Based upon these inflation rates, the real price of housing in Orange County (in 2004 dollars) amounted to some \$287,800 in 1989 and \$557,950 in 2004.
- The monthly housing payments are adjusted for the rates of inflation, on a year by year basis, so that they can be compared in real 2004 dollars for the entire time period.

Therefore, based upon a consideration of the above factors, the monthly housing payment for the purchaser of a home in Orange County has exhibited the following pattern:

- The monthly housing payment amounted to some \$2,441 in 1989 (real 2004 dollars), due to the combination of high housing prices along with high mortgage rates.
- The monthly housing payment declined to the \$1,378-\$1,493 range during 1993-1998, due to the combination of lower housing prices and lower mortgage rates.
- Since 1998 the monthly housing payments rose to some \$2,846 in 2004; this can be attributed primarily to higher housing prices.

**Therefore, Orange County households have recently experienced moderate increases in the level of monthly housing payments; the level of their 2004 monthly housing payments in real dollars is some 16.6% above the prior peak level that occurred in 1989.**

## **OVERVIEW OF RECENT/EXPECTED FACTORS UNDERLYING CHANGES IN HOUSING PRICES**

During 1980-2001 housing appreciation was driven by the fundamental factor of employment growth, along with accommodating financial factors, such as stable or somewhat declining mortgage rates. However, since early 2002, the primary fundamental factor, employment growth, has experienced only minimal growth; instead, housing appreciation has been driven by financial factors. Thus, there has been a structural shift in the forces driving housing price appreciation, from employment growth to financial factors. Specifically, these financial factors include first, fixed mortgage rates declining to historic lows, then the shift to adjustable rate mortgages, and, most recently, the use of “creative” mortgage structures.

The acceptance of these aggressive financial structures by households has been based, to a large, degree, on their perceptions of escalating rates of housing price appreciation and a severe housing shortage; however, these perceptions may have been somewhat exaggerated. Furthermore, the use of these aggressive mortgage structures has been bolstered by homebuilders that have their own mortgage companies as well as lending institutions that desire to retain their business levels.

However, unlike fundamental factors, these financial factors are subject to a substantial amount of volatility within a short period of time; in fact, there are substantial economic forces that are likely to emerge during the near term that should result in a substantial rise in interest rates, such as record levels of federal and trade deficits. As mortgage rates rise, particularly for households with adjustable rate loans and creative loan structures, some of these households that cannot keep pace with the higher payments will be “forced” to sell their homes at reduced prices, since the new purchasers will have to qualify for loans with higher mortgage rates.

This result will be a housing market bubble that will cause some price adjustments, but these adjustments are not expected to be broad based but rather specific to those homeowners that overburdened themselves by using adjustable rate loans and creative mortgage structures. By comparison, those homeowners who positioned themselves with fixed-rate loans and who do not sell their home during the next several years are not likely to be impacted adversely.

## Interrelationships of Employment Growth, Mortgage Rates and Housing Price Changes: 1984-2001

The most significant factor underlying changes in housing prices/sales is the rate of employment growth. Specifically, employment growth is regarded as being a “fundamental” factor because the creation of job growth drives the demand for housing: when employment growth is robust, housing prices/sales are also strong, and, conversely, when employment losses occur, then housing prices/sales are weak.

The next most significant factor underlying housing price changes would be the mortgage financing that is available to households. This includes the effective mortgage rate on a loan as well as the credit criteria utilized by lending institutions, such as the loan to value ratio and the mortgage to income ratio. This is regarded as a “financial” factor, since it is not, by itself, a direct determinant of the amount of housing demand; instead, it impacts the price of a home that a household can afford. More favorable financial factors, such as declining mortgage rates and/or easier qualifying terms, typically result in stronger rates of housing price appreciation.

Another factor that reinforces housing price trends is the level of new homes being constructed/sold. If the supply of new homes is below the amount required to fulfill the demand generated by the employment growth, then there is further upward pressure on housing prices.

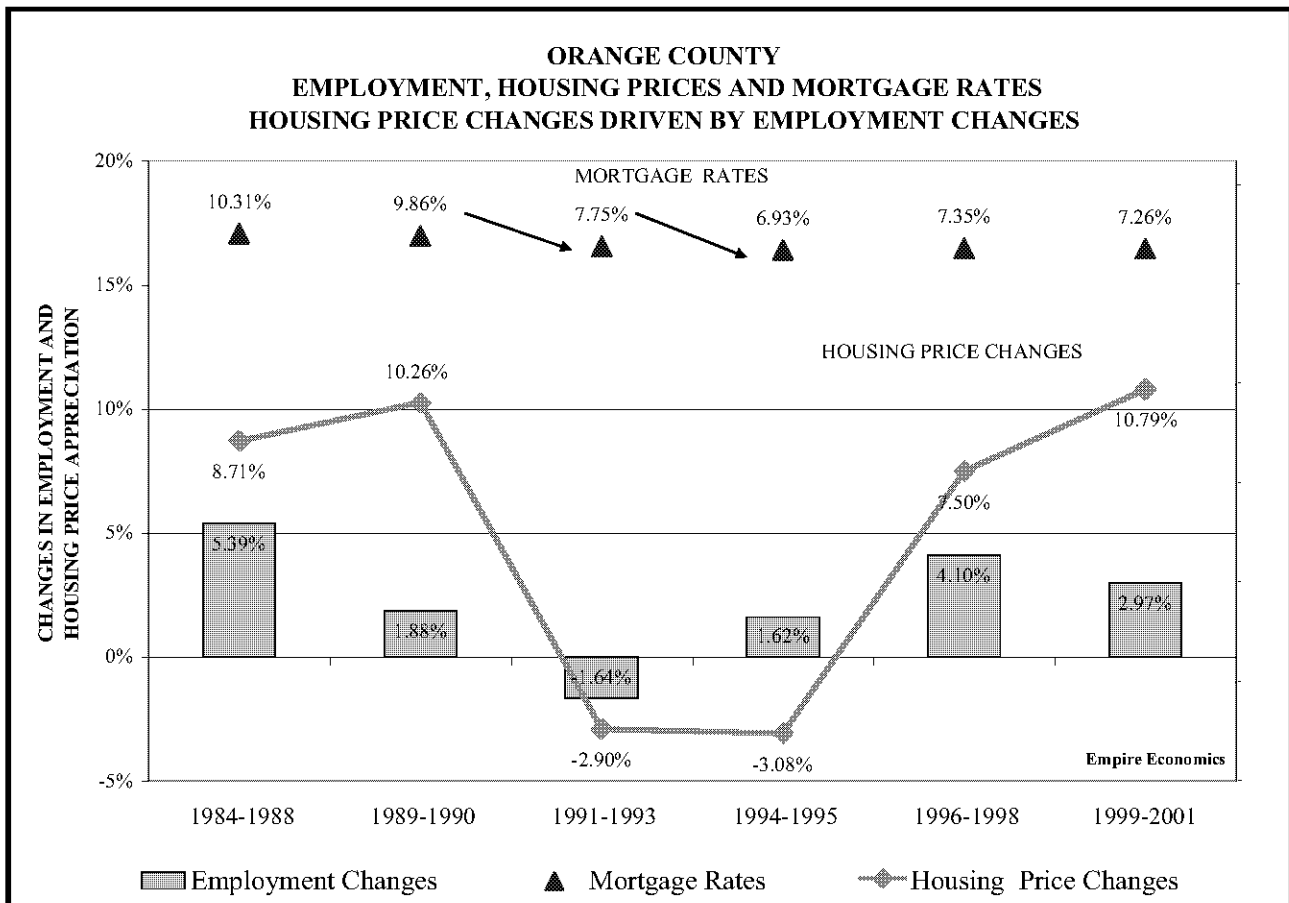
The specific impacts of employment growth and mortgage rates on housing prices for Orange County (OC) during the two recent economic cycles that span the 1984-2001 time period are now discussed.

### **Prior Economic Cycle: 1984-1993**

- During 1984-1988, employment growth in OC was strong (+5.39%/yr.) but housing appreciation was only moderate (+8.71%/yr.) because mortgage rates were relatively high (10.31%).
- During 1989-1990, as the rate of employment growth for OC continued to be strong (+1.88%/yr.) and mortgage rates declined (from 10.31% to 9.86%), there was an acceleration in the rate of housing price appreciation (+10.26%/yr.).
- Then, during 1991-1993, when the OC economy experienced an economic recession with employment losses (-1.64%/yr.), housing prices declined (-2.90%/yr.) despite a significant decrease in mortgage rates (9.86% to 7.75%).

## Current Economic Cycle: 1994 to 2001

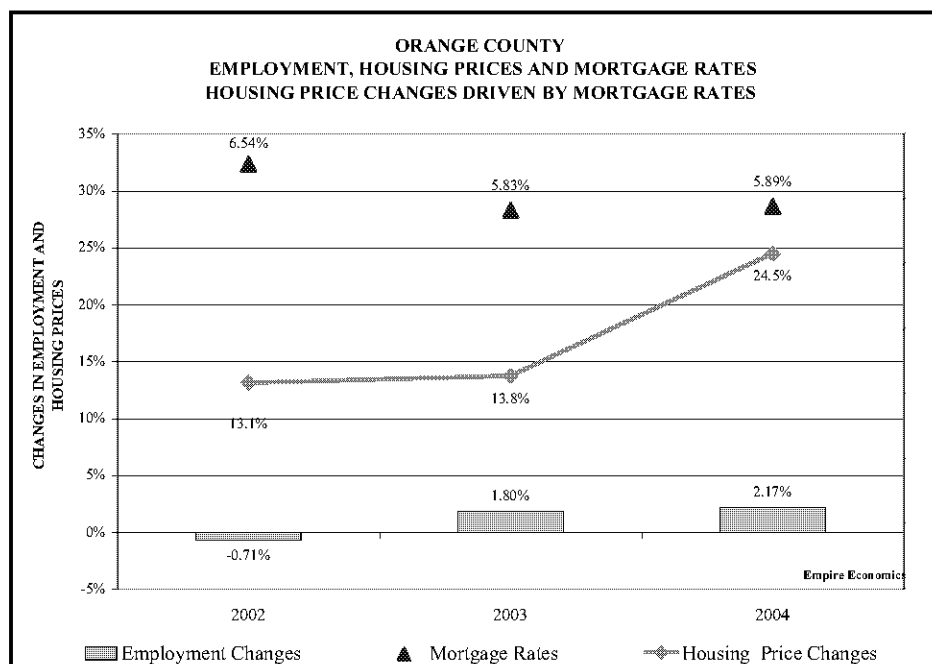
- During 1994-1995, the OC economy started to recover, with increasing employment growth (1.62%) but housing prices continued to decline (-3.08%) further despite lower mortgage rates (7.75% to 6.93%); this can be attributed to the time lags between the employment and housing markets, as households required additional time to gain their confidence as they recovered from the economic recession.
- Then, during 1996-1998, as the OC economic recovery gained momentum with stronger employment growth (+4.10%/yr.), prices started to rise (+7.50%) despite slightly higher mortgage rates (6.93% to 7.35%).
- During 1999-2001, the rate of OC employment growth continued at a strong level (+2.97%/yr.) and mortgage rates declined (7.35% to 7.26%), resulting in a strong rate of price appreciation (10.79%).



## Housing Price Appreciation: 2002-2004: Financial Factors

During 2002-2004 the primary factors underlying housing price appreciation have been financial factors, such as historically low fixed rates as well as adjustable rate mortgages, rather than employment growth, which has been minimal.

- For 2002, OC's employment declined (-0.71%) yet price appreciation accelerated (+13.1%), primarily as a result of lower levels of mortgage rates (6.95% to 6.54%), reflecting a disequilibrium between weak employment growth and very strong price appreciation.
- For 2003, OC's employment growth was moderate (+1.80%) yet price appreciation continued to be strong (+13.8%), primarily as a result of dramatically lower levels of mortgage rates (6.54% in 2002 to 5.83% in 2003), reflecting a continuation of the disequilibrium between weak employment growth and very strong price appreciation.
- For 2004, OC's employment was somewhat though not significantly stronger (+2.17%) yet price appreciation continued to be even stronger (+24.5%), despite fixed rate mortgages rising slightly (5.83% in 2003 to 5.89% in 2004); the continued price appreciation can be explained by households shifting from fixed rate to variable rate mortgages.



The recent increase in housing prices, some 51% during 2002-2004, were not supported by employment growth and higher household incomes but instead by lower mortgage rates, adjustable mortgages and creative financing.

Therefore, a comparison of the prior and the recent economic conditions reveal that the strong rates of price appreciation that occurred during 2002 through 2004 are a result of primarily financial market conditions, declining fixed mortgage rates, the recent shift to variable rate mortgages and easier qualifying terms, rather than the fundamental economic factor, employment growth.

## **Financial Factors and Housing Price Appreciation: 2002-2004**

The housing price appreciation during 2002-2004 has been driven primarily by financial factors: first, fixed mortgage rates declined to historic lows, then a shift to adjustable rate mortgages, and, most recently, the use of “creative” mortgage structures; accordingly, these are now discussed.

- During 2002 to 2<sup>nd</sup>-2003, fixed-rate mortgage loans declined from 6.54% in 2002 to an historic low of 5.51% in 2<sup>nd</sup>-2003. Given the same monthly mortgage payment, the decline in the mortgage rates would support a housing price increase of some 14%.
- Starting in 3<sup>rd</sup>-2003, fixed rate mortgage rose significantly from 5.51% in 2<sup>nd</sup>-2003 to 6.03% in 3<sup>rd</sup>-2003, and have remained above their historic lows, with the most recent being some 5.95% for the 4<sup>th</sup>-2004. However, since the Federal Reserve Board continued to maintain a low discount rate, 1 year adjustable rate mortgages, based upon short-term yields, remained at low levels. This created a significant differential between the 30 year fixed rate of 6.03% versus the 1 year adjustable variable rate of 3.74%. in the 3<sup>rd</sup>-2003. Consequently, homebuyers shifted from fixed to variable types of loans. Given the same monthly mortgage payment, a shift to the variable rate (full amortized) would support a housing price increase of some 17%.
- Starting in June 2004, the Federal Reserve Board began to increase the discount rate from 1.0% to 2.25% in December 2004, thereby resulting in the rate on 1 year adjustable mortgages from 3.53% in the 1<sup>st</sup>-2004 to 4.08% in the 4<sup>th</sup>-2004. In response to the increase in adjustable rate mortgages, the next step for home buyers was to shift from adjustable loans being amortized (payment of principal and interest) to various types of creative financial structures, such as interest only loans. Given the same monthly mortgage payment, a shift to the variable rate (interest-rate only – no amortization) would support a housing price increase of some 21%.
- With regards to the more aggressive use of adjustable rate loans and creative loan structures, some headlines for recent articles are as follows:

3/2004 OC Business Journal “ Homebuilders Loans Get Riskier as Housing Prices Soar”  
Lennar, Centex and Standard Pacific – Own Lending Companies

10/2004 LA Times: “ Record Number of New Home Loans are ARMs 79%”

12/2004 LA Times “ Lenders Get Creative Again” “Lenders Try To Keep The Party Going”

Therefore, housing price appreciation since early 2002 has been driven by households taking advantage of historic low fixed rates, then a shift to adjustable rate mortgages, and finally, the use of creative financing structures. Specifically, for the same monthly mortgage payment, the use of lower mortgage rates have enabled households to bolster prices by some 50% since early 2002.

For additional information on the role of the financial factor underlying price appreciation during 2002-2004 for Southern California and Orange County, please refer to the following graphs

## Potential Impact of “Other” Non-Financial Factors on Recent Price Appreciation

The above analysis has demonstrated that the primary factors underlying the strong rates of housing price appreciation during 2002-2004 have been historically low level of mortgage rates along with homes buyers utilizing variable rate mortgages. Specifically, this is reflected by the various SC counties having similar rates of price appreciation during 2002-2004, a very narrow range of some 51-56%, despite significant differences in their geographic location, employment growth and housing supply; accordingly these are now discussed.

- The nominal prices of homes various significantly among the SC counties, from a low of \$306,177 for Riverside-San Bernardino counties to a high of \$633,343 for Orange County.
- The geographic locations vary substantially, from the coastal areas of Orange, San Diego and Ventura counties to the Inland Valley and Desert areas of Riverside, San Bernardino and Los Angeles counties (most of the development in LA county is inland rather than coastal).
- The rates of employment growth have also varied substantially during 2002-2004, from a low of -0.67% per year for Los Angeles County to a high of 3.74% per year for Riverside-San Bernardino counties.
- The sectors underlying employment growth also vary substantially, among the counties: For Orange County, financial services, construction and education/health while for other counties professional services, government and retail trade.
- The supply of new housing has also exhibited a wide variation during 2002-2004 as compared to 1999-2001, from declines of -26% in Ventura County and -14% in Orange County to increases of 80% in Riverside-San Bernardino counties.

Therefore, these financial factors have been so strong that they have effectively overshadowed the traditional factors such as geographical locations, employment growth and its composition and housing supply.

### COMPARATIVE ANALYSIS OF FACTORS UNDERLYING HOUSING PRICE APPRECIATION SOUTHERN CALIFORNIA COUNTIES: 2002 - 2004

Specific Factors	Orange	Los Angeles	San Diego	Riverside San Bernardino	Ventura
<b>Price Appreciation - Similar Among all of the SC Counties</b>					
<b>Price Appreciation: 2002-2004</b> (Price Index - Repeat Sales)	51.3%	51.8%	53.2%	55.9%	51.9%
<b>Other Factors Vary Significantly Among the SC Counties</b>					
<b>Housing Prices - December 2004</b>	\$633,343	\$459,662	\$573,077	\$306,177	\$613,200
<b>Geographic Location - Development</b>	Coastal	Inland/Desert	Coastal	Inland	Coastal
<b>Employment Growth 2002-2004 -Annually</b>	1.09%	-0.67%	1.09%	3.74%	0.65%
<b>Strongest Employment Sectors</b>					
Financial Services	Yes	Yes	Yes	Yes	
Construction	Yes		Yes	Yes	Yes
Education/Health	Yes	Yes			Yes
Professional Services				Yes	
Government			Yes		Yes
Retail Trade				Yes	
<b>Residential Permits - Change</b> ( Change 2002-2004 vs. 1999-2001)	-14.3%	35.3%	5.1%	80.2%	-26.3%



## **Conclusions on Housing Prices**

The above analysis reveals that the recent rates of housing price appreciation will need to come to terms with the weak underlying fundamental factor, low levels of employment growth. There are two primary scenarios for the resolution of the current employment/price appreciation disequilibrium, and each of these, in turn depends upon the extent to which there is a re-emergence of the fundamental factors, the economic recovery along with its employment growth.

### **Scenario A: Smooth Transition**

This scenario is characterized by the Southern California and Orange County economies entering their recovery phases during the foreseeable future, thereby generating employment growth and providing “fundamental” support for the housing market. Under this scenario, such employment growth would provide support for the recent rates of housing appreciation, and allow the market to return to an equilibrium, even if mortgage rates rise moderately.

### **Scenario B: Abrupt Transition**

This scenario is characterized by the Southern California and Orange County economies experiencing only minimal amounts of employment growth during the foreseeable future, and so the recovery phase would be delayed. Consequently, there would not be sufficient employment growth to provide the “fundamental” support for the housing market. Under this scenario, without substantial employment growth, the rate of housing appreciation could stabilize, and there may even be a potential for actual declines in housing prices, if mortgage rates should rise substantially.

The most probable scenario for Orange County is for the rate of housing price appreciation to moderate during 2005, as compared to the relatively strong rates that were experienced during 2001-2004, based upon a consideration of the following factors:

Factors which will tend to bolster price appreciation are as follows:

- Economic recovery, with stronger rates of employment growth.
- Severely limited supply, due to planning/environmental approvals required to bring new projects to the marketplace.
- Willingness of households to utilize variable rate and interest-rate only loans.

Factors that may tend to mitigate price appreciation are as follows:

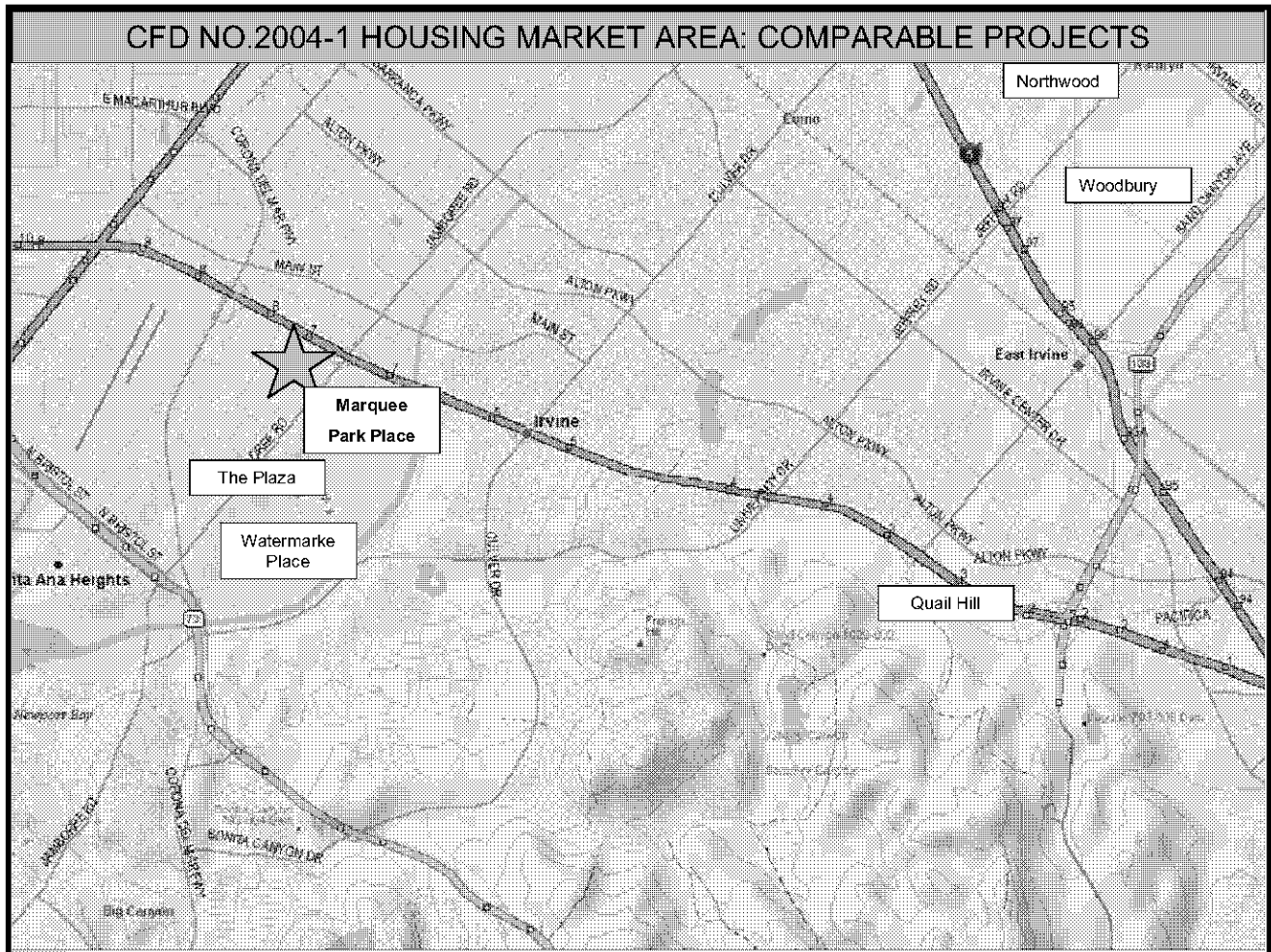
- The strong rates of price appreciation in recent years and record levels of prices have caused housing affordability to be relatively low.
- Upward pressure on mortgage rates as the economy recovers.
- Upward pressure as a result of the large federal budget deficits.
- Risk of short-term variable rate loan rates rising as the economy recovers.

**Therefore, based upon a consideration of the factors discussed above, the rate of housing price appreciation for Orange County during 2005 is expected to moderate.**

# COMPETITIVE MARKET ANALYSIS OF THE PROJECTS IN THE CFD NO. 2004-1 COMPETITIVE HOUSING MARKET AREA

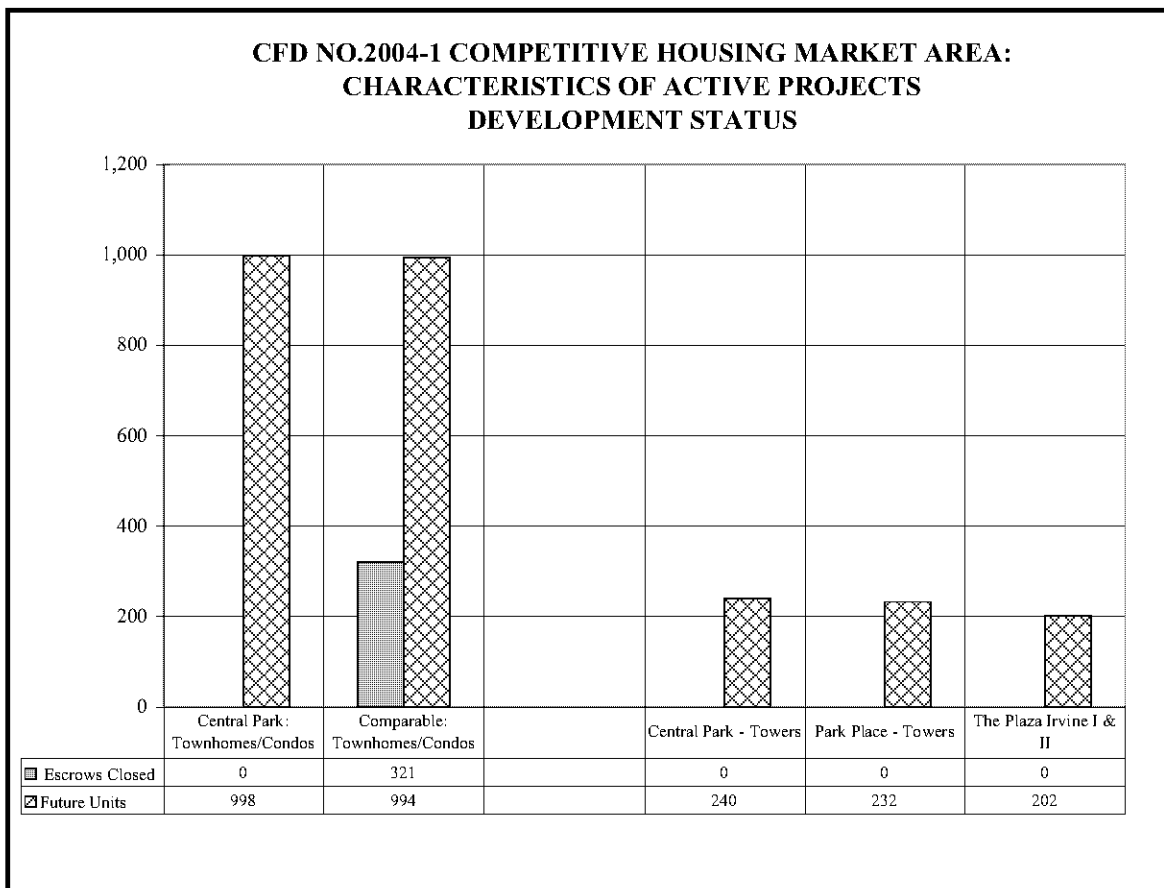
The purpose of this section is to provide an overview of the currently active Planned Communities/Projects and other projects with for-sale housing in the CFD No. 2004-1 Competitive Housing Market Area, and then to compare these with the characteristics of the forthcoming projects in CFD No. 2004-1 (Central Park).

The CFD No. 2004-1 Competitive Housing Market Area currently has several active projects with for-sale housing: The projects that offer townhomes/condominiums are Watermarke (1 project), Quail Hill (1), Northwood (1), Woodbury (3) and a Stand-Alone (1). While the projects that offer hi-rise tower products are the Park Place Towers and the Plaza Irvine; the approximate locations of these projects are shown on the following exhibit.



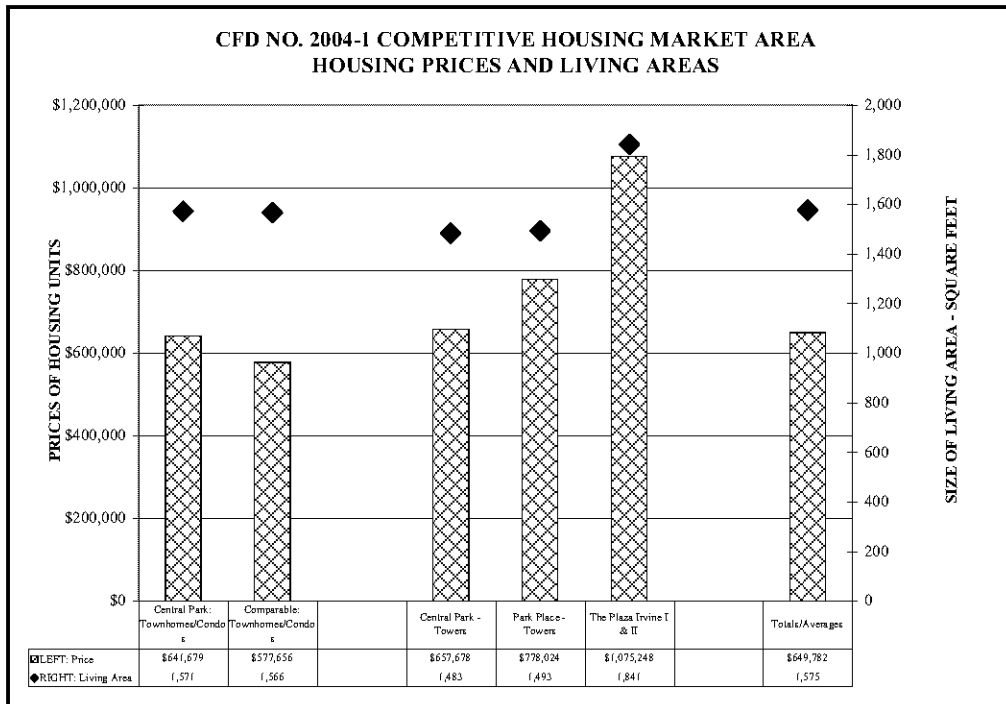
These projects, including CFD No. 2004-1, have a total of 17 active/forthcoming projects with 2,987 housing units of which 321 have had their escrows closed and so they are considered to be occupied; the distribution of these projects among the various projects are as follows:

- Central Park Townhomes/Condominium Projects: 7 forthcoming projects with 998 units.
- Comparable Townhomes/Condominium Projects: 7 active projects with 1,315 units of which 321 are occupied.
- Central Park Hi-Rise Tower: 1 forthcoming project with 240 units.
- Comparable Hi-Rise Tower: 2 active projects with 434 units of which none are occupied.  
(Note: Almost all of these are reserved with escrow closings expected in December 2005.)



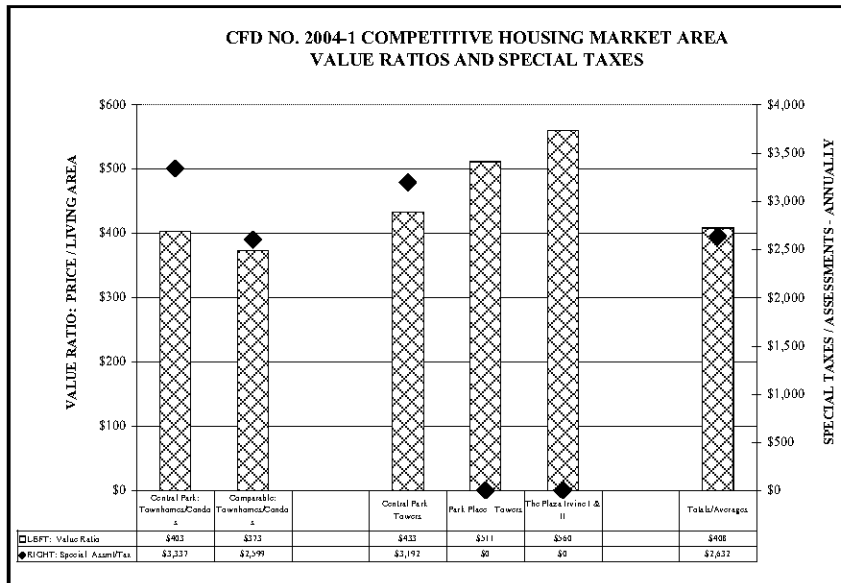
The prices of homes in these projects, based upon the currently active as well as the forthcoming projects, are some \$649,782 as a whole; however, there is a substantial amount of variation among them. The prices, on the average, are as follows: For the townhome/condominiums projects, Central Park: \$641,679 and the Comparable Projects: \$577,656. While for the Hi-Rise Tower projects, Central Park: \$657,678, Park Place Towers: \$778,024, and the Plaza Irvine: \$1,075,248.

The living area of homes in these projects, based upon their currently active/forthcoming projects, are some 1,575 sq.ft., as a whole; however, there is also a substantial amount of variation among them as well. The square footages of living area for these projects are as follows: For the townhome/condominiums projects, Central Park: 1,571 sq.ft. and the Comparable Projects: 1,566 sq.ft. While for the Hi-Rise Tower projects, Central Park: 1,483 sq.ft., Park Place Towers: 1,493 sq.ft., and The Plaza Irvine: 1,841 sq.ft.



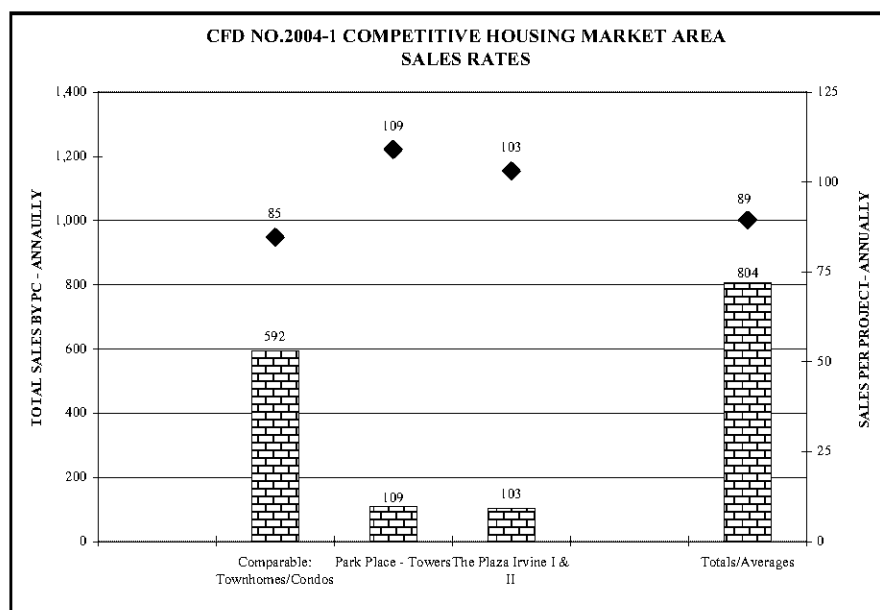
To compare the prices of the homes in these projects, their value ratios are utilized, the price per sq. ft. of living area, since this effectively makes adjustments for differences in their sizes of living areas. Accordingly, the value ratios for all of the projects amount to \$408 per sq. ft. of living area and their Special Taxes/Assessments amounts to some \$2,632/yr. (0.48% as a ratio to the housing prices); accordingly, the value ratios and Special Tax/Assessment characteristics for each of the projects are as follows:

- Central Park Townhomes/Condos have a value ratio of \$403 and their Special Taxes amount to \$3,337/yr. (0.52%).
- Comparable Townhomes/Condos have a value ratio of \$373, somewhat lower, and their Special Taxes amount to \$2,599/yr. (0.57%).
- Central Park Hi-Rise Towers have a value ratio of \$433 and their Special Taxes amount to \$3,192/yr. (0.50%).
- Park Place Towers and The Plaza Irvine have value ratios of \$511 and \$560, but they do not have any Special Taxes.



The 9 active projects have an estimated sales rate of some 804 homes per year, for an average of some 89 units per project per year; the distribution of these sales among the various PC is as follows:

- Comparable Townhomes/Condos: 7 projects with expected sales of 592 homes annually, for an average of 85 per project.
- Comparable Hi-Rise Towers – Park Place has projects with total sales of 109 homes annually; the sales by the three product types is as follows: standard condominiums: 100 per year, signature condos: 7 per year, and penthouse condos: 2 per year. The Plaza Irvine has projects with total sales of 103 homes annually; the sales by the three product types is as follows: standard condominiums: 65 per year, signature condos: 30 per year, and penthouse condos: 8 per year.



For additional information on the currently active projects in the CFD No. 2004-1 Competitive Housing Market Area, please refer to the following table.

CHARACTERISTICS OF THE \*COMPARABLE\* ACTIVE PROJECTS IN THE COMPETITIVE HOUSING MARKET AREA BY GEOGRAPHICAL LOCATIONS

Project Locations	Project	Builder	Product Type	Project Size and Sales				Housing Prices			Size of Living Area			Value Rate	Special Assessments/Taxes	
				Total	Excesses Closed	Future	Sales Rate/Yr.	Lower	Average	Upper	Lower	Average	Upper		Amount/Year	Ratio/Price
<b>Townhomes/Condominiums</b>																
Coastal Park	Lofts	Louisa Communities	Condominiums	107	0	107	N/A	\$295,000	\$455,000	\$515,000	1,200	1,275	1,200	\$287	\$2,566	0.52%
Coastal Park	Lofts/Flats	Louisa Communities	Condominiums	342	0	342	N/A	\$29,000	\$30,000	\$410,000	700	925	1,150	\$278	\$1,620	0.52%
Coastal Park	Rowhouse Townhomes	Louisa Communities	Townhomes	183	0	183	N/A	\$482,000	\$546,750	\$608,000	1,175	1,400	1,625	\$291	\$2,843	0.52%
Coastal Park	Rowhouse Villas	Louisa Communities	Townhomes	127	0	127	N/A	\$586,000	\$648,000	\$708,000	1,425	1,650	1,875	\$295	\$3,370	0.52%
Coastal Park	Luxury Flats A	Louisa Communities	Condominiums	78	0	78	N/A	\$800,000	\$827,500	\$955,000	1,750	1,975	2,200	\$439	\$4,511	0.52%
Coastal Park	Luxury Flats B	Louisa Communities	Condominiums	81	0	81	N/A	\$650,000	\$717,500	\$785,000	1,400	1,625	1,850	\$442	\$3,731	0.52%
Coastal Park	Luxury Townhomes	Louisa Communities	Townhomes	100	0	100	N/A	\$817,000	\$927,000	\$997,000	1,850	2,150	2,450	\$422	\$4,716	0.52%
Wavermark Place	Wavermark	Sears-Roebuck Group	Townhomes/Casitas	554	183	371	200	\$277,000	\$486,000	\$655,000	685	1,059	1,482	\$459	\$875	0.18%
Quad Hill	Ardenbridge	William Lyon Homes	Townhomes	128	82	45	42	\$499,999	\$534,999	\$569,999	1,899	1,461	1,820	\$266	\$3,477	0.65%
Norwood	Solara	Louisa Homes	Townhomes	88	75	13	75	\$745,000	\$810,000	\$875,000	1,585	2,009	2,492	\$297	\$3,302	0.65%
Woodway	Lombard Court	William Lyon Homes	Townhomes	150	0	150	70	\$295,400	\$463,620	\$533,840	1,068	1,352	1,635	\$243	\$2,856	0.80%
Woodway	Gairland Park	William Lyon Homes	Townhomes	166	0	166	65	\$297,999	\$572,999	\$637,999	1,255	1,663	1,971	\$245	\$2,928	0.80%
Woodway	Trox	Brookfield Homes	Townhomes	136	0	136	60	\$634,000	\$682,500	\$731,000	1,924	2,045	2,165	\$234	\$2,928	0.80%
Saak-Alras	Tamarisk	William Lyon Homes	Townhomes	115	0	115	60	\$469,999	\$499,499	\$516,999	1,187	1,343	1,498	\$268	\$1,629	0.85%
<b>Hi-Rise Towers</b>																
Coastal Park - Towers	Hi-Rise Condominiums	Louisa Communities	Condominiums	221	0	221	N/A	\$411,000	\$581,800	\$739,000	900	1,400	1,900	\$417	\$3,056	0.52%
Coastal Park - Towers	Hi-Rise Penthouses	Louisa Communities	Condominiums	19	0	19	N/A	\$1,465,000	\$1,517,000	\$1,569,000	2,200	2,450	2,600	\$619	\$5,064	0.85%
Park Place - Towers	Marquee / Standard	Besa Development	Floors 4 - 12	208	0	208	100	\$630,000	\$690,750	\$751,500	1,274	1,429	1,584	\$484	\$0	0.00%
Park Place - Towers	Marquee / Signature	Besa Development	Floors 13 - 16	16	0	16	7	\$1,523,000	\$1,523,000	\$1,523,000	2,063	2,063	2,063	\$718	\$0	0.00%
Park Place - Towers	Marquee / Penthouses	Besa Development	Floors 17 - 18	8	0	8	2	\$1,494,400	\$1,557,200	\$1,620,000	1,980	2,002	2,063	\$770	\$0	0.00%
The Plaza Drive I & II	Standard	Ogrye West	Floors 1 - 6	120	0	120	65	\$590,000	\$745,000	\$900,000	1,175	1,483	1,790	\$503	\$0	0.00%
The Plaza Drive I & II	Signature	Ogrye West	Floors 7 - 11	66	0	66	30	\$990,000	\$1,300,000	\$1,700,000	1,675	2,178	2,680	\$297	\$0	0.00%
The Plaza Drive I & II	Penthouses	Ogrye West	Floors 12 - 15	16	0	16	8	\$1,750,000	\$2,625,000	\$3,500,000	1,995	3,143	4,290	\$835	\$0	0.00%
Historical Summary																
		Sales / Year														
<b>Townhomes/Condominiums</b>																
Coastal Park: Townhomes/Casitas		N/A	7	998	0	998	0	\$297,145	\$541,679	\$708,286	1,256	1,371	1,807	\$403	\$3,337	0.52%
Compass: Townhomes/Casitas		85	7	1,315	321	994	392	\$509,634	\$571,655	\$645,687	1,265	1,566	1,867	\$273	\$2,399	0.57%
<b>Hi-Rise Towers</b>																
Coastal Park - Towers		N/A	1	240	0	240	0	\$499,442	\$537,678	\$604,708	1,011	1,483	1,855	\$433	\$3,192	0.50%
Park Place - Towers		109	1	232	0	232	109	\$721,299	\$778,024	\$834,655	1,253	1,493	1,633	\$511	\$0	0.00%
The Plaza Drive I & II		103	1	202	0	202	103	\$782,168	\$1,075,248	\$1,367,327	1,403	1,811	2,219	\$660	\$0	0.00%
Tomb/Averges		89	17	2,287	321	2,668	804	\$546,630	\$549,782	\$754,282	1,292	1,375	1,858	\$408	\$2,632	0.46%

## **OVERVIEW OF HI-RISE TOWER DEVELOPMENT IN THE VICINITY OF CFD NO. 2004-1 (CENTRAL PARK)**

The purpose of this section is to provide an overview of the currently active as well as the forthcoming hi-rise tower projects in the vicinity of CFD No. 2004-1, Central Park; accordingly, these are now discussed.

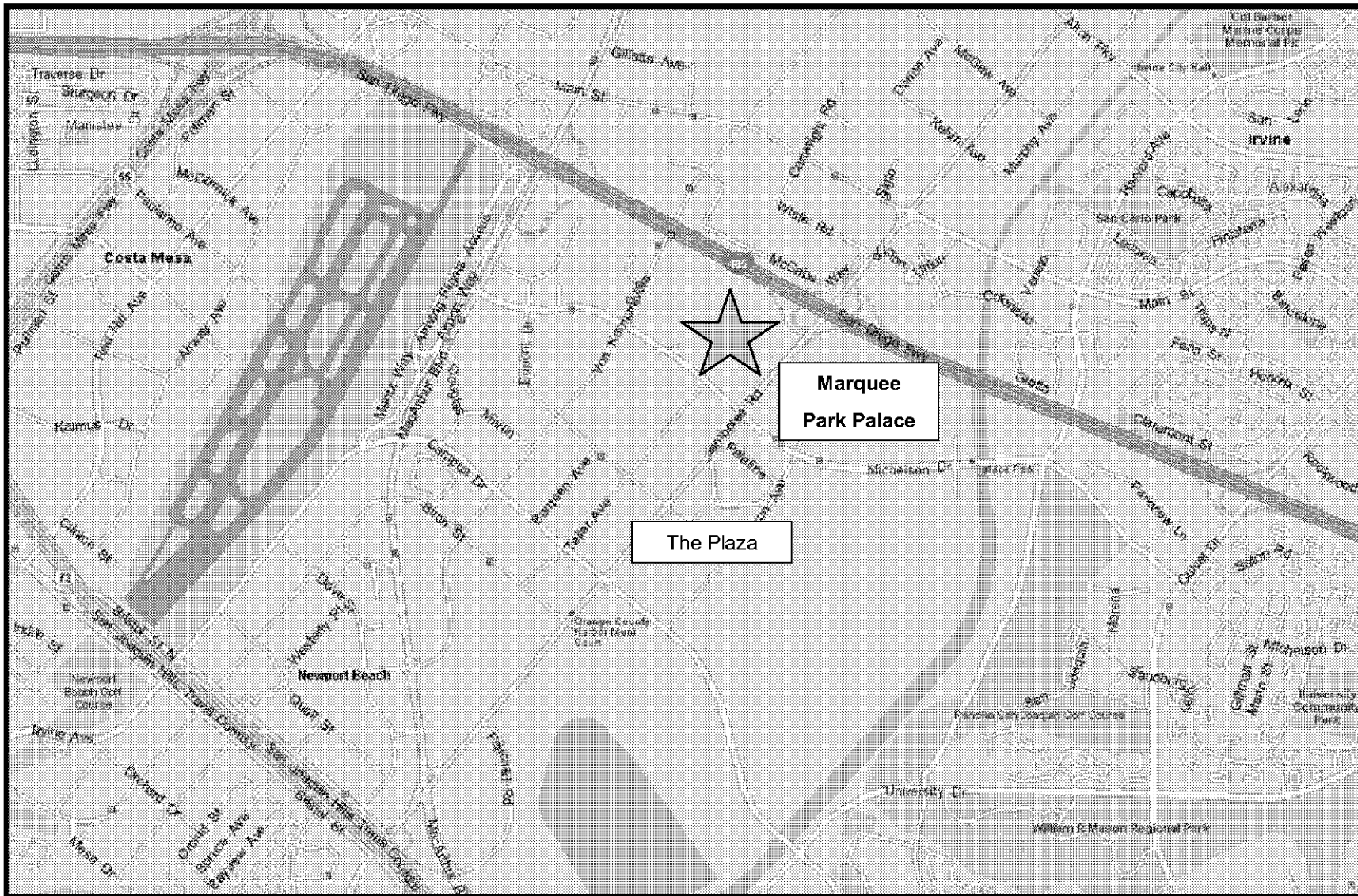
- Marquee Park Place by Bosa Development currently has two hi-rise towers under construction with 232 condos as well as the development potential for another four towers with an estimated 566 additional condos. With regards to the first two towers, the condos are priced from \$630,000 to \$1,620,000 for some 1,274 to 2,063 sq.ft. of living area. The construction of the first two towers is expected to be completed 4<sup>th</sup>-2005, and so occupancies will commence at that time.
  
- The Plaza Irvine by Opus West currently has two hi-rise towers under construction with 202 condos as well as the development potential for another tower with an estimated 101 additional condos. With regards to the first two towers, the condos are expected to be priced from \$590,000 to \$3,500,000 for some 1,175 to 4,290 sq.ft. of living area. The construction of the first tower is expected to be completed December 2006 and the second tower July 2007, and so occupancies will commence at that time.
  
- CFD No. 2004-1, Central Park, by Lennar Communities has two hi-rise towers with 240 condos; these have not yet commenced construction. The condos are expected to be priced from \$411,000 to \$1,569,000 for some 900 to 2,600 sq.ft. of living area

Therefore, the currently active/forthcoming hi-rise tower projects have a development potential for some 1,341 condominiums. With regards to the various projects commencing occupancies, the two currently active projects, Marquee Park Place and The Plaza Irvine anticipate move-in commencing around 4<sup>th</sup>-2005 and 4<sup>th</sup>-2006, respectively.

For additional information on these hi-rise tower projects, please refer to the following exhibit.

# LOCATIONS OF HI-RISE TOWER PROJECTS

(Locations are Approximations Only)





## **BREADTH OF THE MARKET DEMAND FOR HI-RISE TOWER DEVELOPMENTS**

As discussed above, the currently active/forthcoming hi-rise tower projects in the vicinity of CFD No. 2004-1, including Central Park, have a development potential for some 1,341 condominiums. Since there are only four hi-rise towers under development, it is worthwhile to discuss the potential breadth of the marketplace for hi-rise tower projects.

Based upon market surveys for hi-rise tower developments in Orange and San Diego counties, Empire selected the San Diego Urban Core, since it has established a market for hi-rise towers; accordingly, the characteristics of these projects are as follows:

- The market survey area, consisting of downtown San Diego as well as nearby La Jolla and Coronado, currently has some 17 hi-rise tower projects and, additionally, there are also another 8 forthcoming hi-rise tower projects.
- With respect to the market-entry of the currently active projects, they started during 1985 to 1992, slowed during the economic recession, and then re-emerged on a significant basis in 2003 and 2004, with some 2,011 units. The future projects are expected to enter the marketplace during late 2004 to late 2007 with another 2,482 units.
- With regards to the number of stories, the currently active projects have some 11 to 41 stories, with the average being 22 stories, while the forthcoming projects have some 10 to 43 stories, with the average being somewhat higher, some 30 stories.
- The currently active projects have an estimated 3,515 units, some 207 per project on the average, while the forthcoming projects have a total of 2,482 units, some 310 per project on the average.
- The prices for the unit in the currently active projects has a range of \$587,000 (the average low) to \$2,100,000 (the average high), for some 1,143 sq.ft. (average low) to 3,652 sq.ft. (average high) of living area.
- Finally, it is worthwhile to note that the majority of these projects are located in downtown San Diego, and as such they feature views of the City as well as the Bay.

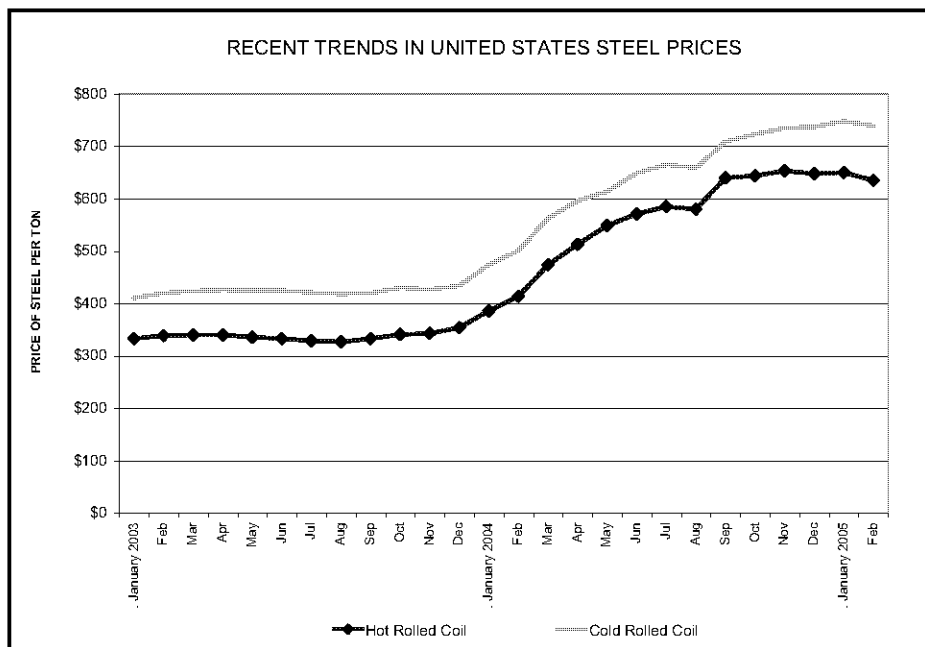
Therefore, the San Diego Urban Core has experienced a strong demand for hi-rise towers, especially during the past two years, and there are also a substantial number of new hi-rise towers that are expected to enter during the next several years. Although this reveals that there is a substantial amount of breadth or depth to the market for hi-rise towers in the San Diego Urban Core, its applicability to CFD No. 2004-1 Central Park needs to be tempered somewhat since Central Park does not offer comparable City/Bay views.

## ECONOMIC FEASIBILITY OF HI-RISE TOWER DEVELOPMENTS

Empire Economics' Market Absorption Study for the forthcoming residential products in CFD No. 2004-1 is based upon the prices set-forth by Lennar Communities, and Empire assumes that at these prices Lennar can cover all of the related costs of production. The construction of the hi-rise towers differs from the other residential products in that the hi-rise towers, due to the number of their stories, utilizes a significant amount of steel. Accordingly, it is worthwhile to discuss the recent trends in the price of steel, since this may impact the economic feasibility of constructing the hi-rise tower units at the currently designated prices.

By way of background, the United States (US) steel industry employs some 189,000 workers, some 5% of the total amount of employment in the manufacturing sectors, and these workers, due to unionization, are paid some 55% more than the average manufacturing wage. The US steel industry is one of the largest producer of steel in the world, some 110 million tons of steel annually, about 12% of the world's production. The US steel industry has faced increased competition from foreign producers, due to the tariffs on imports that provided protection to US producers being eliminated in December 2003.

To gauge the recent trends for the price of steel, Empire compiled information on the prices for Hot Rolled Coil and also Cold Rolled Coil by US steel producers. During January 2003 to September 2003, the price of remained stable, at some \$372 to \$373. However, starting in November 2003 and continuing through February 2005, the price of steel rose significantly, to some \$687, a increase of some 85%. Specifically, this can be attributed to a stronger level of global demand, in general, in conjunction with the rising costs of producing steel, as a result of both higher prices for raw materials and also energy costs.



Therefore, the economic feasibility of constructing/marketing the hi-rise towers at the prices currently set-forth by Lennar should be carefully evaluated prior to the sale of the CFD Bonds, considering the recent significant increase in the price for steel.

## **ESTIMATED ABSORPTION SCHEDULES FOR THE PRODUCTS/PROJECTS IN CFD NO. 2004-1 (CENTRAL PARK)**

The purpose of this section is to estimate the absorption schedules for the forthcoming residential products/projects in CFD No. 2004-1; accordingly, this is based upon a consideration of the following:

First, the potential demand schedules for the residential products/projects for CFD No. 2004-1 were derived, based upon a consideration of the following:

- The growth prospects for the Southern California Market Region, in general, and Orange County, in particular.
- How much of this growth the CFD No. 2004-1 Market Area is expected to capture, in particular.
- The proportion of the Market Area demand that is expected to be captured by the projects in CFD No. 2004-1, based upon an evaluation of their competitiveness in the marketplace.

Thus, the result of this analysis is the POTENTIAL demand for the residential products/projects in CFD No. 2004-1.

Next, the ability of the residential products/projects in CFD No. 2004-1 to respond to this demand is estimated. Accordingly, the infrastructure development schedule for the residential products/projects was obtained from Lennar Communities. Specifically, this represents, from a time perspective, when the products will have the infrastructure in place that is required to support their development. So, the result of this analysis is the INFRASTRUCTURE DEVELOPMENT of the properties in CFD No. 2004-1, and this reflects their ability to respond to the demand in the marketplace.

Then, based upon a consideration of the POTENTIAL demand and the INFRASTRUCTURE DEVELOPMENT, the absorption rate for the residential products/projects in the various market segments are calculated, from the year in which the products/projects are expected to enter the marketplace, and continuing thereafter on an annualized basis, until all of the units/lots are occupied/utilized.

The application of this algorithm results in the absorption schedules for the products/projects in CFD No. 2004-1 (Central Park); absorption represents the structure being constructed as well as being occupied by a homeowner.

Accordingly, the estimated absorption schedules for the 1,238 homes in CFD No. 2004-1 are as follows:

- **Lofts:** There are expected to be 107 Loft units (8.6% of the units) which are 1-2 stories that have base prices of \$395,000 to \$515,000 for some 1,050 to 1,500 sq.ft. of living area, for a value ratio (price/living area) of \$357, on the average. Based upon an expected market-entry of the 1<sup>st</sup>-quarter of 2008, the estimated absorption schedule amounts to 60 homes per year during 2008 and the remaining 47 homes in 2009.
- **Lofts/Flats:** There are expected to be 342 Loft/Flat units (27.6% of the units) which are 1-2 stories that have base prices of \$290,000 to \$410,000 for some 700 to 1,150 sq.ft. of living area, for a value ratio (price/living area) of \$378, on the average. Based upon an expected market-entry of the 1<sup>st</sup>-quarter of 2008, the estimated absorption schedule amounts to 100 homes per year during 2008 to 2010, and the remaining 42 homes in 2011.
- **Brownstone Townhomes:** There are expected to be 163 Brownstone Townhome units (13.2%) which are 3 stories that have base prices of \$483,000 to \$608,000 for some 1,175 to 1,625 sq.ft. of living area, for a value ratio of \$391, on the average. Based upon an expected market-entry of the 1<sup>st</sup>-quarter of 2007, the estimated absorption schedule amounts to 60 homes in 2007, another 60 homes in 2008, and the remaining 43 homes in 2009.
- **Brownstone Villas:** There are expected to be 127 Brownstone Villa units (10.3%) which are 3 stories that have base prices of \$586,000 to \$708,000 for some 1,425 to 1,875 sq.ft. of living area, for a value ratio of \$393, on the average. Based upon an expected market-entry of the 1<sup>st</sup>-quarter of 2007, the estimated absorption schedule amounts to 50 homes per year during 2007, another 50 homes in 2008, and then the remaining 27 homes in 2009.
- **Luxury Flats A:** There are expected to be 78 Luxury Flat A units (6.3%) which are 1 story each (the building is multi-story) that have base prices of \$800,000 to \$935,000 for some 1,750 to 2,200 sq.ft. of living area, for a value ratio of \$439, on the average. Based upon an expected market-entry of the 1<sup>st</sup>-quarter of 2008, the estimated absorption schedule amounts to 35 homes during 2008, another 35 homes in 2009, and the remaining 8 homes in 2010.
- **Luxury Flats B:** There are expected to be 81 Luxury Flat B units (6.5%) which are 1 story each (the building is multi-story) that have base prices of \$650,000 to \$785,000 for some 1,400 to 1,850 sq.ft. of living area, for a value ratio of \$442, on the average. Based upon an expected market-entry of the 1<sup>st</sup>-quarter of 2008, the estimated absorption schedule amounts to 40 homes per year in 2008 and then the remaining 41 homes in 2009.
- **Luxury Townhomes:** There are expected to be 100 Luxury Townhome units (8.1%) which are 2-3 stories that have base prices of \$817,000 to \$997,000 for some 1,850 to 2,450 sq.ft. of living area, for a value ratio of \$422, on the average. Based upon an expected market-entry of the 1<sup>st</sup>-quarter of 2007, the estimated absorption schedule amounts to 30 homes per year during 2007 to 2009, and then the remaining 10 homes in 2010.

- **Hi-Rise Tower:** There are expected to be 221 Hi-Rise Tower units (17.9%) which are 1 story each (the two buildings are multi-story, up to 15 stories) that have base prices of \$411,000 to \$739,000 for some 900 to 1,900 sq.ft. of living area, for a value ratio of \$417, on the average. Based upon an expected market-entry of the 1<sup>st</sup>-quarter of 2008, the estimated absorption schedule amounts to 100 homes in 2008, 100 homes 2009, and then the remaining 21 homes in 2010.
- **Hi-Rise Tower Penthouses:** There are expected to be 19 Hi-Rise Tower Penthouse units (1.5%) which are 1 story each (located at the top of the multi-story buildings, up to 15 stories) that have base prices of \$1,465,000 to \$1,569,000 for some 2,300 to 2,600 sq.ft. of living area, for a value ratio of \$619, on the average. Based upon an expected market-entry of the 1<sup>st</sup>-quarter of 2008, the estimated absorption schedule amounts to 8 homes in 2008, 8 homes in 2009, and the remaining 3 homes in 2010.

So, the 1,238 attached homes in CFD No. 2004-1 are expected to be absorbed during the early 2007 to mid-2011 time period at a rate of some 431-483 homes per year when most of the projects are on the marketplace. The absorption rate starts at 140 homes in 2007 as the projects enter the marketplace, increases further to 483 homes in 2008 when all of the projects are on the marketplace, remains at a strong level of 431 homes in 2009, and then declines thereafter as the projects are closed-out to 142 homes in 2010, and the remaining 42 homes in 2011.

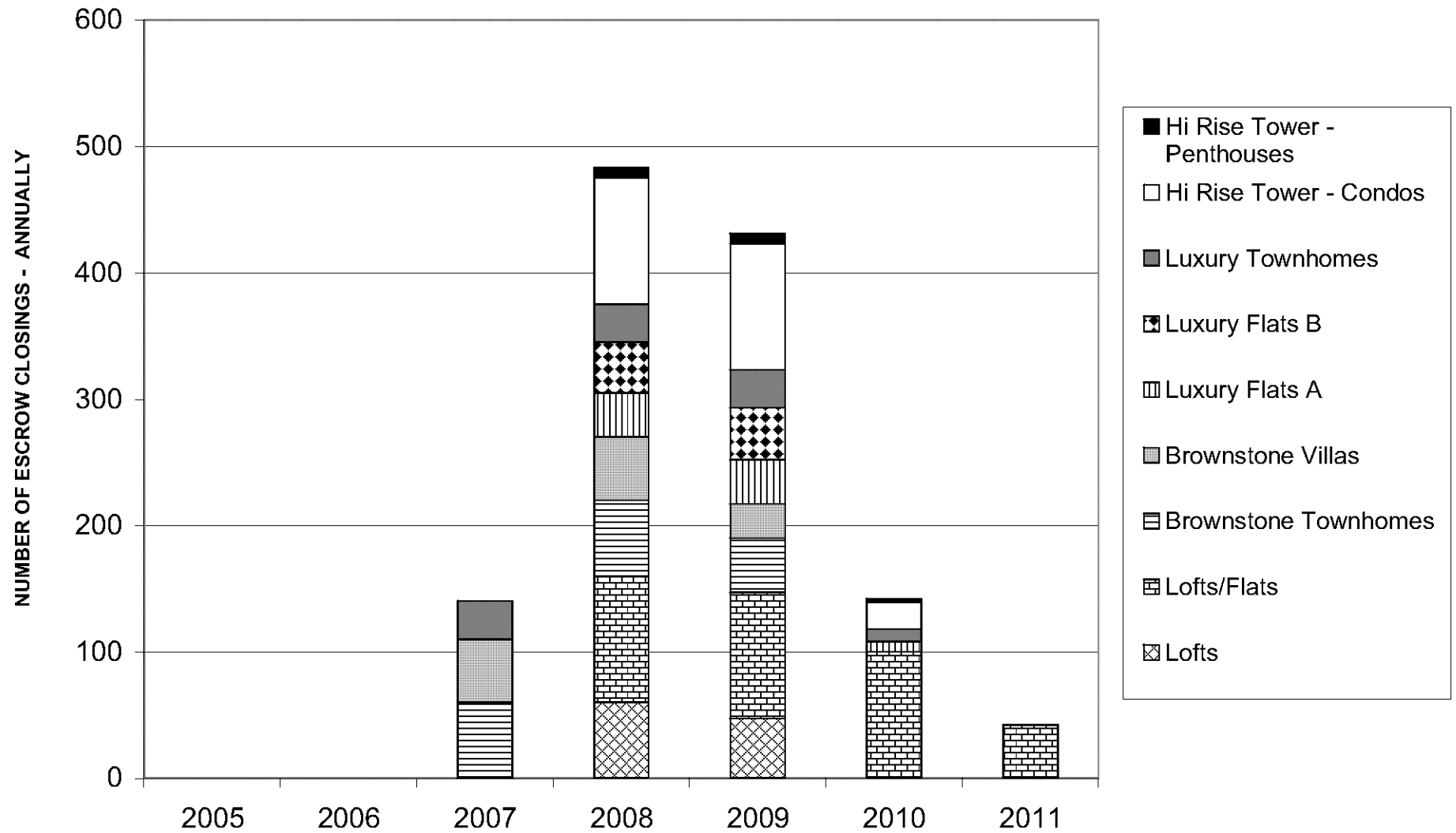
### Closing Comments

**The estimated absorption schedule for the forthcoming residential products/projects in the CFD No. 2004-1 is subject to change due to potential shifts in economic/real estate market conditions and/or the development strategy by Lennar Communities, the property owner/developer.**

**Furthermore, special consideration should be given to the hi-rise tower products, in particular, due to concerns about the potential depth of this market segment in the Santa Ana Unified School District as well as recent increases in the costs of steel which could impact their economic feasibility; the hi-rise tower units represent 19.4% of all the residential units in CFD No. 2004-1.**

For additional information on the estimated absorption schedules for the residential products in CFD No. 2004-1 (Central Park), please refer to the following table and graph.

## ESTIMATED RESIDENTIAL ABSORPTION SCHEDULES FOR CFD NO. 2004-1



**ESTIMATED RESIDENTIAL ABSORPTION SCHEDULES  
SANTA ANA UNIFIED SCHOOL DISTRICT CFD NO. 2004-1  
(CENTRAL PARK - LENNAR COMMUNITIES)**

June 21, 2005 ; Subject to Revision

Product Types >>>	Lofts	Lofts/Flats	Brownstone Townhomes	Brownstone Villas	Luxury Flats A	Luxury Flats B	Luxury Townhomes	Hi-Rise Tower Condominiums	Hi-Rise Tower Penthouses	Totals - Residential	
										Annually	Cumulative
Units/Acre	68	78	32	31	50	60	21	150			
<b>Development Status</b>											
Total	107	342	163	127	78	81	100	221	19	1,238	100.0%
Escrows Closed	0	0	0	0	0	0	0	0	0	0	0.0%
Forthcoming:	107	342	163	127	78	81	100	221	19	1,238	100.0%
Share - Forthcoming	8.6%	27.6%	13.2%	10.3%	6.3%	6.5%	8.1%	17.9%	1.5%	100.0%	
<b>Prices - Estimated</b>											
Plan # 1	\$395,000	\$290,000	\$483,000	\$586,000	\$800,000	\$650,000	\$817,000	\$411,000	\$1,465,000		
Plan # 2	\$435,000	\$330,000	\$527,000	\$628,000	\$845,000	\$695,000	\$877,000	\$507,000	\$1,569,000		
Plan # 3	\$475,000	\$370,000	\$569,000	\$670,000	\$890,000	\$740,000	\$937,000	\$593,000			
Plan # 4	\$515,000	\$410,000	\$608,000	\$708,000	\$935,000	\$785,000	\$997,000	\$669,000			
Plan # 5								\$739,000			
Averages	\$455,000	\$350,000	\$546,750	\$648,000	\$867,500	\$717,500	\$907,000	\$583,800	\$1,517,000	\$576,839	
<b>Living Area - Estimated</b>											
Plan # 1	1,050	700	1,175	1,425	1,750	1,400	1,850	900	2,300		
Plan # 2	1,200	850	1,325	1,575	1,900	1,550	2,050	1,150	2,600		
Plan # 3	1,350	1,000	1,475	1,725	2,050	1,700	2,250	1,400			
Plan # 4	1,500	1,150	1,625	1,875	2,200	1,850	2,450	1,650			
Plan # 5								1,900			
Averages	1,275	925	1,400	1,650	1,975	1,625	2,150	1,400	2,450	1,411	
Value Ratio	\$357	\$378	\$391	\$393	\$439	\$442	\$422	\$417	\$619	\$409	
<b>Commence Closings &gt;</b>											
	1st-2008	1st-2008	1st-2007	1st-2007	1st-2008	1st-2008	1st-2007	1st-2008	1st-2008		
2005	0	0	0	0	0	0	0	0	0	0	0
2006	0	0	0	0	0	0	0	0	0	0	0
2007	0	0	60	50	0	0	30	0	0	140	140
2008	60	100	60	50	35	40	30	100	8	483	623
2009	47	100	43	27	35	41	30	100	8	431	1,054
2010	0	100	0	0	8	0	10	21	3	142	1,196
2011	0	42	0	0	0	0	0	0	0	42	1,238
Totals	107	342	163	127	78	81	100	221	19	1,238	

## ASSUMPTIONS AND LIMITING CONDITIONS

The Market Absorption Study for CFD No. 2004-1 is based upon various assumptions and limiting conditions; accordingly, these are as follows:

Title to Property  
Property Boundaries  
Accuracy of Information from Others  
Date of Study  
Hidden or Unapparent Conditions  
Opinions of a Legal/Specialized Nature  
Right of Publication of Report  
Soil and Geological Studies  
Earthquakes and Seismic Hazards  
Testimony or Court Attendance  
Maps and Exhibits  
Environmental and Other Regulations  
Required Permits and Other Governmental Authority  
Liability of Market Analyst  
Presence and Impact of Hazardous Material  
Structural Deficiencies of Improvements  
Presence of Asbestos  
Acreage of Property  
Designated Economic Scenario  
Provision of the Infrastructure; Role of Coordinator  
Developer/Builders Responsiveness to Market Conditions  
Financial Strength of the Project Developer/Builder  
Market Absorption Study Timeliness of Results

For additional information on the various assumptions and limiting conditions, please refer to the comprehensive Market Absorption Study.



## APPENDIX E

### SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

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

### DEFINITIONS

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

“Administrative Expenses” means the administrative costs with respect to the calculation and collection of the Special Taxes, or costs otherwise incurred by the School District staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation or the Rate and Method of Apportionment and the fees and expenses of the Fiscal Agent.

“Administrative Expenses Cap” means \$40,000 per Bond Year, increased on July 1 of each year, commencing July 1, 2006, by two percent (2%) of the amount in effect for the prior Fiscal Year, provided that the District may, in its sole discretion, fund additional Administrative Expenses, without limitation, from any funds available to the District in each Bond Year after payment of, or reservation of funds for, principal and interest due on the Bonds in such Bond Year.

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

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

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

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

- Federal Housing Administration Debentures;

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

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and having a rating by Standard & Poor’s of AAAM-G or better including without limitation those of the Fiscal Agent and its affiliates;

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

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC including without limitation those of the Fiscal Agent and its affiliates;

(g) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks including without limitation the Fiscal Agent and its affiliates which have a rating on their short term certificates of deposit on the date of purchase of “A-1+” by Standard & Poor’s and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase (i.e., ratings on holding companies are not considered as the rating of the bank);

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

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

(j) Any investment agreements (including Guaranteed Investment Contracts and Forward Purchase/Delivery Agreements) with a financial institution or insurer (provider) which must meet the following criteria:

i. If the investment agreement is uncollateralized the provider of the agreement, at the time of the execution of the agreement, has to have a minimum long term rating of “Aa” by Moody’s and “AA” by S&P.

ii. If the investment agreement is fully collateralized the provider of the agreement, at the time of the execution of the agreement, has to have a minimum long term rating of “A” by both Moody’s and S&P. Securities which are acceptable for collateralization are defined in subsections A-C of the definition of Authorized Investments.

iii. The investment agreement must be supported by appropriate opinions of counsel.

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

(l) The local agency investment pool maintained by the Orange Treasurer's Money Market Investment Pool to the extent deposits and withdrawals may be made directly by and in the name of the Fiscal Agent.

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

"Bond Register" means the books which the Fiscal Agent shall keep or cause to be kept on which the registration and transfer of the Bonds shall be recorded.

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

"Bonds" means the Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project) 2005 Special Tax Bonds, issued in the original principal amount of \$11,785,000.

"Bond Year" means the twelve (12) month period commencing on September 2 of each year and ending on September 1 of the following year, and for the first bond year commencing on the Delivery Date and ending on September 1, 2005.

"Business Day" means a day on which the Fiscal Agent is open for business.

"Certificate of an Authorized Representative of the District" means a written certificate executed by the Superintendent of the School District, the Associate Superintendent, Business Services or his or her written designee.

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

"Continuing Disclosure Agreement of the District" means that certain Continuing Disclosure Agreement, dated as of August 1, 2005, by and between the Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project), acting through the Board of Education of the Santa Ana Unified School District as the legislative body, and David Taussig & Associates, Inc., as Dissemination Agent thereunder.

"Corporate Trust Office" means the Corporate Trust Office of the Fiscal Agent at 700 South Flower St., Suite 500, Los Angeles, CA 90017, provided, however for transfer, registration, exchange, payment and surrender of Bonds means care of the Corporate Trust Office of The Bank of New York Trust Company, N.A., a national banking association in Los Angeles, California or such other office designated by the Fiscal Agent from time to time.

"Costs of Issuance" means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds, including the acceptance and initial annual fees and expenses of the Fiscal Agent, legal fees and expenses, costs of printing the Bonds and the preliminary and final Official

Statements, fees of the appraiser and financial consultants and other fees and expenses set forth in a Certificate of an Authorized Representative of the District, or his designee.

“County” means the County of Orange, California.

“Delivery Date” means the date on which the Bonds were issued and delivered to the Underwriter.

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

“Developed Property” means all Commercial Property and Residential Property, as such terms are defined in the Rate and Method of Apportionment.

“Developer” means Lennar KFPLB, LLC, or any successor thereto.

“Dissemination Agent” means David Taussig & Associates, Inc., and any successor thereto.

“District” means Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project) established pursuant to the Act and the Resolution of Formation.

“Federal Securities” means any of the following:

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

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

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

“Fire Facilities” means public capital improvements with a useful life of five years or longer to be owned and operated by the Orange County Fire Authority, as provided pursuant to that certain Joint Community Facilities Agreement by and between the District, the Orange County Fire Authority and Lennar KFPLB, LLC, a Delaware limited liability company, dated as of July 1, 2005.

“Fiscal Agent” means The Bank of New York Trust Company, N.A., a national banking association, and any successor thereto.

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

“Gross Taxes” means the amount of all Special Taxes received by the District from the Treasurer, together with the net proceeds collected from the sale of property pursuant to the foreclosure provisions of the Bond Indenture, penalties and interest received by the District in connection with the delinquency of such Special Taxes and proceeds from any security for payment of Special Taxes taken in lieu of foreclosure after payment of administrative costs and attorneys’ fees payable from such proceeds to the extent not previously paid as an Administrative Expense.

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

- (a) is in fact independent and not under the domination of the District;
- (b) does not have any substantial interest, direct or indirect, in the District; and
- (c) is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District.

“Interest Payment Date” means each March 1 and September 1, commencing March 1, 2006.

“Letter of Credit” means any letter of credit delivered to the Fiscal Agent pursuant to the terms of the Mitigation Agreement.

“Letter of Credit Account” means the account by that name established in the Special Tax Fund pursuant to the Bond Indenture.

“Letter of Credit Bank” means, initially Bank of America, N.A., and any financial institution providing the Letter of Credit.

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

- (1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and
- (2) the interest payable on the aggregate principal amount of the Bonds Outstanding in such Bond Year if the Bonds are retired as scheduled.

“Mitigation Agreement” means that certain Mitigation Agreement entered into by and between the School District and Michelson Jamboree LLC, a California limited liability company dated as of October 1, 2004 with respect to the Central Park planned community.

“Net Taxes” means Gross Taxes minus amounts applied to pay the Administrative Expenses Cap.

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

“Ordinance” means that certain Ordinance Authorizing the Levy of Special Taxes of the District adopted by the legislative body of the District on October 8, 2004, providing for the levying of the Special Tax.

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

- (1) Bonds theretofore cancelled or surrendered for cancellation in accordance with the Bond Indenture;
- (2) Bonds for payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Bond Indenture; and
- (3) Bonds which have been surrendered to the Fiscal Agent for transfer or exchange pursuant to the Bond Indenture or for which a replacement has been issued pursuant to Bond Indenture.

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

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

“Prepayments” means any prepayments of Special Taxes received by the District or the Fiscal Agent.

“Project” means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by qualified electors within the District from time to time.

“Project Costs” means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds, including, but not limited to, Fiscal Agent and other fees and expenses relating to the issuance of the Bonds and the formation of the District, and to pay any other “incidental expenses” of the District, as such term is defined in the Act.

“Rate and Method of Apportionment” means that certain Rate and Method of Apportionment of Special Tax approved pursuant to Resolution No. 04/05-2580 of the Board of Education of the School District, adopted on September 28, 2004, as amended by Resolution No. 04/05-2613 of the Board of Education of the District, adopted on June 28, 2005, as it may be amended from time to time in accordance with the Act and the Bond Indenture.

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

“Rebate Installment Date” means the last day of the fifth Bond Year and each succeeding fifth Bond Year and the date that the last Bond is discharged.

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

“Regulations” means regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Sections 103 and 141 to 150 of the Code.

“Representation Letter” means a letter of representations from the District to the Depository.

“Reserve Credit Facility” means a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in the Reserve Account, if any, provide an aggregate amount equal to the Reserve Requirement, so long as the provider of any such policy of insurance, surety bond, letter of credit or other comparable credit facility is rated in the highest rating category by A. M. Best & Company, Standard & Poor’s Corporation or Moody’s Investors Service.

“Reserve Requirement” means, as of any date of calculation, an amount equal to the lowest of (1) ten percent (10%) of the original proceeds of the Bonds, or (2) Maximum Annual Debt Service, or (3) one hundred twenty-five percent (125%) of the average Annual Debt Service of the Outstanding Bonds. The District may at any time elect to maintain the Reserve Requirement in whole or in part by obtaining a Reserve Credit Facility.

“Resolution of Formation” means, collectively, Resolution Nos. 04/05-2580 and 04/05-2581 adopted by the Board of Education of the School District on September 28, 2004 and Resolution No. 04/05-2613, adopted by the Board of Education of the School District on June 28, 2005, pursuant to which the School District formed, and amended, the District.

“Resolution of Issuance” means Resolution No. 05/06-2615 duly adopted by the Board of Education of the School District, acting in its capacity as the legislative body of the District on July 26, 2005, approving the Bond Indenture, and any supplemental bond indenture approved pursuant to the Bond Indenture.

“School District” means the Santa Ana Unified School District, Santa Ana, California.

“School Facilities” means those facilities of the Santa Ana Unified School District authorized to be funded pursuant to the Resolution of Formation.

“Sinking Fund Payment” means any annual sinking fund payment to retire any Bonds.

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

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

“Tax Certificate” means that certain Tax Certificate executed on the delivery date of the Bonds.

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

“Underwriter” means Stone & Youngberg LLC.

“Undeveloped Property” means all Taxable Property within the District which is not classified as Developed Property.

“Water Facilities” means public capital improvements with a useful life of five years or longer to be owned and operated by the Irvine Ranch Water District, as provided pursuant to that certain Joint Community Facilities Agreement by and between the District, the Irvine Ranch Water District and Lennar KFPLB, LLC, a Delaware limited liability company, dated as of September 1, 2004.

## **BOND TERMS**

*Type and Nature of Bonds.* Neither the faith and credit nor the taxing power of the School District, the State of California or any political subdivision thereof other than the District is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the School District nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund, as more fully described in the Bond Indenture. No Owner of the Bonds will compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the School District or the forfeiture of any of their property. The principal of and interest on the Bonds and premiums upon the redemption thereof, if any, are not a debt of the School District, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds are not a legal or equitable pledge, charge, lien, or encumbrance, upon any of the District’s property, or upon any of its income, receipts, or revenues, except the Net Taxes and other amounts in the Special Tax Fund which are, under the terms of the Bond Indenture and the Act, set aside for the payment of the Bonds and interest thereon and neither the members of the legislative body of the District or the Board of Education of the School District nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

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

***Equality of Bonds, Pledge of Net Taxes.*** Pursuant to the Act and the Bond Indenture, the Bonds will be equally payable from the Net Taxes without priority for number, date of the Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any premiums upon the redemption thereof, will be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund, including amounts drawn on the Letter of Credit, which are set aside for the payment of the Bonds. The Net Taxes and any interest earned on the Net Taxes on deposit in the Special Tax Fund will constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Bond Indenture. Notwithstanding any provision contained in the Bond Indenture to the contrary, Net Taxes deposited in the Rebate Fund and in the Administration Fund will no longer be considered to be pledged to the Bonds, and neither the Rebate Fund or the Administration Fund will be construed as a trust fund held for the benefit of the Owners.

Nothing in the Bond Indenture will preclude: the redemption prior to maturity of any Bonds subject to call and redemption and payment of said Bonds from proceeds of bonds issued under the Act as the same now exists or as thereafter amended, or under any other law of the State of California.

***Validity of Bonds.*** The validity of the authorization and issuance of the Bonds will not be affected in any way by any defect in any proceedings taken by the District for the financing of the Project, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and will not be dependent upon the completion of the financing of the Project or upon the performance by any person of his obligation with respect to the Project, and the recital contained in the Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

***Issuance of Parity Bonds.*** The District will at any time after the issuance and delivery of the Bonds under the Bond Indenture issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Bond Indenture or under any Supplemental Bond Indenture; provided, however, that Parity Bonds will only be issued for the purpose of refunding all or a portion of the Bonds then outstanding.

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

***Creation of Funds.*** The Fiscal has established the following funds and accounts:

(1) The Community Facilities District No. 2004-1, Special Tax Fund (the "Special Tax Fund") in which there shall be established and created a Principal Account, an Interest Account (in which there shall be established the Capitalized Interest Subaccount), a Redemption Account, a Reserve Account, Administrative Expense Account and a Letter of Credit Account;

(2) The Community Facilities District No. 2004-1, Rebate Fund (the "Rebate Fund") in which there shall be established a Rebate Account and an Alternative Penalty Account;

(3) The Community Facilities District No. 2004-1, Acquisition and Construction Fund (the "Acquisition and Construction Fund") in which there shall be established and created a School Facilities Account, a Water Facilities Account, a Fire Facilities Account and a Cost of Issuance Account; and



- (4) The Community Facilities District No. 2004-1 Surplus Fund (the “Surplus Fund”).

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

*Deposits to and Disbursements from Special Tax Fund.*

(a) The District will cause the Treasurer to, no later than the last day of the month during which the Special Taxes are apportioned to the District, transfer the Special Taxes to the Fiscal Agent, however, no later than August 15 and February 15 of each Fiscal Year, the Treasurer, on behalf of the District, may transfer such amounts for deposit in the Special Tax Fund for the Bonds, to be held in trust by the Fiscal Agent in the Special Tax Fund. The Fiscal Agent will then transfer the money in the Special Tax Fund on the dates and in the amounts set forth in the Bond Indenture, in the following order of priority, to:

- (1) the Administration Expense Account of the Special Tax Fund, the amount not to exceed the Administrative Expense Cap;
- (2) the Interest Account of the Special Tax Fund;
- (3) the Principal Account of the Special Tax Fund;
- (4) the Redemption Account of the Special Tax Fund;
- (5) The Reserve Account of the Special Tax Fund;
- (6) the Administration Expense Account of the Special Tax Fund, an amount of Administrative Expenses, if any, in excess of the Administrative Expense Cap;
- (5) the Rebate Fund; and
- (6) the Surplus Fund.

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

(b) The Fiscal Agent shall deposit all proceeds of a draw on the Letter of Credit in the Special Tax Fund. The District shall deliver to the Fiscal Agent at least five Business Days prior to each Interest Payment Date a Certificate of the School District Superintendent stating what amount, if any, is to be transferred by the Fiscal Agent to the Interest Account, the Principal Account and the Redemption Account with respect to the upcoming Interest Payment Date. Upon receipt of such Certificate, the Fiscal Agent shall make the required transfers to the Interest Account, the Principal Account and the Redemption Account, as applicable. Amounts in the Special Tax Fund, after funding the Administrative Expense Cap for the then current Bond Year, shall be transferred only to the Interest Account and the Principal Account and to the Redemption Account (but only to the extent needed to pay Sinking Fund Payments when due) or upon the release of the Letter of Credit from the lien of the Bond Indenture to the provider of the Letter of Credit, which transfers shall be directed in a Certificate of the School District Superintendent.

***Administration Expense Account of the Special Tax Fund.*** The Fiscal Agent shall transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses as set forth in a Certificate of an Authorized Representative of the District; provided, however, that, except as set forth in the following sentence, the total amount transferred in a Bond Year shall not exceed the Administrative Expenses Cap until such time as there has been deposited to the Interest Account, the Principal Account, the Redemption Account and the Reserve Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal (including mandatory sinking fund redemption payments) on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Account to the Reserve Requirement. After there has been deposited to the Interest Account, the Principal Account, the Redemption Account and the Reserve Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal (including mandatory sinking fund redemption payments) on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Account to the Reserve Requirement, amounts may be transferred to the Administrative Expense Account as needed to pay Administrative Expenses of the District. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed in writing by an Authorized Representative of the District and shall be disbursed as directed in a Certificate of an Authorized Representative.

***Interest Account and Principal Account of the Special Tax Fund.*** The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer required by the Bond Indenture, at least one Business Day prior to each March 1 and September 1, the Fiscal Agent shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account. Provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund (exclusive of the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account one Business Day prior to September 1 of each year, commencing September 1, 2008, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

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

(a) With respect to each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund as required by the Bond Indenture, the Fiscal Agent shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account one Business Day prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such September 1. Provided, however, that, if amounts in the Special Tax Fund are inadequate to

make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded, pursuant to the Bond Indenture. Moneys so deposited in the Redemption Account shall be used and applied by the Fiscal Agent to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedules set forth in the Bond Indenture, and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedule in the Supplemental Indenture for such Parity Bonds.

(b) After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Bond Indenture and to the Redemption Account for Sinking Fund Payments then due pursuant to the Bond Indenture, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Bond Indenture, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for Parity Bonds, the Fiscal Agent shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(c) Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to the Bond Indenture for the use of such Prepayments to the payment of the principal of, premium, and interest on the Bonds and Parity Bonds to be redeemed with such Prepayments.

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

***Reserve Account of the Special Tax Fund.*** There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. If funded, the amounts in the Reserve Account shall be applied as follows:

(a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund pursuant to the Bond Indenture upon written direction from an Authorized Representative of the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds and any Parity Bonds when due, or amounts in the

Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw, after first applying funds in the Surplus Fund necessary for such purposes, from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to in the Bond Indenture, the Fiscal Agent shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. If amounts in the Special Tax Fund together with any other amounts transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

(c) In connection with a redemption of Bonds pursuant to the Bond Indenture or Parity Bonds in accordance with any Supplemental Indenture, or a partial defeasance of Bonds or Parity Bonds in accordance with the Bond Indenture, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to the Bond Indenture to partially defease Bonds, and the Fiscal Agent shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and Parity Bonds, as applicable, in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of the Bond Indenture summarized under the heading "Reserve Account of the Special Tax Fund" shall be withdrawn from the Reserve Account on the Business Day before each March 1 and September 1 and shall be transferred to the Project Account of the Acquisition and Construction Fund until the receipt of a Certificate of an Authorized Representative of the District stating that all Project Costs required or expected to be funded pursuant to the Acquisition Agreement have been funded or amounts in the Project Account of the Acquisition and Construction Fund are sufficient to fund all remaining Project Costs, or the Fiscal Agent has received a Certificate of an Authorized Representative of the District in accordance with the Bond Indenture, and thereafter to the Interest Account of the Special Tax Fund.

(e) The District may at any time elect to maintain the Reserve Requirement in whole or in part by obtaining a Reserve Credit Facility. In the case of such an election, the District will direct the Fiscal Agent to acquire such Reserve Credit Facility and to pay from money in the Reserve Account the costs associated with the acquisition of the Reserve Credit Facility. Any money in the Reserve Account after the acquisition of such Reserve Credit Facility and payment of the appropriate costs shall be transferred to or at the direction of the Agency for its lawful purposes. In the event any such Reserve Credit Facility is so acquired, the Fiscal Agent shall draw on it in accordance with its terms (i) when and if moneys are needed pursuant to the provisions of the Bond Indenture; provided, however, that the Fiscal Agent must make demand at least five (5) days prior to the date that such

funds are needed; and (ii) prior to the stated maturity of such Reserve Credit Facility. In the event the Reserve Requirement is satisfied by a combination of cash and a Reserve Credit Facility, the Fiscal Agent shall draw down completely on the cash on deposit for such purpose in the Reserve Account before any demand is made on the Reserve Credit Facility.

The District may substitute any policy of insurance, letter of credit or surety bond in order to meet the Reserve Requirement provided that the following requirements are met:

1. A surety bond or insurance policy issued to the entity serving as trustee or paying agent (the "Fiduciary"), as agent of the Owners, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service with respect to the Bonds (a "municipal bond insurer") may be deposited in the Reserve Account to meet the Reserve Requirement, or a portion thereof, if the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa" by S&P or Moody's, respectively.

2. A surety bond or insurance policy issued to the Fiduciary, as agent of the Bondholders, by an entity other than a municipal bond insurer may be deposited in the Reserve Account to meet the Reserve Requirement, or a portion thereof, if the form and substance of such instrument and the issuer thereof shall be approved by the Insurer.

3. An unconditional irrevocable letter of credit issued to the Fiduciary, as agent of the Owners, by a bank may be deposited in the Reserve Account to meet the Reserve Requirement, or a portion thereof, if the issuer thereof is rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the Bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the District and the Fiduciary, not later than 30 days prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.

4. If such notice indicates that the expiration date shall not be extended, the District shall deposit in the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund together with any other qualifying credit instruments, to equal the Reserve Requirement, or a portion thereof, on all outstanding Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless the Reserve Account credit instrument is replaced by a Reserve Account credit instrument meeting the requirements in any of 1 3 above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The Bond Indenture shall, in turn, direct the Fiduciary to draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Reserve Account is fully funded in its required amount.

5. The obligation to reimburse the issuer of a Reserve Account credit instrument for any fees, expenses, claims or draws upon such Reserve Account credit instrument shall be subordinate to the payment of debt service with respect to the Bonds. The right of the issuer of a Reserve Account credit instrument to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Reserve Account, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the Reserve Account. The Reserve Account credit instrument shall provide for a revolving feature under which the amount

available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Account credit instrument to reimbursement will be further subordinated to cash replenishment of the Reserve Account to an amount equal to the difference between the full original amount available under the Reserve Account credit instrument and the amount then available for further draws or claims. If (a) the issuer of a Reserve Account credit instrument becomes insolvent or (b) the issuer of a Reserve Account credit instrument defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P “AAA” or a Moody’s “Aaa” or (d) the rating of the issuer of the letter of credit falls below a S&P “AA”, the obligation to reimburse the issuer of the Reserve Account credit instrument shall be subordinate to the cash replenishment of the Reserve Account.

6. If (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below a S&P “AAA” or a Moody’s “Aaa” or (c) the rating of the issuer of the letter of credit falls below a S&P “AA”, the District shall either (i) deposit into the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Account to equal the Reserve Requirement with respect to all outstanding Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of 1 3 above within six months of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below “A” or (b) the rating of the issuer of the letter of credit falls below “A” or (c) the issuer of the Reserve Account credit instrument defaults in its payment obligations or (d) the issuer of the Reserve Account credit instrument becomes insolvent, the District shall either (i) deposit into the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Account to equal to Reserve Requirement, or a portion thereof, on all outstanding Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of 1 3 above within six months of such occurrence.

#### ***Rebate Fund.***

(a) The Fiscal Agent shall establish and maintain a fund separate from any other fund established and maintained under the Bond Indenture designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Fiscal Agent in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternate Penalty Account shall be established for the Bonds and each issue of Parity Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with respect to the Bonds or an issue of Parity Bonds shall be governed by the Bond Indenture and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on the Bonds and Parity Bonds will not be adversely affected if such requirements are not satisfied. The Fiscal Agent shall be deemed to have complied with the provision of the Bond Indenture summarized under the heading “Rebate Fund” if it follows the instructions of the District as provided in the Bond Indenture, and shall have no duty to enforce compliance by the District of the covenant summarized under the heading “Rebate Fund” or the Tax Certificate.

(b) Any funds remaining in the Accounts of the Rebate Fund with respect to the Bonds or an issue of Parity Bonds after redemption and payment of such issue and after making the payments

described in the Bond Indenture, may be withdrawn by the Fiscal Agent at the written direction of the District and utilized in any manner by the District.

(c) Notwithstanding anything in the Bond Indenture to the contrary, the obligation to comply with the requirements of the Bond Indenture shall survive the defeasance and final payment of the Bonds and any Parity Bonds with respect to which an Account has been created in the Rebate Fund.

(d) The portion of the Bond Indenture summarized under the heading "Rebate Fund" may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any issue of Parity Bonds issued on a tax-exempt basis.

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

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Fiscal Agent in a Certificate of an Authorized Representative and the Fiscal Agent will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested at the written direction of the District in Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

***Acquisition and Construction Fund.***

(a) The moneys in the Costs of Issuance Account shall be disbursed by the Fiscal Agent pursuant to a Certificate of an Authorized Representative of the District. On the earlier of February 15, 2006, or the date of receipt by the Fiscal Agent of written direction by an Authorized Representative of the District, any balance remaining in the Cost of Issuance Account shall be transferred by the Fiscal Agent to the School Facilities Account of the Acquisition and Construction Fund.

(b) The moneys in the School Facilities Account, the Water Facilities Account and the Fire Facilities Account of the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs. Amounts for Project Costs shall be disbursed by the Fiscal Agent from the Acquisition and Construction Fund as specified in the Request for Disbursement of Project Costs, substantially in the form of attached in the Bond Indenture, for disbursements from the School Facilities Account, Water Facilities Account or Fire Facilities Account, respectively, attached to the Bond Indenture, which must be submitted in connection with each requested disbursement.

(c) Upon receipt of a Certificate of an Authorized Representative of the District stating that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs, the Fiscal Agent shall transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Acquisition and Construction Fund to the Principal Account or Redemption Account of the Special Tax Fund or to the Surplus Fund, as directed in the Certificate, provided that in connection with any direction to transfer amounts to the Surplus Fund there shall have been delivered to the Fiscal Agent with such Certificate an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

*Investments.*

Moneys held in any of the Funds, Accounts and Subaccounts under the Bond Indenture shall be invested at the written direction of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Acquisition and Construction Fund, the Special Tax Fund, the Surplus Fund and the Rebate Fund and each Account or Subaccount therein (other than the Reserve Account of the Special Tax Fund) shall be deposited in those respective Funds, Accounts and Subaccounts; and (ii) investment earnings on all amounts deposited in the Reserve Account shall be deposited therein to be applied along with other amounts deposited therein as set forth in the Bond Indenture. Moneys in the Funds, Accounts and Subaccounts held under the Bond Indenture may be invested by the Fiscal Agent as directed in writing by the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Acquisition and Construction Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything in the Bond Indenture to the contrary, amounts in the Acquisition and Construction Fund three years after the Delivery Date for the Bonds and the proceeds of each issue of Parity Bonds issued on a tax-exempt basis which are remaining on deposit in the Acquisition and Construction Fund on the date which is three years following the date of issuance of such issue of Parity Bonds shall be invested by the District only in Authorized Investments, the interest on which is excluded from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code), or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds from which such proceeds were derived, unless in the opinion of Bond Counsel such restriction is not necessary to prevent interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes from being included in gross income for federal income tax purposes.



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

(c) Moneys in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which, taken together, have a weighted average maturity not in excess of five years; provided that such amounts may be invested in an Investment Agreement to the later of the final maturity of the Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Bond Indenture, and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds, as applicable.

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

(e) In the absence of written investment directions from the District, the Fiscal Agent shall invest solely in Authorized Investments specified in clause (d) of the definition thereof.

The Fiscal Agent shall sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof at least semiannually on or before each Interest Payment Date. In making any valuations under the Bond Indenture, the Fiscal Agent may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything in the Bond Indenture to the contrary, the Fiscal Agent shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Bond Indenture.

The Fiscal Agent or an affiliate may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee for such investment. The Fiscal Agent may sell at the best market price obtainable, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited, and, subject to the provisions of the Bond Indenture, the Fiscal Agent shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the Fiscal Agent may commingle the funds and accounts established under the Bond Indenture, but shall account for each separately.

The District acknowledges that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Fiscal Agent under the Bond Indenture.

*Letter of Credit.*

(a) So long as the Letter of Credit is in effect, no later than five days before each Interest Payment Date, the Fiscal Agent shall determine whether amounts in the Interest Account and Principal Account of the Special Tax Fund on such Interest Payment Date will be sufficient to make the scheduled payment of principal of and interest on the Bonds, and notify the District of any deficiency. If any such deficiency is attributable to the failure of the Developer to pay Special Taxes when due, the District shall instruct the Fiscal Agent to draw upon the Letter of Credit in an amount equal to the lesser of (i) the amount of such delinquency (exclusive of penalties and interest and exclusive of any delinquent amounts for which a drawing on the Letter of Credit shall have previously been made and honored), and (ii) the amount then available under the Letter of Credit. The Fiscal Agent shall draw upon the Letter of Credit promptly following receipt by the Fiscal Agent of a Certificate of the School District Superintendent (A) instructing the Fiscal Agent to draw on the Letter of Credit, (B) specifying the amount to be so drawn, and (C) stating that Special Taxes (exclusive of penalties and interest and exclusive of any delinquent amounts for which a drawing on the Letter of Credit shall have previously been made and honored) levied on the property of the Developer are then delinquent in an amount at least equal to the amount to be so drawn on the Letter of Credit. The Fiscal Agent shall deposit the proceeds of any such draw in the Interest Account of the Special Tax Fund. No later than ten Business Days after the receipt by the District of any delinquent Special Taxes for which a drawing on the Letter of Credit shall have previously been made and honored, the District shall transfer such delinquent Special Taxes to the Fiscal Agent and shall deliver to the Fiscal Agent a Certificate of the School District Superintendent directing the Fiscal Agent to apply such delinquent Special Taxes to reimburse the Letter of Credit Bank for such draw on the Letter of Credit, provided that on or prior to such date the Letter of Credit has been, or will be concurrently with such reimbursement, reinstated in an amount equal to the Stated Amount (defined below). On each date on which the Fiscal Agent receives a Certificate of the School District Superintendent and such delinquent Special Taxes, the Fiscal Agent shall so apply such delinquent Special Taxes and shall take such actions as are required pursuant to the Letter of Credit in order to cause such reinstatement.

(b) Within the time period specified in the Bond Indenture following the date the Fiscal Agent receives a Certificate of the School District Superintendent stating that a rating downgrade with respect to the Letter of Credit Bank has occurred, the Fiscal Agent shall draw on the Letter of Credit in the full amount available thereunder. The Fiscal Agent shall deposit the proceeds of any such draw in the Letter of Credit Account. Any earnings from the investment of amounts on deposit in the Letter of Credit Account shall be transferred by the Fiscal Agent to the Letter of Credit Bank within five Business Days following the end of each Bond Year. After any such a draw on the Letter of Credit, on each date on which the Fiscal Agent receives a Certificate of the School District Superintendent stating that Special Taxes owed by the Developer (exclusive of penalties and interest and exclusive of any delinquent amounts for which a drawing on the Letter of Credit shall have previously been made and honored or for which amounts shall have previously been transferred to the Interest Account) are then delinquent and directing the Fiscal Agent to transfer a specified amount to the Interest Account, the Fiscal Agent shall so transfer such specified amount. After any such a draw on the Letter of Credit, no later than ten Business Days after the receipt by the District of any delinquent Special Taxes for which amounts shall have previously been transferred from the Letter of Credit Account to the Debt Services, the District shall transfer such delinquent Special Taxes to the Fiscal Agent and shall deliver to the Fiscal Agent a Certificate of the School District Superintendent directing the Fiscal Agent to deposit such delinquent Special Taxes in such special account. On each date on which the Fiscal Agent receives such a Certificate of the School District Superintendent and such delinquent Special Taxes, the Fiscal Agent shall so deposit such delinquent Special Taxes. After such a draw on the Letter of Credit, upon receipt of a substitute letter of credit in substitution of the Letter of Credit, or if such Letter of Credit is no longer required, the Fiscal Agent shall transfer any funds on deposit in the Letter of Credit Account to the Letter of Credit Bank from which such funds were drawn pursuant to the Letter of Credit.

(c) The District shall, no later than July 1 of each year, commencing July 1, 2006 deliver to the Fiscal Agent a Certificate of the School District Superintendent specifying the required Letter of Credit amount for the Developer's property for the Bond Year (the "Stated Amount"); provided, however, that the District's obligation to deliver such Certificate shall be subject to the District's receiving from the Developer, no later than June 1 of such year, a certification as to the Developer's share of annual Special Taxes as of such June 1, together with written evidence of the matters so certified (including, but not limited to, copies or adequate descriptions of relevant certificates of occupancy issued during the twelve months immediately preceding such June 1), which certification and written evidence shall be in form and substance reasonably satisfactory to the District. Upon receipt of such Certificate of the School District Superintendent, if the amount available under the Letter of Credit is greater than the Stated Amount as specified in such Certificate, the Fiscal Agent shall, in accordance with the terms of the Letter of Credit, cause the available amount under the Letter of Credit to be reduced, on or after July 1 of the following Bond Year, to an amount equal to the Stated Amount as specified in such Certificate.

(d) The Fiscal Agent shall not sell, assign or otherwise transfer the Letter of Credit, except to a successor Fiscal Agent under the Bond Indenture and in accordance with the terms of the Letter of Credit.

(e) The amount received pursuant to any draw on the Letter of Credit shall in no way reduce, constitute a credit or cure any delinquency, in respect of the amount of any Special Taxes levied on any property of the Developer or on any other parcel in the District.

#### **COVENANTS AND WARRANTY**

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

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

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

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

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

Levy and Collection of Special Tax. Subject to the maximum Special Tax rates, the District will comply with all requirements of the Act so as to assure the timely collection of the Special Taxes, including without limitation, the enforcement of delinquent Special Taxes.

On or before each June 1, commencing June 1, 2006, the Fiscal Agent shall provide a written notice to the District stating the amounts then on deposit in the various funds and accounts established by the Bond Indenture. The receipt of such notice by the District shall in no way affect the obligations of the District under the following paragraphs. Upon receipt of a copy of such notice, the District shall communicate with the Treasurer or other appropriate official of the County to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year.

The District shall retain an Independent Financial Consultant to assist in the levy of the Special Taxes each Fiscal Year, commencing Fiscal Year 2006-07, in accordance with the Ordinance, such that the computation of the levy is complete before the final date on which the Treasurer will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the next secured tax roll. Upon the completion of the computation of the amounts of the levy, and approval by the legislative body of the District, the District shall prepare or cause to be prepared, and shall transmit to the Treasurer, such data as the Treasurer requires to include the levy of the Special Taxes on the next secured tax roll.

The District shall fix and levy the amount of Special Taxes within the District required for the payment of principal of and interest on Outstanding Bonds becoming due and payable during the ensuing year including any necessary replenishment or expenditure of the Reserve Account for the Bonds, an amount equal to the estimated Administrative Expenses and any additional amounts necessary for expenses incurred in connection with administration or enforcement of delinquent Special Taxes. The District further covenants that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds are Outstanding, including the initiation of proceedings under the Act to reduce the Maximum Annual Special Tax rates (the "Maximum Rates") on then existing Residential Property and Commercial Property below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to no less than one hundred ten percent (110%) of Maximum Annual Debt Service on the Outstanding Bonds. For purposes of this covenant, Residential Property and Commercial Property are as defined in the Rate and Method of Apportionment.

The Special Taxes shall be payable and collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property; provided, the legislative body of the District may provide for direct collection of the Special Taxes in certain circumstances.

The fees and expenses of the Independent Financial Consultant retained by the District to assist in computing the levy of the Special Taxes under the Bond Indenture and any reconciliation of amounts levied to amount received, as well as the costs and expenses of the District (including a

charge for District staff time) in conducting its duties under the Bond Indenture, shall be an Administrative Expense under the Bond Indenture.

Commence Foreclosure Proceedings. Pursuant to Section 53356.1 of the Act, the District covenants with and for the benefit of the owner of the Bonds that it will order, and cause to be commenced as provided in the Bond Indenture and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following two paragraphs.

On or about July 1st of each Fiscal Year, the Superintendent will compare the amount of Special Taxes theretofore levied in the District to the amount of Special Taxes theretofore received by the District, and:

(a) Individual Delinquencies. If the Superintendent determines that parcels under common ownership subject to the Special Tax in the District are delinquent in the payment of Special Taxes in the aggregate amount of \$5,000 or more, then the Superintendent will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to such property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the District within 90 days of such determination to the extent permitted by applicable law.

(b) Aggregate Delinquencies. If the Superintendent determines that (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, the District will notify or cause to be notified all property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

Special Taxes collected resulting as a result of a foreclosure proceeding will be deposited in the Special Tax Fund and only inure to the benefit of the Bonds in the manner provided in the Bond Indenture.

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon any portion of the Project acquired or constructed by the District, or upon the Gross Taxes or any part thereof, or upon any funds in the hands of the Fiscal Agent, or which might impair the security of the Bonds then Outstanding; provided that nothing contained in the Bond Indenture will require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

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

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

(1) *Private Activity.* The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or of any other monies or property which would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(2) *Arbitrage.* The District will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(3) *Federal Guaranty.* The District will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

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

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

(6) *Miscellaneous.* The District will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by the District in connection with any of the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Bond Indenture; and

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

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

Limitation on Right to Tender Bonds. The District covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds in full payment or partial payment of any Special Tax.

Continuing Disclosure Covenant. The District covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Agreement of the District.

Notwithstanding any other provision of the Bond Indenture, failure of the District to comply with its obligations under the Continuing Disclosure Agreement of the District will not be considered an event of default under the Bond Indenture, and the sole remedy, in the event of any failure of the District to comply with the Continuing Disclosure Agreement of the District will be an action to compel performance. Upon receipt of indemnification to its satisfaction, the Fiscal Agent will at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement of the District), or the Owners of a majority in aggregate principal amount of Outstanding Bonds or any Bondowner or Beneficial Owner 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 the Bond Indenture. For purposes of this paragraph, "Beneficial Owners" means any person with (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

Letter of Credit. The District covenants to deliver any Letter of Credit received by it pursuant to the terms of the Mitigation Agreement to the Fiscal Agent and if an event occurs which permits a draw on the Letter of Credit to deliver a Certificate of the School District Superintendent to the Fiscal Agent in accordance with the Bond Indenture.

Opinions. In the event that an opinion is rendered by Bond Counsel as provided in the Bond Indenture from a firm other than the firm which rendered the Bond Counsel opinion at closing, such subsequent opinion by Bond Counsel will also include the conclusions set forth in numbered paragraphs 1, 2, 3 and 4 of the original Bond Counsel opinion.

#### **AMENDMENTS TO BOND INDENTURE**

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

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

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

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

(d) to modify, alter or amend the rate and method of apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on then existing Developed property within the District below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to one

hundred ten percent (110%) of Maximum Annual Debt Service on the Bonds Outstanding as of the date of such amendment;

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

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

***Supplemental Bond Indentures or Orders Requiring Bondowner Consent.*** Exclusive of the resolutions or orders supplemental to the Bond Indenture, the Owners of not less than 60% in aggregate principal amount of the Bonds Outstanding will have the right to consent to and approve the adoption by the District of such resolutions or orders supplemental to the Bond Indenture as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture; provided, however, that nothing in the Bond Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, (c) a preference or priority of any Bond over any other Bond, (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such resolution or order, or (e) the creation of a pledge of or a lien upon or charge upon the Net Taxes superior to the pledge in the Bond Indenture without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to adopt a resolution or order supplemental to the Bond Indenture, which pursuant to the Bond Indenture will require the consent of the Bondowners, the District will so notify the Fiscal Agent and will deliver to the Fiscal Agent a copy of the proposed resolution or order. The Fiscal Agent shall, at the expense of the District, cause notice of the proposed resolution or order to be mailed, by first class mail postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice will briefly set forth the nature of the proposed resolution or order and will state that a copy thereof is on file at the office of the Treasurer for inspection by all Bondowners. The failure of any Bondowners to receive such notice will not affect the validity of such resolution or order when consented to and approved by the Owners of not less than 60% in aggregate principal amount of the Bonds Outstanding as required by the Bond Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the Fiscal Agent will receive an instrument or instruments purporting to be executed by the Owners of not less than 60% in aggregate principal amount of the Bonds Outstanding, which instrument or instruments will refer to the proposed resolution or order described in such notice, and will specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Treasurer, such proposed resolution or order, when duly adopted by the District, will thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of 60% of the aggregate principal amount of the Bonds have consented to the adoption of any supplemental bond indenture or order, Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any resolution or order supplemental to the Bond Indenture and the receipt of consent to any such resolution or order from the Owners of not less than 60% in aggregate principal amount of the Outstanding Bonds in instances where such consent is required pursuant to the provisions of the Bond Indenture, the Bond Indenture will be, and will be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Bond Indenture of the District and all Owners of Outstanding Bonds will thereafter be determined, exercised and enforced under the Bond Indenture, subject in all respects to such modifications and amendments. The District shall not amend or supplement the



Bond Indenture in any manner that will affect the Fiscal Agent's duties or protections provided under the Bond Indenture without its prior written consent.

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

### **FISCAL AGENT**

***Fiscal Agent.*** The Bank of New York Trust Company, N.A., a national banking association, having a corporate trust office in Los Angeles, California, is appointed Fiscal Agent for the District for the purpose of receiving all money which the District is required to deposit with the Fiscal Agent under the Bond Indenture and to allocate, use and apply the same as provided in the Bond Indenture. In the event that the District fails to deposit with the Fiscal Agent any amount due under the Bond Indenture when due, the Fiscal Agent will provide telephonic notice to the District and will confirm the amount of such shortfall in writing to the extent such amount is known to the Fiscal Agent.

***Removal of Fiscal Agent.*** The District may at any time at its sole discretion remove the Fiscal Agent initially appointed, and any successor thereto, by delivering to the Fiscal Agent a written notice of its decision to remove the Fiscal Agent and may appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. Any removal will become effective only upon acceptance of appointment by the successor Fiscal Agent. If any bank or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the provisions summarized in this paragraph the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

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

### **EVENTS OF DEFAULT; REMEDIES**

***Events of Default.*** Any one or more of the following events shall constitute an "event of default":

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

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

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

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

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

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

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

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

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

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

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

In case the moneys held by the Fiscal Agent after an event of default pursuant to the Bond Indenture shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then all available amounts shall, following payment of the fees and costs of the Fiscal Agent then due and owing, be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

## DEFEASANCE

*Defeasance.* If the District will pay or cause to be paid, or there will otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Bond Indenture, then the Owner of such Bond will cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Bond Indenture will thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to the Bond Indenture, upon payment of all amounts owed by the District to the Fiscal Agent under the Bond Indenture, the Fiscal Agent will execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent will, after payment of amounts payable to the Fiscal Agent under the Bond Indenture, pay over or deliver to the District's general fund all money or securities held by it pursuant to the Bond Indenture which are not required for the payment of the interest due on and the principal of such Bonds.

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

- (a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond, as and when the same become due and payable;
- (b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable; or
- (c) by depositing with the Fiscal Agent, or another escrow bank appointed by the District, in trust, direct, noncallable Federal Securities, of the type defined in the definition thereof set forth in the Bond Indenture, in which the District may lawfully invest its money, in such amount as an Independent Financial Consultant shall determine will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds will not have been surrendered for payment, all obligations of the District under the Bond Indenture with respect to such Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in the Bond Indenture relating to compliance with the Code. Notice of such election shall be filed with the Fiscal Agent not less than thirty (30) days prior to the proposed defeasance date. In connection with a defeasance under (b) or (c) above, there will be provided to the Fiscal Agent a certificate of a certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank to pay and discharge the principal of and interest on all Outstanding Bonds to be defeased in accordance with the provisions of the Bond Indenture summarized under the heading "—Defeasance," as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds being defeased have been legally

defeased in accordance with the Bond Indenture and any applicable supplemental bond indenture. Upon a defeasance, the Fiscal Agent, upon request of the District, will release the rights of the Owners of such Bonds which have been defeased under the Bond Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance under the Bond Indenture of all Outstanding Bonds, the Fiscal Agent shall pay over or deliver to the District any funds held by the Fiscal Agent at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds when due and any fees and expenses of the Fiscal Agent remaining unpaid. The Fiscal Agent will, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

## MISCELLANEOUS

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

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

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

(b) As to any Bond, the person in whose name the same will be registered in the Bond Register will be deemed and regarded as the absolute Owner thereof for all purposes, and payment of or on account of the principal of any such Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond and the interest thereon to the extent of the sum or sums to be paid. The Fiscal Agent will be affected by any notice to the contrary.

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

***Unclaimed Moneys.*** Anything in the Bond Indenture to the contrary notwithstanding and subject to the escheat laws of the State, any money held by the Fiscal Agent in trust for the payment and discharge of any of the Outstanding Bonds which remain unclaimed for two (2) years after the date when such Outstanding Bonds have become due and payable, if such money was held by the Fiscal Agent at such date, or for two (2)

years after the date of deposit of such money if deposited with the Fiscal Agent after the said date when such Outstanding Bonds become due and payable, will be repaid by the Fiscal Agent to the District, as its absolute property and free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners will look only to the District for the payment of such Outstanding Bonds; provided, however, that, before being required to make any such payment to the District or the Fiscal Agent will, at the expense of the District, cause to be mailed to the registered Owners of such Outstanding Bonds at their addresses as they appear on the registration books of the Fiscal Agent a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

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

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

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

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

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

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

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

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APPENDIX F

**FORM OF COMMUNITY FACILITIES DISTRICT  
CONTINUING DISCLOSURE AGREEMENT**

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and entered into as of August 1, 2005, by and among the Santa Ana Unified School District, on behalf of Community Facilities District No. 2004-1 of the Santa Ana Unified School District (the "Community Facilities District"), David Taussig & Associates, Inc. in its capacity as dissemination agent (the "Dissemination Agent") and The Bank of New York Trust Company, N.A., a national banking association (the "Bank") in its capacity as fiscal agent (the "Fiscal Agent") in connection with the issuance of \$11,785,000 aggregate principal amount of Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project) 2005 Special Tax Bonds (the "2005 Bonds");

**W I T N E S S E T H :**

**WHEREAS**, pursuant to the Bond Indenture, dated as of August 1, 2005 (the "Bond Indenture"), by and between Community Facilities District No. 2004-1 of the Santa Ana Unified School District (the "Community Facilities District") and the Fiscal Agent, the Community Facilities District has issued the 2005 Bonds; and

**WHEREAS**, the 2005 Bonds are payable from and secured by special taxes levied on certain property within the Community Facilities District.

**NOW, THEREFORE**, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Purpose of the Disclosure Agreement. The Disclosure Agreement is being executed and delivered by the Community Facilities District for the benefit of the owners and beneficial owners of the 2005 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

"Annual Report" shall mean any Annual Report provided by the Community Facilities District pursuant to, and described in, Sections 3 and 4 of this Disclosure Agreement.

"Annual Report Date" shall mean January 30 next following the end of the Community Facility District's fiscal year, which fiscal year end, as of the date of this Disclosure Agreement, is June 30.

"Community Facilities District" shall mean Community Facilities District No. 2004-1 of the Santa Ana Unified School District.

"Disclosure Representative" shall mean the Assistant Superintendent, Business Services of the School District.

"Dissemination Agent" shall mean David Taussig & Associates, Inc., or any successor Dissemination Agent designated in writing by the Community Facilities District and which has filed with the Community Facilities District a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm).

“Participating Underwriter” shall mean Stone & Youngberg LLC.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

### Section 3. Provision of Annual Reports.

(a) The Community Facilities District shall, or, shall cause the Dissemination Agent to, not later than the Annual Report Date commencing January 30, 2006, provide to each Repository, to the Fiscal Agent and to the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Community Facilities District shall provide the Annual Report to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; *provided* that the audited financial statements of the School District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if not available by that date. If the School District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Annual Report may be provided in electronic format to each Repository and the Participating Underwriter and may be provided through the services of a “central post office” approved by the Securities and Exchange Commission. If the Dissemination Agent has not received a copy of the Annual Report on or before 15 business days prior to January 30 in any year, the Dissemination Agent shall notify the Community Facilities District of such failure to receive the Annual Report. The Community Facilities District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Community Facilities District and shall have no duty or obligation to review such Annual Report.

(b) If the Community Facilities District is unable to provide to the Repositories and to the Participating Underwriter an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repositories and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.



- (c) The Dissemination Agent shall:
  - (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any;
  - (ii) provide any Annual Report received by it to each Repository, the Fiscal Agent and the Participating Underwriter as provided herein; and
  - (iii) if the Dissemination Agent is other than the Community Facilities District and to the extent it can confirm such filing of the Annual Report, file a report with the Community Facilities District, the Fiscal Agent and the Participating Underwriter certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Community Facilities District's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the School District prepared in accordance with generally accepted accounting principles as promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If audited financial statements are not available, at the time required for filing, unaudited financial statements shall be submitted with the Annual Report, and audited financial statements shall be submitted once available.

(b) The following information regarding the 2005 Bonds and any refunding bonds issued by the Community Facilities District:

- (i) Principal amount of the 2005 Bonds and/or any bonds issued to refund the 2005 Bonds of Community Facilities District No. 2004-1 outstanding as of a date within 45 days preceding the date of the Annual Report;
- (ii) Balance in the 2005 Special Tax Fund and the Bond Fund as of a date within 60 days preceding the date of the Annual Report;
- (iii) Balance in the Reserve Fund and statement of the Reserve Requirement, as of a date within 60 days preceding the date of the Annual Report;
- (iv) While there are funds in the Construction Fund, the balance in the Construction Fund and each account or sub-account thereunder, as of a date within 45 days preceding the date of the Annual Report, and of any other fund or account held under the terms of the Bond Indenture not referenced in clauses (ii), (iii) or (iv) hereof;
- (v) A table summarizing assessed value-to-lien ratios for the property in the Community Facilities District and by Rate and Method of Apportionment of Special Taxes land use categories. The assessed values in such table will be determined by reference to the value of the parcels within the Community Facilities District on which the Special Taxes are levied, as shown on the assessment roll of the Orange County Assessor last equalized prior to the September 2 next preceding the Annual Report Date. The lien

values in such table will include all 2005 Bonds and any refunding bonds of the Community Facilities District and all other debt secured by a special tax or assessments levied on parcels within the Community Facilities District;

- (vi) Information regarding the amount of the annual special taxes levied in the Community Facilities District, amount collected, delinquent amounts and percent delinquent for the most recently completed fiscal year;
- (vii) Status of foreclosure proceedings of parcels within the Community Facilities District, if any, and summary of results of foreclosure sales, if applicable;
- (viii) A land ownership summary listing property owners responsible for more than 5% of the Special Tax levy as shown on the assessment roll of the Orange County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, a summary of the Special Taxes levied on the property within the Community Facilities District owned by such property owners, and the assessed value of such property, as shown on such assessment roll;
- (ix) Concerning delinquent parcels as of the immediately preceding November 1 (if applicable);
  - number of parcels in Community Facilities District delinquent in payment of Special Tax,
  - total of such delinquency and percentage of delinquency in relation to total Special Tax levy,
  - status of the actions taken by the School District and/or the Community Facilities District related to any foreclosure proceedings upon delinquent properties within the Community Facilities District.
- (x) identity of any delinquent taxpayer obligated for greater than 5% of the annual Special Tax levy as of the immediately preceding November 1, if applicable, plus;
  - assessed value of applicable properties, and
  - summary of results of foreclosure sales, if available.
- (xi) a copy of any report for or concerning the Community Facilities District as of the immediately preceding October 31 required under State law; and
- (xii) Any changes to the Rate and Method of Apportionment of Special Tax of the Community Facilities District approved or submitted to the qualified electors of the Community Facilities District for approval prior to the filing of the Annual Report.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Community Facilities District shall provide such further information, if any, as may be necessary to make the required statements required under 4(b), in the light of the circumstances under which they are made, not misleading for purposes of applicable federal securities laws.

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

A form of information cover sheet for municipal secondary market disclosure recommended by the Municipal Securities Rulemaking Board is attached as Exhibit B.

#### Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2005 Bonds and any refunding bonds, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) Modifications to rights of security holders;
- (viii) Contingent or unscheduled bond calls;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities; and
- (xi) Rating changes.

(b) The Fiscal Agent shall, within five business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Community Facilities District promptly notify the Dissemination

Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x) and (xi) above shall mean actual knowledge by an officer at the corporate trust office of the Fiscal Agent. The Fiscal Agent shall have no responsibility for determining the materiality of any of the Listed Events.

(c) Whenever the Community Facilities District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Fiscal Agent pursuant to subsection (b) or otherwise, the Community Facilities District shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the Community Facilities District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities law, the Community Facilities District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f). The Community Facilities District shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(e) If in response to a request under subsection (b), the Community Facilities District determines that the Listed Event would not be material under applicable federal securities law, the Community Facilities District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Community Facilities District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected 2005 Bonds pursuant to the Bond Indenture.

Section 6. Termination of Reporting Obligation. All of the Community Facilities District’s obligations hereunder shall terminate upon the earliest to occur of (i) the legal defeasance of the 2005 Bonds, (ii) prior redemption of the 2005 Bonds or (iii) payment in full of all the 2005 Bonds. If such determination occurs prior to the final maturity of the 2005 Bonds, the Community Facilities District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be David Taussig & Associates, Inc. The Dissemination Agent may resign by providing thirty days’ written notice to the Community Facilities District and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Community Facilities District in a timely manner and in a form suitable for filing.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Community Facilities District, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Community Facilities District, so long as such amendment does not adversely affect the rights or

obligations of the Fiscal Agent or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, *provided* that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2005 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2005 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by owners of the 2005 Bonds in the manner provided in the Bond Indenture for amendments to the Bond Indenture with the consent of owners or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the 2005 Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Community Facilities District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(f).

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

Section 10. Default. In the event of a failure of the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of any Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding 2005 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent), any owner or beneficial owner of the 2005 Bonds may, take such actions as may be

necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance. Neither the Fiscal Agent nor the Dissemination Agent shall have any liability to the owners of the Bonds or any other party for monetary damages or financial liability of any kind whatsoever relating to or arising from this Disclosure Agreement.

Section 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Section 7.4 of the Bond Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Bond Indenture, and the Fiscal Agent and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Fiscal Agent thereunder. The Dissemination Agent and the Fiscal Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. This Disclosure Agreement does not apply to any other securities issued or to be issued by the Community Facilities District. The Dissemination Agent shall have no obligation to make any disclosure concerning the 2005 Bonds, the Community Facilities District or any other matter except as expressly set out herein, *provided* that no provision of this Disclosure Agreement shall limit the duties or obligations of the Fiscal Agent under the Bond Indenture. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The fact that the Fiscal Agent has or may have any banking, fiduciary or other relationship with the Community Facilities District or any other party, apart from the relationship created by the Bond Indenture and this Disclosure Agreement, shall not be construed to mean that the Fiscal Agent has knowledge or notice of any event or condition relating to the 2005 Bonds or the Community Facilities District except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Community Facilities District as to the materiality of any event for purposes of Section 5 hereof. Neither the Fiscal Agent nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent and the Fiscal Agent shall be paid compensation by the Community Facilities District for their services provided hereunder and the Community Facilities District further agrees to pay the Fiscal Agent compensation for its services as dissemination agent and Fiscal Agent under the Lennar KFPLB, LLC Continuing Disclosure Agreement dated as of August 1, 2005, by and among Lennar KFPLB, LLC, the Fiscal Agent and The Bank of New York Trust Company, N.A., as dissemination agent therein, in each case in accordance with their respective schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent and the Fiscal Agent in the performance of their duties hereunder and thereunder. The Community Facilities District's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the 2005 Bonds shall be third party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the 2005 Bonds, and shall create no rights in any other person or entity.

Section 13. Notices. Any notice or communications to or among any of the parties to this Disclosure Agreement shall be given to all of the following and may be given as follows:

If to the Community Facilities District: Community Facilities District No. 2004-1 of the Santa Ana Unified School District  
1601 East Chestnut Avenue  
Santa Ana, California 92701-6322  
Telephone: (714) 558-5826  
Telecopier: (714) 558-5601  
Attention: Assistant Superintendent, Business Services

If to the Dissemination Agent: David Taussig & Associates, Inc.  
1301 Dove Street, Suite 600  
Newport Beach, California 92660  
Telephone: (949) 955-1500  
Telecopier: (949) 955-1590

If to the Fiscal Agent: The Bank of New York Trust Company, N.A.  
700 South Flower Street, Suite 500  
Los Angeles, California 90017-4104  
Telephone: (213) 630-6249  
Telecopier: (213) 630-6210  
Attention: Corporate Trust Department

If to the Participating Underwriter: Stone & Youngberg LLC  
One Ferry Building  
San Francisco, California 94111  
Telephone: (415) 445-2300  
Telecopier: (415) 445-2395  
Attention: Municipal Research Department

Section 14. Future Determination of Obligated Persons. In the event the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the Community Facilities District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the Community Facilities District to meeting the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Agreement shall be deemed to obligate the Community Facilities District to disclose information concerning any owner of land within the Community Facilities District except as required as part of the information required to be disclosed by the Community Facilities District pursuant to Section 4 and Section 5 hereof.

Section 15. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 16. State of California Law Governs. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

Section 17. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 18. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

SANTA ANA UNIFIED SCHOOL DISTRICT,  
on behalf of Community Facilities District No. 2004-1  
of the Santa Ana Unified School District

By: \_\_\_\_\_  
Authorized Officer

THE BANK OF NEW YORK TRUST COMPANY,  
N.A. as Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

DAVID TAUSSIG & ASSOCIATES, INC.  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer



**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE SEMI-ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 2004-1 of the Santa Ana Unified School District

Name of Bond Issue: Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project) 2005 Special Tax Bonds

Date of Issuance: September 14, 2005

NOTICE IS HEREBY GIVEN that Community Facilities District No. 2004-1 of the Santa Ana Unified School District (the "Community Facilities District") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of August 1, 2005, by and among the Community Facilities District, The Bank of New York Trust Company, N.A., as Fiscal Agent and David Taussig & Associates, as Dissemination Agent. [The Community Facilities District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_, 20\_\_

David Taussig & Associates, Inc., as  
Dissemination Agent, on behalf of the Community  
Facilities District

cc: Community Facilities District No. 2004-1

EXHIBIT B

MUNICIPAL SECONDARY MARKET DISCLOSURE  
INFORMATION COVER SHEET

# Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission Rule 15c2-12 or any analogous state statute.

See [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm) for list of current NRMSIRs and SIDs

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**IF THIS FILING RELATES TO A SINGLE BOND ISSUE:**

Provide name of bond issue exactly as it appears on the cover of the Official Statement (please include name of state where Issuer is located):

**\$ 11,785,000**  
**SANTA ANA UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 2004-1**  
**(CENTRAL PARK PROJECT)**  
**2005 SPECIAL TAX BONDS**

(California)

Provide nine-digit CUSIP® numbers \* if available, to which the information relates:

2008	801166AA7	2016	801166AJ8
2009	801166AB5	2017	801166AK5
2010	801166AC3	2018	801166AL3
2011	801166AD1	2019	801166AM1
2012	801166AE9	2020	801166AN9
2013	801166AF6	2025	801166AT6
2014	801166AG4	2030	801166AU3
2015	801166AH2	2035	801166AV1

**IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:**

Issuer's Name (please include name of state where Issuer is located): \_\_\_\_\_

Other Obligated Person's Name (if any): \_\_\_\_\_  
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP® number(s)\*, if available, of Issuer: \_\_\_\_\_

\*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP® numbers.)

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**TYPE OF FILING:**

Electronic (number of pages attached) \_\_\_\_\_  Paper (number of pages attached) \_\_\_\_\_

If information is also available on the Internet, give URL: \_\_\_\_\_

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**WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)**

**A.  Annual Financial Information and Operating Data pursuant to Rule 15c2-12**

(Financial information and operating data should not be filed with the MSRB.)

**Fiscal Period Covered:** \_\_\_\_\_

**B.  Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

**Fiscal Period Covered:** \_\_\_\_\_

**C.  Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)**

- |  |  |
|--|--|
| 1. <input type="checkbox"/> Principal and interest payment delinquencies                                 | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the tax-exempt status of the security   |
| 2. <input type="checkbox"/> Non-payment related defaults   | 7. <input type="checkbox"/> Modifications to the rights of security holders                                  |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls   |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties   | 9. <input type="checkbox"/> Defeasances  |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform   | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
|  | 11. <input type="checkbox"/> Rating changes  |

**D.  Notice of Failure to Provide Annual Financial Information as Required**

**E.  Other Secondary Market Information (Specify):** \_\_\_\_\_

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**I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:**

**Issuer Contact:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Employer \_\_\_\_\_  
Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
Telephone \_\_\_\_\_ Fax \_\_\_\_\_  
Email Address \_\_\_\_\_ Issuer Web Site Address \_\_\_\_\_

**Dissemination Agent Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Employer \_\_\_\_\_  
Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
Telephone \_\_\_\_\_ Fax \_\_\_\_\_  
Email Address \_\_\_\_\_ Relationship to Issuer \_\_\_\_\_

**Obligor Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Employer \_\_\_\_\_  
Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
Telephone \_\_\_\_\_ Fax \_\_\_\_\_  
Email Address \_\_\_\_\_ Obligor Web site Address \_\_\_\_\_

**Investor Relations Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Telephone \_\_\_\_\_ Email Address \_\_\_\_\_

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## APPENDIX G

### FORM OF LENNAR KFPLB, LLC CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”) is executed and entered into as of August 1, 2005, by and between The Bank of New York Trust Company, N.A., a national banking association organized and existing under and by virtue of the laws of the United States of America (the “Bank”), in its capacity as dissemination agent (the “Dissemination Agent”) and in its capacity as Fiscal Agent (the “Fiscal Agent”) with respect to the Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project) 2005 Special Tax Bonds (the “2005 Bonds”), and Lennar KFPLB, LLC, a Delaware limited liability company (the “Developer”);

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Developer for the benefit of the owners and beneficial owners of the 2005 Bonds.

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

“*Affiliate*” of another Person means (a) a Person directly or indirectly owning, controlling or holding, with power to vote, 15% or more of the outstanding voting securities of such other Person, (b) any Person, 15% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by such other Person, and (c) any Person directly or indirectly controlling, controlled by or under common control with such other Person. For purposes hereof, “control” means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

“*Assumption Agreement*” means an undertaking of a Major Developer, or an Affiliate thereof, the Dissemination Agent, and the Fiscal Agent, for the benefit of the owners and beneficial owners of the 2005 Bonds containing terms substantially similar to this Disclosure Agreement (as modified for such Major Developer’s development and financing plans with respect to the Community Facilities District), whereby such Major Developer or Affiliate agrees to provide semi-annual reports and notices of significant events, setting forth the information described in Sections 4 and 5 hereof, respectively, with respect to the Property owned by, or subject to a Land Bank Transaction with, such Major Developer or its Affiliates and agrees to indemnify the Dissemination Agent pursuant to a provision substantially in the form of Section 11 hereof.

“*Community Facilities District*” means Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project).

“*Dissemination Agent*” means The Bank of New York Trust Company, N.A., or any successor Dissemination Agent designated in writing by the Developer, and which has filed with the Developer, the Community Facilities District and the Fiscal Agent a written acceptance of such designation, and which is experienced in providing dissemination agent services such as those required under this Disclosure Agreement.

“*Land Bank Transaction*” means a transaction in which the seller of property for financing purposes transfers property to a separate entity and where the seller has an option to reacquire the property and where the seller maintains control of the property.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Agreement.

“*Major Developer*” means, as of any Report Date, an owner of land in the Community Facilities District responsible in the aggregate for 15% or more of the Special Taxes in the Community Facilities District actually levied at any time during the then-current fiscal year.

“*National Repository*” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Securities and Exchange Commission’s Internet site at [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm).

“*Official Statement*” means the final official statement executed by the Community Facilities District in connection with the issuance of the 2005 Bonds.

“*Participating Underwriter*” means Stone & Youngberg LLC, the original underwriter of the 2005 Bonds required to comply with the Rule in connection with offering of the 2005 Bonds.

“*Person*” means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“*Property*” means the property in the Community Facilities District.

“*Report Date*” means April 1 and October 1 of each calendar year.

“*Repository*” means each National Repository and each State Repository, if any.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

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

“*Special Taxes*” means the special taxes levied on taxable Property within the Community Facilities District and used to pay debt service on the 2005 Bonds.

“*State Repository*” means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

### Section 3. Provision of Semi-Annual Reports.

(a) The Developer shall, or upon written direction shall cause the Dissemination Agent to, not later than the Report Date, commencing April 1, 2006, provide to each Repository a Semi-Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement with a copy to the Fiscal Agent (if different from the Dissemination Agent), the Participating Underwriter and the Community Facilities District. Not later than 15 Business Days prior to the Report Date, the Developer shall provide the Semi-Annual Report to the Dissemination Agent. The Developer shall provide a written certification with (or included as a part of) each Semi-Annual Report furnished to the Dissemination Agent, the Fiscal Agent (if different from the Dissemination Agent), the Participating Underwriter and the Community Facilities District to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it under this Disclosure Agreement. The Dissemination Agent, the Fiscal Agent, the Participating Underwriter and the Community Facilities District may conclusively rely upon such certification of the Developer and shall have no duty or obligation to review the Semi-Annual Report. The Semi-Annual Report may be submitted as a single document or as separate documents comprising a package, and may incorporate by reference other information as provided in Section 4 of this Disclosure Agreement. The Semi-Annual Report may be provided in electronic format to each Repository and the Participating Underwriter and may be provided through the services of a “central post office” approved by the Securities and Exchange Commission. For example, any filing under this Disclosure

Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004. The Dissemination Agent shall utilize the reminder system offered by MAC to notify the Developer to file its Semi-Annual disclosure reports in addition to the notice provided by the Dissemination Agent pursuant to Section 3(b) below.

(b) If the Dissemination Agent does not receive a Semi-Annual Report by 15 days prior to the Report Date, the Dissemination Agent shall send a reminder notice to the Developer that the Semi-Annual Report has not been provided as required under Section 3(a) above. The reminder notice shall instruct the Developer to determine whether its obligations under this Disclosure Agreement have terminated (pursuant to Section 6 below) and, if so, to provide the Dissemination Agent with a notice of such termination in the same manner as for a Listed Event (pursuant to Section 5 below). If the Developer does not provide, or cause the Dissemination Agent to provide, a Semi-Annual Report to the Repositories by the Report Date as required in subsection (a) above, the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and appropriate State Repository, if any, in substantially the form attached hereto as Exhibit A, with a copy to the Fiscal Agent (if other than the Dissemination Agent), the Community Facilities District, the Participating Underwriter and the Developer.

(c) The Dissemination Agent shall:

(i) determine prior to each Report Date the name and address of each National Repository and each State Repository, if any;

(ii) to the extent the Semi-Annual Report has been furnished to it, file a report with the Developer (if the Dissemination Agent is other than the Developer), the Community Facilities District and the Participating Underwriter certifying that the Semi-Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Semi-Annual Reports. The Developer's Semi-Annual Report shall contain or incorporate by reference the information set forth in Exhibit B, any or all of which may be included by specific reference to other documents, including official statements of debt issues of the Community Facilities District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Developer shall clearly identify each such other document so included by reference. With respect only to the Semi-Annual Report that is required to be provided no later than April 1 of each Fiscal Year, if audited financial statements of the Developer or its parent company (the "Financial Statements") are prepared, attach the audited Financial Statements. If such audited Financial Statements are not available by the time such Semi-Annual Report is required to be filed, the audited Financial Statements, if any, shall be filed as a supplement or amendment to the Semi-Annual Report when they become available. Such Financial Statements shall be for the most recently ended fiscal year for the entity covered thereby. If the financial information or operating data to be provided in a Semi-Annual Report is amended pursuant to the provisions hereof, the first Semi-Annual Report containing the operating data or financial information in accordance with such amendment shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

In addition to any of the information expressly required to be provided in Exhibit B, the Developer's Semi-Annual Report shall include such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

A form of information cover sheet for municipal secondary market disclosure recommended by the Municipal Securities Rulemaking Board is attached as Exhibit C.

Section 5. Reporting of Significant Events.

(a) The Developer shall give, or cause to be given, notice of the occurrence of any of the following Listed Events, if material:

(i) bankruptcy or insolvency proceedings commenced by or against the Developer and, if known, any bankruptcy or insolvency proceedings commenced by or against any Affiliate of the Developer that owns, or is subject to a Land Bank Transaction with respect to, any portion of the Property;

(ii) failure of the Developer or if known any Affiliate, to pay any taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property owned by, or subject to a Land Bank Transaction with, the Developer or an Affiliate, and for which either is contractually obligated to pay;

(iii) filing of a lawsuit against the Developer (based upon proper service of process having been accomplished) or, if known, an Affiliate of the Developer, seeking damages which could have a significant impact on the Developer's or an Affiliate's ability to pay Special Taxes or to sell or develop the Property owned by the Developer or an Affiliate or subject to a Land Bank Transaction with the Developer or an Affiliate;

(iv) material damage to or destruction of any of the improvements on the Property owned by the Developer or an Affiliate or subject to a Land Bank Transaction with the Developer or an Affiliate;

(v) any payment default or other material default by the Developer or, if known, an Affiliate of the Developer, on any loan with respect to the construction of improvements on the Property;

(vi) any denial or termination of credit, any denial or termination of, or default under, any line of credit or loan or any other loss of a source of funds that could have a material adverse affect on the Developer's most recently disclosed financing plans or development plan or on the ability of the Developer, or if known any Affiliate of the Developer that owns any portion of the Property, to pay Special Taxes within the Community Facilities District when due;

(vii) any materially adverse significant amendments to land use entitlements for the Developer's or if known an Affiliate's Property;

(viii) any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development on the Developer's or if known an Affiliate's Property, if material to the development plan;

(ix) any previously undisclosed legislative, administrative or judicial challenges to development on the Developer's or if known, an Affiliate's Property, if material to the development plan;

(x) any changes, if materially adverse to the development plan, in the alignment, design or likelihood of completion of significant public improvements affecting the Developer's or if known an Affiliate's Property, including major thoroughfares, sewers, water conveyance systems and similar facilities,

(xi) unless disclosed in a prior semi-annual report, any conveyance by the Developer of Property owned by it or subject to a Land Bank Transaction to an entity that



is not an Affiliate of the Developer, the result of which conveyance is to cause the transferee to become a Major Developer; and

(b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall as soon as possible determine if such event would be material under applicable Federal securities law; and

(c) If the Developer determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Developer shall, or shall cause the Dissemination Agent to, promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository, if any, with a copy to the Fiscal Agent, the Community Facilities District and the Participating Underwriter.

#### Section 6. Duration of Reporting Obligation.

(a) All of the Developer's obligations hereunder shall commence on the date hereof and shall terminate (except as provided in Section 11) on the earliest to occur of the following:

(i) upon the legal defeasance, prior redemption or payment in full of all the 2005 Bonds, or

(ii) at such time as Property owned by the Developer and its Affiliates together with Property subject to a Land Bank Transaction with the Developer or its Affiliates is no longer responsible for payment of 15% or more of the Special Taxes, or

(iii) the date on which the Developer prepays in full all of the Special Taxes attributable to the Property;

*provided, however,* that notwithstanding that the Property owned by, or subject to a Land Bank Transaction with, the Developer and its Affiliates is no longer responsible for payment of 15% or more of the Special Taxes, in the event the Developer shall transfer any portion of its Property to another Person which, taking into account such transfer shall be a Major Developer, the Developer's obligations hereunder shall continue with respect to the Property transferred and the other Property owned by such Major Developer or subject to a Land Bank Transaction with such Major Developer until such time as the transferee shall have assumed the obligations of the Developer hereunder or such transferee shall have the disclosure obligations set forth herein with respect to such Property pursuant to a Major Developer Continuing Disclosure Agreement executed in connection with issuance of the 2005 Bonds or an Assumption Agreement.

The Developer shall give notice of the termination of its obligations under this Disclosure Agreement in the same manner as for a Listed Event under Section 5.

(b) If a portion of the Property owned by, or subject to a Land Bank Transaction with, the Developer or any Affiliate of the Developer, is conveyed to a Person that, upon such conveyance, will be a Major Developer, the obligations of the Developer hereunder with respect to the property in the Community Facilities District owned by such Major Developer and its Affiliates may be assumed by such Major Developer or by an Affiliate thereof and the Developer's obligations hereunder will be terminated. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement in form and substance satisfactory to the Community Facilities District and the Participating Underwriter.

Section 7. Dissemination Agent. The Developer may, from time to time, appoint or engage a Dissemination Agent to assist the Developer in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Trust Company, N.A.. The

Dissemination Agent may resign by providing thirty days' written notice to the Community Facilities District, the Developer and the Fiscal Agent. If the Dissemination Agent is other than the Fiscal Agent, the Developer shall be responsible for paying the fees and expenses of the Dissemination Agent for its services provided hereunder in accordance with its schedule of fees as amended from time to time. If the Dissemination Agent is the Fiscal Agent, the Community Facilities District shall be responsible for paying the fees and expenses of the Dissemination Agent for its services provided hereunder in accordance with the Dissemination Agent's agreement, if any, with the Community Facilities District

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Developer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied (*provided, however*, that the Dissemination Agent shall not be obligated under any such amendment that modifies or increases its duties or obligations hereunder without its written consent thereto):

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person, with respect to the 2005 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2005 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by owners of the 2005 Bonds in the manner provided in the Bond Indenture with the consent of owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the 2005 Bonds.

If an amendment is made to the accounting principles followed in preparing the Financial Statements, the financial information for the year in which the change is made shall present a comparison between the Financial Statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the Financial Statements or information, in order to provide information to investors to enable them to evaluate the ability of the Major Developer to generally meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A qualitative analysis in accordance with Generally Accepted Accounting Principles (GAAP) shall be deemed to satisfy this requirement. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5 hereof.

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

Section 10. Default. In the event of a failure of the Developer to comply with any provision of this Disclosure Agreement, the Fiscal Agent shall (upon written direction and only to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys), and the Participating Underwriter and any owner or beneficial owner of the 2005 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause

the Developer 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 Bond Indenture, and the sole and exclusive remedy under this Disclosure Agreement in the event of any failure of the Developer to comply with this Disclosure Agreement shall be an action to compel performance. Neither the Developer nor the Dissemination Agent shall have any liability to the owners of the Bonds or any other party for monetary damages or financial liability of any kind whatsoever relating to or arising from this Disclosure Agreement.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Developer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys' fees) of defending against any such claim of liability, but excluding liabilities, costs and expenses due to the Dissemination Agent's, its officers', directors', employees' or agents' negligence or willful misconduct or failure to perform its duties hereunder and thereunder. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Community Facilities District, the Developer, the Fiscal Agent, the 2005 Bondowners, or any other party. The obligations of the Developer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2005 Bonds.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Agreement may be given as follows:

If to the Community Facilities District: Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project)  
1601 East Chestnut Avenue  
Santa Ana, California 92701-6322  
Telephone: 714/558-5826  
Telecopier: 714/558-5601  
Attention: Assistant Superintendent, Business Services

If to the Dissemination Agent: The Bank of New York Trust Company, N.A.  
700 South Flower Street, Suite 500  
Los Angeles, California 90017-4104  
Telephone: 213/630-6249  
Telecopier: 213/630-6210  
Attention: Corporate Trust Department

If to the Fiscal Agent: The Bank of New York Trust Company, N.A.  
700 South Flower Street, Suite 500  
Los Angeles, California 90017-4104  
Telephone: 213/630-6249  
Telecopier: 213/630-6210  
Attention: Corporate Trust Department

If to the Participating Underwriter: Stone & Youngberg LLC  
One Ferry Building  
San Francisco, California 94111  
Telephone: 415/445-2300  
Telecopier: 415/445-2395  
Attention: Municipal Research Department

If to the Developer: Lennar KFPLB, LLC  
25 Enterprise  
Aliso Viejo, California 92656  
Telephone: 949/349-8000  
Telecopier: 949/349-1753  
Attention: Robert Garrison, Director of Urban Development

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Developer (its successors and assigns), the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the 2005 Bonds, and shall create no rights in any other person or entity. All obligations of the Developer hereunder shall be assumed by any legal successor to the obligations of the Developer as a result of a sale, merger, consolidation or other reorganization.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Section 15. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

Section 16. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 17. State of California Law Governs. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

LENNAR KFPLB, LLC,  
a Delaware limited liability company

By: \_\_\_\_\_  
Name:  
Title:

AGREED AND ACCEPTED:

THE BANK OF NEW YORK TRUST COMPANY, N.A.,  
as Dissemination Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE SEMI-ANNUAL REPORT

Name of Issuer: Community Facilities District No. 2004-1 of the  
Santa Ana Unified School District (Central Park Project)

Name of Bond Issue: Community Facilities District No. 2004-1 of the  
Santa Ana Unified School District (Central Park Project)  
2005 Special Tax Bonds

Date of Issuance: September 14, 2005

NOTICE IS HEREBY GIVEN that Lennar KFPLB, LLC (the "Developer") has not provided a Semi-Annual Report with respect to the above-named bonds as required by that certain Continuing Disclosure Agreement, dated August 1, 2005. [The Developer(s) anticipate that the Semi-Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

DISSEMINATION AGENT:  
The Bank of New York Trust Company, N.A.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

cc: The Bank of New York Trust Company, N.A.  
Community Facilities District No. 2004-1  
of the Santa Ana Unified School District (Central Park Project)  
Lennar Homes of California, Inc

**EXHIBIT B**

**SEMI-ANNUAL REPORT**

**SANTA ANA UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2004-1  
(CENTRAL PARK PROJECT)  
2005 SPECIAL TAX BONDS**

This Semi-Annual Report is hereby submitted under Section 4 of the Developer Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of August 1, 2005, executed by the undersigned (the "Developer") in connection with the issuance of the above-captioned bonds by Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project) (the "Community Facilities District").

Capitalized terms used in this Semi-Annual Report but not otherwise defined have the meanings given to them in the Disclosure Agreement.

**I. Developer and Development**

The information in this section is provided as of \_\_\_\_\_ (this date must be not more than 60 days before the date of this Semi-Annual Report).

A. Property within the Community Facilities District (the "Property") currently owned by, or subject to a Land Bank Transaction with, the Developer and its Affiliates:

Development Name(s) \_\_\_\_\_

Total Lots and Homes in the Development Owned by, or subject to a Land Bank Transaction with, Developer and its Affiliates	Total Homes Completed Owned by Developer and its Affiliates (_____, 200__)	Total Homes Sold Owned by the Developer and its Affiliates (Closed Escrow) (_____, 200__)	Property Sold Owned by, or subject to a Land Bank Transaction with, the Developer and its Affiliates (Closed Escrow) Since the Last Semi-Annual Report (Report dated __, 200__)
Acres* _____	Acres* _____	Acres* _____	Acres* _____
Lots _____	Lots _____	Lots _____	Lots _____
Homes _____	Homes _____	Homes _____	Homes _____

\* For bulk land sales only (excluding sales of finished lots for completed homes.)

Description of status of commercial and office space owned by, or subject to a Land Bank Transaction with, the Developer and its Affiliates.

\_\_\_\_\_  
\_\_\_\_\_

B. Status of land development or home construction activities with regard to the Property owned by, or subject to a Land Bank Transaction with, the Developer and its Affiliates:

\_\_\_\_\_

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C. Status of final map recordation, building permits and any significant amendments to land use or development entitlements, or any significant amendments to land use entitlements with regard to the Property owned by, or subject to a Land Bank Transaction with, the Developer and its Affiliates:

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D. Status of any land purchase contracts with regard to the Property owned by, or subject to a Land Bank Transaction with, the Developer and its Affiliates, whether acquisition of land by the Developer or its Affiliates or sales of land by the Developer or its Affiliates to other developers (other than individual homeowners).

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E. Any changes, if material, to the development plan, in the alignment, design or likelihood of completion of significant public improvements affecting such Developer's or its Affiliate's Property, including major thoroughfares, sewers, water conveyance systems and similar facilities.

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## II. Legal and Financial Status of Developer

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any change in the legal structure of the Developer or its Affiliates or the financial condition and financing plans of the Developer and its Affiliates that would materially and adversely interfere with their ability to complete their proposed development of the Property owned by, or subject to a Land Bank Transaction with, the Developer and its Affiliates. With respect only to the Semi-Annual Report that is required to be provided no later than April 1 of each Fiscal Year, if audited financial statements of the Developer or its parent company (the "Financial Statements") are prepared, attach or incorporate by reference to materials on file with the Repositories or Securities and Exchange Commission, the audited Financial Statements. If such audited Financial Statements are not available by the time such Semi-Annual Report is required to be filed, the audited Financial Statements shall be filed as a supplement or amendment to the Semi-Annual Report when they become available, if ever. Such Financial Statements shall be for the most recently ended fiscal year for the entity covered thereby.

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## III. Change in Development or Financing Plans

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any development plans or financing plans relating to the Property owned by, or subject to a Land Bank Transaction with, the Developer and its Affiliates *that are materially different from* the proposed development and financing plans described in the Official Statement. Describe any change in the provider of the Letter of Credit or provide information regarding a cash deposit in lieu of the Letter of Credit

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**IV. Status of Tax Payments**

Describe status of payment of taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property owned by, or subject to a Land Bank Transaction with, the Developer and its Affiliates.

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**V. Official Statement Updates**

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any other significant changes in the information relating to the Developer, its Affiliates or the Property owned by, or subject to a Land Bank Transaction with, the Developer and its Affiliates contained in the Official Statement under the headings “CONTINUING DISCLOSURE – *Lennar KFPLB, LLC*,” “THE COMMUNITY FACILITIES DISTRICT – General Information,” “ – Property Ownership and Development,” “ – *Lennar KFPLB, LLC; Lennar Central Park, LLC; Lennar Homes of California, Inc.*,” and “ – The Development Plan” that would materially and adversely interfere with the Developer’s and its Affiliates’ ability to develop and sell the Property as described in the Official Statement.

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**VI. Other Material Information**

In addition to any of the information expressly required above, provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

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**Certification**

The undersigned Developer hereby certifies that this Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by the Developer under the Continuing Disclosure Agreement, dated as of August 1, 2005, executed by the Developer in connection with the issuance of the above-captioned bonds.

ANY OTHER STATEMENTS REGARDING THE DEVELOPER, THE DEVELOPMENT OF THE PROPERTY, THE DEVELOPER’S OR AN AFFILIATE’S FINANCING PLANS OR FINANCIAL CONDITION, OR THE 2005 BONDS, OTHER THAN STATEMENTS MADE BY THE DEVELOPER IN AN OFFICIAL RELEASE OR NEWSPAPER OF GENERAL CIRCULATION, OR FILED WITH THE MUNICIPAL SECURITIES RULEMAKING BOARD OR A NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION REPOSITORY, ARE NOT AUTHORIZED BY THE DEVELOPER. THE DEVELOPER IS NOT RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF ANY SUCH UNAUTHORIZED STATEMENTS.

THE DEVELOPER HAS NO OBLIGATION TO UPDATE THIS SEMI-ANNUAL REPORT OTHER THAN AS EXPRESSLY PROVIDED IN THE DISCLOSURE AGREEMENT.

Dated: \_\_\_\_\_, 20\_\_

LENNAR KFPLB, LLC,  
a Delaware limited liability company

By: \_\_\_\_\_  
Name:  
Title:

EXHIBIT C

MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement (please include name of state where Issuer is located):

\$11,785,000
SANTA ANA UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 2004-1
(CENTRAL PARK PROJECT)
2005 SPECIAL TAX BONDS

(California)

Provide nine-digit CUSIP® numbers \* if available, to which the information relates:

Table with 4 columns: Year (2008-2015), CUSIP number (801166AA7-801166AH2), Year (2016-2035), CUSIP number (801166AJ8-801166AV1)

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located):

Other Obligated Person's Name (if any): (Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP® number(s)\*, if available, of Issuer:

\*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP® numbers.)

TYPE OF FILING:

Electronic (number of pages attached) Paper (number of pages attached)

If information is also available on the Internet, give URL:

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

Annual Financial Information and Operating Data pursuant to Rule 15c2-12 (Financial information and operating data should not be filed with the MSRB.)

Fiscal Period Covered:

**B.  Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

**Fiscal Period Covered:** \_\_\_\_\_

**C.  Notice of a Material Event pursuant to Rule 15c2-12** (Check as appropriate)

- |  |  |
|--|--|
| 1. <input type="checkbox"/> Principal and interest payment delinquencies                                 | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the tax-exempt status of the security   |
| 2. <input type="checkbox"/> Non-payment related defaults   | 7. <input type="checkbox"/> Modifications to the rights of security holders                                  |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls   |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties   | 9. <input type="checkbox"/> Defeasances  |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform   | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
|  | 11. <input type="checkbox"/> Rating changes  |

**D.  Notice of Failure to Provide Annual Financial Information as Required**

**E.  Other Secondary Market Information** (Specify): \_\_\_\_\_

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**I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:**

**Issuer Contact:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Employer \_\_\_\_\_  
Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
Telephone \_\_\_\_\_ Fax \_\_\_\_\_  
Email Address \_\_\_\_\_ Issuer Web Site Address \_\_\_\_\_

**Dissemination Agent Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Employer \_\_\_\_\_  
Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
Telephone \_\_\_\_\_ Fax \_\_\_\_\_  
Email Address \_\_\_\_\_ Relationship to Issuer \_\_\_\_\_

**Obligor Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Employer \_\_\_\_\_  
Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
Telephone \_\_\_\_\_ Fax \_\_\_\_\_  
Email Address \_\_\_\_\_ Obligor Web site Address \_\_\_\_\_

**Investor Relations Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Telephone \_\_\_\_\_ Email Address \_\_\_\_\_

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## APPENDIX H

### FORM OF OPINION OF BOND COUNSEL

*Upon delivery of the 2005 Bonds, Stradling Yocca Carlson & Rauth, Newport Beach, California, Bond Counsel to Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project), proposes to render their final approving opinion with respect to the 2005 Bonds in substantially the following form:*

[Date of Delivery]

Community Facilities District No. 2004-1  
of the Santa Ana Unified School District  
Santa Ana, California

*Re: \$11,785,000 Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project) 2005 Special Tax Bonds*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Santa Ana Unified School District taken in connection with the formation of Community Facilities District No. 2004-1 of the Santa Ana Unified School District (Central Park Project) (the "District") and the authorization and issuance of the District's 2005 Special Tax Bonds in the aggregate principal amount of \$11,785,000 (the "2005 Bonds") and such other information, certificates, opinions and documents as we consider necessary to render this opinion. We have assumed the genuineness of all documents and signatures presented to us, the authenticity of documents submitted to us as originals and the conformity to originals of documents submitted as copies. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the 2005 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2005 Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), and that certain Bond Indenture, dated as of August 1, 2005 (the "Bond Indenture"), by and between the District and The Bank of New York Trust Company, N.A., as Fiscal Agent (the "Fiscal Agent"). All capitalized terms not defined herein shall have the meanings set forth in the Bond Indenture.

The 2005 Bonds are dated the date of delivery and mature on the dates and in the amounts set forth in the Bond Indenture. The 2005 Bonds bear interest payable semiannually on each March 1 and September 1, commencing on March 1, 2006, at the rates per annum set forth in the Bond Indenture. The 2005 Bonds are registered bonds in the form set forth in the Bond Indenture, redeemable in the amounts, at the times and in the manner provided for in the Bond Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The 2005 Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Bond Indenture, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California. The 2005 Bonds are limited obligations of the District but are not a debt of the School District, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes pledged by the District, neither the faith and credit nor the taxing power of the School District, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The execution and delivery of the Bond Indenture has been duly authorized by the District, and the Bond Indenture is valid and binding upon the District and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Bond Indenture to levy Special Taxes for the payment of Administrative Expenses or as to any indemnification, contribution, choice of law, choice of forum, penalty or waiver provisions contained therein.

(3) The Indenture creates a valid pledge of that which the Bond Indenture purports to pledge, subject to the provisions of the Bond Indenture, except to the extent that enforceability of the Bond Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the 2005 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(5) Interest (and original issue discount) on the 2005 Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a Bond (the first price at which a substantial amount of the 2005 Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 4 above) and is exempt from State of California personal income tax.

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

The opinions expressed in paragraphs (4) and (6) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2005 Bonds are subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2005 Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2005 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2005 Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5), (6) and (7) above, we express no opinion as to any tax consequences related to the 2005 Bonds.

Certain agreements, requirements and procedures contained or referred to in the Bond Indenture and the Tax Certificate executed by the District with respect to the 2005 Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion as to the exclusion of interest (and original issue discount) on the 2005 Bonds from gross income for federal income tax purposes on and after the date on which any such

change occurs or action is taken or omitted upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Bond Indenture.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the 2005 Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material, if any, relating to the 2005 Bonds and expressly disclaim any duty to advise the owners of the 2005 Bonds with respect to the matters contained in the Official Statement or other offering material relating to the 2005 Bonds.

Respectfully submitted,

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## APPENDIX I

### BOOK-ENTRY SYSTEM

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2005 Bonds, payment of principal of and interest on the 2005 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2005 Bonds, confirmation and transfer of beneficial ownership interests in the 2005 Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2005 Bonds is based solely on information furnished by DTC to the School District which the School District believes to be reliable, but the School District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2005 Bonds. The 2005 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2005 Bond will be issued for each maturity of the 2005 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as 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 (the “Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2005 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2005 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2005 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2005 Bonds, except in the event that use of the book-entry system for the 2005 Bonds is discontinued.

To facilitate subsequent transfers, all 2005 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of the 2005 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2005 Bonds; DTC’s records reflect only the identity of

the Direct Participants to whose accounts such 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2005 Bonds may wish to take certain steps to augment the transmissions to them of notices of significant events with respect to the 2005 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2005 Bonds documents. For example, Beneficial Owners of the 2005 Bonds may wish to ascertain that the nominee holding the 2005 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Fiscal Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2005 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2005 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the School District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the 2005 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the School District or the Fiscal Agent, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent or the School 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 School District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the 2005 Bonds at any time by giving reasonable notice to the School District or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, the 2005 Bond certificates are required to be printed and delivered.

The School District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the 2005 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the School District believes to be reliable, but the School District takes no responsibility for the accuracy thereof.

#### Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the 2005 Bonds, or (b) the School District determines that DTC shall no longer act and delivers a written certificate to the Fiscal Agent to that effect, then the School District will discontinue the Book-Entry System with DTC for the 2005 Bonds. If the School District determines to replace DTC with another qualified securities depository, the School District will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the 2005 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Bond Indenture. If the School District fails to identify another qualified securities depository to replace the incumbent securities depository for the 2005 Bonds, then

the 2005 Bonds shall no longer be restricted to being registered in the 2005 Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the 2005 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2005 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2005 Bonds will be payable upon surrender thereof at the trust office of the Fiscal Agent identified in the Bond Indenture, and (iii) the 2005 Bonds will be transferable and exchangeable as provided in the Bond Indenture.

*The School District and the Fiscal Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the 2005 Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the 2005 Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Bond Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the 2005 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2005 Bonds or the Bond Indenture. The School District and the Fiscal Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the 2005 Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The School District and the Fiscal Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the 2005 Bonds or any error or delay relating thereto.*

THE COMMUNITY FACILITIES DISTRICT AND THE FISCAL AGENT WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT, OR ANY INDIRECT PARTICIPANT, (II) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE BONDOWNERS UNDER THE BOND INDENTURE, (III) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF A 2005 BOND, (IV) THE PAYMENT BY ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OF OR INTEREST ON THE 2005 BONDS, (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE BONDOWNER OF THE 2005 BONDS, OR (VI) ANY OTHER MATTER.

THE FISCAL AGENT, AS LONG AS A BOOK-ENTRY-ONLY SYSTEM IS USED FOR THE 2005 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2005 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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