

*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 2006 Bonds described herein 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 2006 Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein.*

**\$13,445,000**

**COMMUNITY FACILITIES DISTRICT NO. 2001-01 (FRENCH VALLEY)  
OF THE EASTERN MUNICIPAL WATER DISTRICT  
IMPROVEMENT AREA A  
2006 SPECIAL TAX BONDS**

**Dated:** Date of Delivery

**Due:** September 1, as shown on inside front cover

Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District Improvement Area A 2006 Special Tax Bonds (the "2006 Bonds") are being issued and delivered to finance various public improvements needed to develop property located within Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District (the "Community Facilities District"). The Community Facilities District has been formed by and is located in Eastern Municipal Water District in Riverside County, California.

The 2006 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and resolutions of the Board of Directors of Eastern Municipal Water District and supplements to such resolutions. U.S. Bank National Association will serve as the Fiscal Agent. The 2006 Bonds are special obligations of the Community Facilities District, and they are payable solely from revenues derived from certain annual Special Taxes to be levied on the taxable land within Improvement Area A of the Community Facilities District and from certain other funds pledged under the Supplement to Resolution, as further described herein.

The Bonds are payable on a parity with the Community Facilities District's Improvement Area A 2002 Special Tax Bonds (the "2002 Bonds"), originally issued in the aggregate amount of \$8,960,000 and currently outstanding in the aggregate principal amount of \$8,685,000. See "SECURITY FOR THE BONDS — Parity Bonds."

The 2006 Bonds are being issued in book-entry form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of Bonds will not receive certificates representing their beneficial ownership thereof but will receive credit balances on the books of their respective nominees. The 2006 Bonds will not be transferable or exchangeable except for transfer to another nominee of The Depository Trust Company or as otherwise described herein. Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof.

Interest on the 2006 Bonds will be payable on March 1, 2007 and semiannually thereafter on each March 1 and September 1. Principal of and interest on the 2006 Bonds will be paid by the Fiscal Agent to Cede & Co., and such payments are expected to be disbursed to the beneficial owners of the 2006 Bonds through their nominees.

*Neither the faith and credit nor the taxing power of Eastern Municipal Water District, the Community Facilities District (except to the extent described herein), the County of Riverside, the State of California or any political subdivision thereof is pledged to the payment of the 2006 Bonds. Except for the Improvement Area A Special Taxes, no other taxes are pledged to the payment of the 2006 Bonds.*

**The 2006 Bonds are subject to optional redemption, redemption resulting from the prepayment of Improvement Area A Special Taxes, and mandatory sinking fund redemption prior to maturity, as described herein.**

**MATURITY SCHEDULE**

(See inside cover page)

*This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

**The 2006 Bonds are not rated by any rating agency, and investment in the 2006 Bonds involves risks which may not be appropriate for certain investors. Therefore, only persons with substantial financial resources who understand the risks of investment in the 2006 Bonds should consider such an investment. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the matters set forth herein, in evaluating the investment quality of the 2006 Bonds.**

*The 2006 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for Eastern Municipal Water District by Redwine & Sherrill, Riverside, California, its General Counsel. It is anticipated that the 2006 Bonds will be available for delivery to The Depository Trust Company or its agent on or about September 7, 2006.*

**STONE & YOUNGBERG LLC**

## MATURITY SCHEDULE

COMMUNITY FACILITIES DISTRICT NO. 2001-01 (FRENCH VALLEY)  
OF THE EASTERN MUNICIPAL WATER DISTRICT  
IMPROVEMENT AREA A  
2006 SPECIAL TAX BONDS

\$3,215,000 Serial Bonds

<i><b>Maturity Date (September 1)</b></i>	<i><b>Principal Amount</b></i>	<i><b>Interest Rate</b></i>	<i><b>Yield</b></i>	<i><b>Price</b></i>	<i><b>CUSIP No.<sup>†</sup></b></i>
2007	\$185,000	3.700%	3.700%	100.000	27627LJ91
2008	185,000	3.800	3.800	100.000	27627LK24
2009	190,000	4.000	4.000	100.000	27627LK32
2010	195,000	4.100	4.100	100.000	27627LK40
2011	200,000	4.200	4.200	100.000	27627LK57
2012	210,000	4.350	4.350	100.000	27627LK65
2013	220,000	4.500	4.500	100.000	27627LK73
2014	230,000	4.600	4.600	100.000	27627LK81
2015	240,000	4.700	4.700	100.000	27627LK99
2016	250,000	4.750	4.750	100.000	27627LL23
2017	260,000	4.750	4.800	99.576	27627LL31
2018	270,000	4.750	4.850	99.098	27627LL49
2019	285,000	4.875	4.900	99.760	27627LL56
2020	295,000	4.875	4.950	99.248	27627LL64

\$980,000 5.000% Term Bonds due September 1, 2023 - Price: 100.000 CUSIP<sup>†</sup> No. 27627LL72

\$1,125,000 5.000% Term Bonds due September 1, 2026 - Price: 99.374 CUSIP<sup>†</sup> No. 27627LL80

\$8,125,000 5.125% Term Bonds due September 1, 2036 - Price: 100.000 CUSIP<sup>†</sup> No. 27627LL98

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. Copyright© 1999-2006 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the Community Facilities District nor the Underwriter takes any responsibility for the accuracy of such numbers.

## **EASTERN MUNICIPAL WATER DISTRICT**

### **BOARD OF DIRECTORS**

*Randy A. Record, President*  
*David J. Slawson, Vice President*  
*Joseph J. Kuebler, Director/District Treasurer*  
*Rodger D. Siems, Director*  
*Ronald W. Sullivan, Director*

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### **DISTRICT OFFICIALS**

*Anthony J. Pack, General Manager*  
*Charles J. Bachmann, Assistant General Manager, Engineering*  
*Charles E. Rathbone Jr., Chief Financial Officer*  
*Debra Haskell, Special Funding Districts Supervisor*  
*Rosemarie V. Howell, Board Secretary*  
*Redwine & Sherrill, District Counsel*

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### **PROFESSIONAL SERVICES**

#### ***Appraiser***

Harris Realty Appraisal  
Newport Beach, California

#### ***Bond Counsel and Disclosure Counsel***

Stradling Yocca Carlson & Rauth, a Professional Corporation  
Newport Beach, California

#### ***Financial Advisor***

Fieldman, Rolapp & Associates  
Irvine, California

#### ***Fiscal Agent***

U.S. Bank National Association  
Los Angeles, California

#### ***Special Tax Consultant***

Psomas  
Riverside, California

Investment in the 2006 Bonds involves risks which are not appropriate for certain investors. Therefore, only persons with substantial financial resources (in net worth and/or income) who understand (either alone or with competent investment advice) the risks of investment in the 2006 Bonds should consider such investment.

All information for investors regarding the Water District, the Community Facilities District and the Bonds is contained in this Official Statement. While the Water District maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the 2006 Bonds or any other bonds or obligations of the Water District. No dealer, broker, salesperson or other person has been authorized by the Water District to provide any information or to make any representations other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Water District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2006 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of 2006 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from the Water District, the owners of the property in the Community Facilities District and certain other sources. Such information is believed to be reliable but is not guaranteed as to its accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Water District or of the owners of property within the Community Facilities District or any matters expressed herein since the date hereof. All summaries contained herein of the Resolution of Issuance or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions.

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

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

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

Certain statements included or incorporated by reference in this Official Statement constitute "Forward-Looking Statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" and other similar words and include, but are not limited to, statements that describe possible future development of property within the Community Facilities District and the costs associated with such development.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the Community Facilities District has agreed to provide certain on-going financial and operating data for a limited period of time (see "CONTINUING DISCLOSURE" and Appendix F hereto), it does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2006 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 2006 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE FRONT COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE 2006 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2006 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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**\$13,445,000**  
**COMMUNITY FACILITIES DISTRICT NO. 2001-01 (FRENCH VALLEY)**  
**OF THE EASTERN MUNICIPAL WATER DISTRICT**  
**IMPROVEMENT AREA A**  
**2006 SPECIAL TAX BONDS**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to provide certain information concerning the Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District, Improvement Area A 2006 Special Tax Bonds (the "2006 Bonds"). The 2006 Bonds will be issued on a parity with the Community Facilities District No. 2001-01 of the Eastern Municipal Water District Improvement Area A 2002 Special Tax Bonds (the "2002 Bonds" and together with the 2006 Bonds, the "Bonds"), originally issued in the aggregate principal amount of \$8,960,000 and currently outstanding in the aggregate principal amount of \$8,685,000.

The Mello-Roos Community Facilities Act of 1982, as amended, commencing at Section 53311, *et seq.*, of the California Government Code (the "Act"), was enacted by the California Legislature to provide an alternative method of funding certain essential public capital facilities and services, especially in developing areas of the State of California. Once duly established, a community facilities district is a legally constituted governmental entity, with the governing board or legislative body of the local agency acting on its behalf. Subject to approval by a two-thirds vote of the qualified electors voting and compliance with the provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district or for an improvement area within a community facilities district and may levy and collect a special tax within such district or improvement area to repay such indebtedness.

Pursuant to the Act, the Board of Directors (the "Board") of Eastern Municipal Water District (the "Water District") adopted a resolution on July 18, 2001 stating its intention to establish Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District (the "Community Facilities District") and designating Improvement Area A ("Improvement Area A") and Improvement Area B ("Improvement Area B" and together with Improvement Area A, the "Improvement Areas") and adopted a resolution stating its intention to authorize bonded indebtedness on behalf of each Improvement Area within the Community Facilities District. On September 19, 2001, the Community Facilities District, Improvement Area A and Improvement Area B therein, were formed and an election was held pursuant to the Act in each Improvement Area. The qualified elector in Improvement Area A, being the then sole owner of land in Improvement Area A, authorized the Community Facilities District to incur bonded indebtedness on behalf of Improvement Area A in an amount not to exceed \$24,000,000 in order to finance certain public facilities and various costs related thereto (the "Improvement Area A Project") and approved the rate and method of apportionment of special tax (the "Rate and Method of Apportionment"), the levy of a special tax on the taxable property within Improvement Area A (the "Improvement Area A Special Tax") to pay the principal and interest on the Bonds and annual administrative expenses of the Community Facilities District associated with Improvement Area A and to make any replenishments to the reserve account for the Bonds (the "Reserve Account") consistent with the Rate and Method of Apportionment and the Act.

Pursuant to the Act, the five members of the Board now act as the legislative body for the Community Facilities District. Community Facilities District administrative services are provided by the Water District's staff.

The 2006 Bonds are being issued pursuant to Resolution No. 3590 adopted by the Board on May 1, 2002, a Supplement to Resolution No. 3590, dated as of June 1, 2002, Resolution No. 4545 adopted by the Board on August 16, 2006, and a Supplement to Resolution No. 4545 and Second Supplement to Resolution No. 3590 dated as of September 1, 2006 (the Supplement to Resolution No. 3590 and the Supplement to Resolution No. 4545 and Second Supplement to Resolution No. 3590 are collectively referred to herein as the "Supplement to Resolution" and together with Resolution No. 3590 and Resolution No. 4545, the "Resolution"). The Resolution appoints U.S. Bank National Association (the "Fiscal Agent") as the fiscal agent for the Bonds.

The Resolution provides that the Bonds shall be secured by a pledge of the Net Improvement Area A Special Taxes (which consist of the Improvement Area A Special Taxes minus certain administrative expenses) and amounts on deposit in the Special Tax Fund established pursuant to the Supplement to Resolution (except in the Letter of Credit Account in the Special Tax Fund) and (to the limited extent described herein) the Special Tax Letter of Credit described below under the caption "SECURITY FOR THE BONDS — Special Tax Letter of Credit." *Special taxes levied in Improvement Area B are not pledged to or available for payment of the Bonds.*

The Improvement Area A Special Taxes are expected to be included on the regular property tax bills sent to the record owners of property within Improvement Area A. See "SECURITY FOR THE BONDS — The Improvement Area A Special Tax." The Community Facilities District has covenanted for the benefit of the owners of the Bonds that, under certain circumstances described herein, it will commence judicial foreclosure proceedings with respect to delinquent Improvement Area A Special Taxes by October 1 following the close of the Fiscal Year in which such Improvement Area A Special Taxes were due and will diligently pursue such proceedings. See "SECURITY FOR THE BONDS — Covenant for Superior Court Foreclosure."

Neither the faith and credit nor the taxing power of the County of Riverside (the "County"), the Water District, the State or any political subdivision thereof (other than the taxing power of the Community Facilities District to the limited extent described herein) is pledged to the payment of the Bonds. Except for the Improvement Area A Net Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the Water District or the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from Net Improvement Area A Special Taxes and certain amounts held under the Supplement to Resolution, as more fully described herein.

See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the 2006 Bonds.

The property in Improvement Area A is located north of the City of Temecula and east of the City of Murrieta in an unincorporated area of the County known as "French Valley." Improvement Area A is being developed in two phases and, upon buildout, is expected to consist of 1,081 single family detached homes. Phase 1 is fully built-out and includes 448 single family detached residential homes owned by individual homeowners. Phase 1 was developed by Brookfield Winchester LLC, a Delaware limited liability company ("Brookfield Winchester"). Phase 2 includes approximately 310 gross acres being developed by Brookfield W633 LLC, a Delaware limited liability company



(the “Developer”) and planned to contain approximately 633 single family detached homes at buildout. As of July 1, 2006, within Phase 2, four model homes were completed, 18 production homes were completed and had closed escrow to individual homeowners, 55 homes were under construction, 325 lots were in near finished lot condition and 231 lots were in blue-top condition. As of July 1, 2006, the land within Improvement Area A was owned by the Developer and 466 individual homeowners (448 units in Phase 1 and 18 units in Phase 2).

The boundaries of the approximately 310 gross acres of land being developed by the Developer in Phase 2 are coterminous with the boundaries of Community Facilities District No. 2003-22 (Brookfield Overlay) of the Eastern Municipal Water District (“CFD No. 2003-22”). CFD No. 2003-22 plans to issue approximately \$12,500,000 of bonds secured by special taxes within CFD No. 2003-22 equal in priority to the continuing lien of the Improvement Area A Special Taxes. See the caption “SECURITY FOR THE BONDS — Parity Bonds.” The Water District has obtained an appraisal (the “Appraisal”) for the 310 gross acres of land being developed by the Developer within Improvement Area A (the “Appraised Property”). The Appraisal was prepared for the Community Facilities District by Harris Realty Appraisal of Newport Beach, California (the “Appraiser”). Based upon the assumptions (including an assumption that 2006 Bond proceeds of at least \$11,000,000 will be made available to finance certain public facilities authorized by the Community Facilities District) and subject to the limitations set forth in the Appraisal, the Appraiser is of the opinion that, as of June 1, 2006, the market value of the Appraised Property is \$57,500,000. The 448 single family detached residential homes within Improvement Area A developed by Brookfield Winchester in Phase 1 and owned by individual homeowners as of June 1, 2006 are not included within the Appraisal. The assessed value for fiscal year 2005-06 for the 448 Phase 1 homes is approximately \$156,904,066. See “THE COMMUNITY FACILITIES DISTRICT — Property Values.” A copy of the Appraisal is included as Appendix B to this Official Statement.

This Official Statement sets forth brief descriptions of the 2006 Bonds, the Community Facilities District, Improvement Area A, the Supplement to Resolution, the Community Facilities District’s Continuing Disclosure Agreement, the Continuing Disclosure Agreement of the Developer and certain other matters. Such descriptions do not purport to be comprehensive or definitive. All references herein to any of the aforesaid documents are qualified in their entirety by reference to the forms thereof, which are available for inspection at the office of the Secretary of the Board for the Water District in Perris, California. Capitalized terms not defined herein shall have the respective meanings ascribed to them in Appendix A hereto or, if not defined in Appendix A, the meanings ascribed to them in the Resolution. This Official Statement speaks only as of its date, and the information contained herein is subject to change.

## **THE BONDS**

### **Authority for Issuance**

The Community Facilities District was established, Improvement Area A was designated, and bonded indebtedness in an aggregate principal amount of not to exceed \$24,000,000 was authorized for Improvement Area A pursuant to the provisions of the Act. The proposition relating to the incurring of the indebtedness was consolidated with the proposition relating to the levying of the Improvement Area A Special Tax into one proposition which was submitted to and approved by the qualified elector of Improvement Area A on September 19, 2001. In accordance with the Act, the only qualified elector was Brookfield Land Company, Inc. (“Brookfield Land”), the then sole owner of land located therein. A Notice of Special Tax Lien was recorded in the office of the County Recorder on May 10, 2002 as Document No. 2002-247304. A waiver of late filing regarding the

Notice of Special Tax Lien was signed by the then sole owner of the property within the Improvement Area. The Rate and Method of Apportionment and the amount of the Improvement Area A Special Tax that can be collected from the land within Improvement Area A are more fully described in the section herein entitled “SECURITY FOR THE BONDS — The Improvement Area A Special Tax” and “THE COMMUNITY FACILITIES DISTRICT.” See also Appendix D — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

The 2006 Bonds will be issued pursuant to the Act and the Resolution.

**General Provisions**

The 2006 Bonds will be dated as of the Delivery Date and bear interest at the rates and mature (subject to prior redemption as described below) on the dates set forth on the inside front cover page hereof. Interest on such Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months and will be payable on March 1 and September 1 of each year commencing March 1, 2007 (each such date, an “Interest Payment Date”). The 2006 Bonds are issued in fully registered form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 and any integral multiple. See the subsection hereof entitled “Book-Entry System.”

The principal of and interest on the Bonds shall be payable in lawful money of the United States of America.

**Redemption**

**Optional Redemption.** The 2006 Bonds may be redeemed, at the option of the Community Facilities District, from any source of funds, other than Prepayments, on any Interest Payment Date on or after March 1, 2007, in whole or in part (in such amounts and maturities as may be designated by the Community Facilities District, with the particular 2006 Bonds of such maturities to be selected by the Fiscal Agent by lot), 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:

<i>Redemption Dates</i>	<i>Redemption Prices</i>
Each Interest Payment Date from March 1, 2007 through March 1, 2016	102%
September 1, 2016 and each Interest Payment Date thereafter	100

**Mandatory Sinking Fund Redemption.** The 2006 Bonds maturing on September 1, 2023 (the “2023 Term Bonds”) shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account, on September 1, 2021, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 2023 Term Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed 2023 Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

**BONDS MATURING SEPTEMBER 1, 2023**

<i>September 1</i>	<i>Principal Amount</i>
2021	\$315,000
2022	325,000
2023 (maturity)	340,000

The 2006 Bonds maturing on September 1, 2026 (the “2026 Term Bonds”) shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account, on September 1, 2024, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 2026 Term Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed 2026 Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

**BONDS MATURING SEPTEMBER 1, 2026**

<i>September 1</i>	<i>Principal Amount</i>
2024	\$355,000
2025	375,000
2026 (maturity)	395,000

The 2006 Bonds maturing on September 1, 2036 (the “2036 Term Bonds” and together with the 2023 Term Bonds and the 2026 Term Bonds, the “Term Bonds”) shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account, on September 1, 2027, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 2036 Term Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed 2036 Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

**BONDS MATURING SEPTEMBER 1, 2036**

<i>September 1</i>	<i>Principal Amount</i>
2027	\$ 415,000
2028	435,000
2029	455,000
2030	475,000
2031	500,000
2032	530,000
2033	1,230,000
2034	1,295,000
2035	1,360,000
2036 (maturity)	1,430,000

If the Community Facilities District purchases the Term Bonds and delivers them to the Fiscal Agent at least 45 days prior to an applicable redemption date, the principal amount of the

Term Bonds so purchased shall be credited to reduce the Sinking Fund Payment due on such redemption date for the applicable maturity of the Term Bonds.

In the event of a partial optional redemption or special mandatory redemption of Term Bonds, each of the remaining Sinking Fund Payments for such Term Bonds, as described above, will be reduced, as nearly as practicable, on a pro rata basis.

***Special Mandatory Redemption from Prepayments.*** The Bonds are subject to redemption as a whole, or in part on a pro rata basis among maturities, on any Interest Payment Date prior to maturity from the proceeds of the prepayment of Improvement Area A Special Taxes deposited in the Redemption Account pursuant to the Supplement to Resolution and amounts transferred from the Reserve Account in connection with such prepayment. Such special mandatory redemption of 2006 Bonds shall be at the following redemption prices (expressed as percentages of the principal amount of the Bonds to be redeemed), together with accrued interest thereon to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Prices</i>
Each Interest Payment Date from March 1, 2007 through March 1, 2016	102%
September 1, 2016 and each Interest Payment Date thereafter	100

***Notice of Redemption.*** When Bonds are due for redemption under the Supplement to Resolution, the Fiscal Agent shall give notice, in the name of the Community Facilities District, of the redemption of the Bonds. Such notice of redemption shall (a) specify the CUSIP numbers, the serial numbers and the maturity date or dates of the Bonds selected for redemption, except that where all the Bonds are subject to redemption, or all the Bonds of one series or maturity are to be redeemed, the serial numbers thereof need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be redeemed; (e) in the case of the Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (f) state the date of issue of the Bonds as originally issued; (g) state the rate of interest borne by each Bond being redeemed; and (h) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Community Facilities District. Such notice shall 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.

At least 30 days but no more than 45 days prior to the redemption date, the Fiscal Agent shall mail a copy of such notice, by first class mail, postage prepaid, to the Original Purchaser and to the respective Owners thereof at their addresses appearing on the Bond Register and to the original purchaser of the Bonds. In the case of an optional redemption of 2006 Bonds, such notice may state that such redemption is subject to receipt by the Fiscal Agent, on or before the date fixed for redemption, of moneys sufficient to pay the redemption price of the 2006 Bonds to be redeemed. The actual receipt by the Owner of any Bond of notice of such redemption shall not be a condition precedent to redemption, and neither any defect therein nor any failure of an Owner to receive such notice shall affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Fiscal Agent that notice of such redemption

has been given as provided in the Supplement to Resolution shall be conclusive as against all parties and the Owner shall not be entitled to show that he or she failed to receive notice of such redemption.

### **Book-Entry System**

DTC will act as securities depository for the 2006 Bonds, and the 2006 Bonds will be registered in the name of Cede & Co. (DTC's nominee). One fully-registered 2006 Bond certificate will be issued for each maturity of the 2006 Bonds in the aggregate principal amount of such maturity of such 2006 Bonds, and will be deposited with DTC. **So long as Cede & Co. is the registered owner of the 2006 Bonds, references herein to the Owners of the 2006 Bonds shall mean Cede & Co. and shall not mean the actual purchasers (the "Beneficial Owners") of the 2006 Bonds. The Community Facilities District does not give any assurances that DTC, its Participants or others will distribute payments with respect to the 2006 Bonds or notices concerning the 2006 Bonds to the Beneficial Owners thereof or that DTC will service and act in the manner described in this Official Statement.**

See Appendix E for a further description of DTC and its book-entry system. The information presented therein is based solely on information provided by DTC, and no representation is made by the Community Facilities District concerning the accuracy thereof.

### **Estimated Sources and Uses of Funds**

The 2006 Bond proceeds are expected to be applied approximately as follows:

#### Sources:

Principal amount of the 2006 Bonds	\$ 13,445,000.00
Less: Original Issue Discount	(13,482.70)
Less: Underwriter's Discount	<u>(188,230.00)</u>
Total	\$ 13,243,287.30

#### Uses:

EMWD Improvement Fund	\$ 5,018,383.04
School Improvement Fund	6,818,383.04
Reserve Account	1,154,521.22
Costs of Issuance Account	<u>252,000.00</u>
Total	\$ 13,243,287.30

## Debt Service Schedule

The table below sets forth the estimated annual debt service payments for the 2006 Bonds assuming no redemptions of 2006 Bonds prior to maturity except scheduled mandatory sinking fund redemptions.

<i>Year Ending September 1</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Debt Service</i>
2007	\$ 185,000	\$ 654,650.48	\$ 839,650.48
2008	185,000	658,901.26	843,901.26
2009	190,000	651,871.26	841,871.26
2010	195,000	644,271.26	839,271.26
2011	200,000	636,276.26	836,276.26
2012	210,000	627,876.26	837,876.26
2013	220,000	618,741.26	838,741.26
2014	230,000	608,841.26	838,841.26
2015	240,000	598,261.26	838,261.26
2016	250,000	586,981.26	836,981.26
2017	260,000	575,106.26	835,106.26
2018	270,000	562,756.26	832,756.26
2019	285,000	549,931.26	834,931.26
2020	295,000	536,037.50	831,037.50
2021	315,000	521,656.26	836,656.26
2022	325,000	505,906.26	830,906.26
2023	340,000	489,656.26	829,656.26
2024	355,000	472,656.26	827,656.26
2025	375,000	454,906.26	829,906.26
2026	395,000	436,156.26	831,156.26
2027	415,000	416,406.26	831,406.26
2028	435,000	395,137.50	830,137.50
2029	455,000	372,843.76	827,843.76
2030	475,000	349,525.00	824,525.00
2031	500,000	325,181.26	825,181.26
2032	530,000	299,556.26	829,556.26
2033	1,230,000	272,393.76	1,502,393.76
2034	1,295,000	209,356.26	1,504,356.26
2035	1,360,000	142,987.50	1,502,987.50
2036	<u>1,430,000</u>	<u>73,287.50</u>	<u>1,503,287.50</u>
<b>TOTAL</b>	<b>\$13,445,000</b>	<b>\$14,248,115.72</b>	<b>\$27,693,115.72</b>

### LIMITATION OF LIABILITY

The Bonds are secured only by the Net Improvement Area A Special Taxes and amounts on deposit in the Special Tax Fund (other than in the Letter of Credit Account therein) and (to the limited extent described herein) the Special Tax Letter of Credit. In the event of delinquencies in the payment of Improvement Area A Special Taxes, neither the Water District nor the Community Facilities District is required to advance any funds for the payment of debt service on the Bonds. The Community Facilities District will only be required to enforce delinquent Improvement Area A Special Taxes in the manner provided in the Act and in its covenant to take judicial foreclosure

proceedings as set forth in the Supplement to Resolution. See “SECURITY FOR THE BONDS — Covenant for Superior Court Foreclosure.” The full faith and credit of the Water District and the Community Facilities District are not pledged to the payment of the Bonds, nor is the payment of the Bonds secured by any encumbrance, mortgage or other pledge of property of the Water District or the Community Facilities District, except the pledge described above.

## **SECURITY FOR THE BONDS**

### **General**

The 2006 Bonds will be secured by a pledge of the Improvement Area A Net Special Taxes and all moneys deposited in the Special Tax Fund (other than the Letter of Credit Account therein) and (to the limited extent described herein) the Special Tax Letters of Credit. The 2006 Bonds are not secured by moneys on deposit in the Administrative Expense Fund, the Improvement Fund, the Rebate Fund or the Special Tax Holding Fund.

The Supplement to Resolution defines the term “Net Special Taxes” to mean Gross Special Taxes minus the amount (not in excess of the Administrative Expense Requirement) transferred from the Special Tax Fund to the Administrative Expense Fund. “Gross Special Taxes” is defined by the Supplement to Resolution to mean the amount of all Improvement Area A Special Taxes received by the Water District from Improvement Area A, together with proceeds collected from the sale of property pursuant to the foreclosure provisions of the Supplement to Resolution for the delinquency of such Improvement Area A Special Tax after payment of administrative costs and attorneys’ fees payable from such proceeds to the extent not previously paid from the Administrative Expense Fund. The Administrative Expense Requirement for Improvement Area A is initially \$26,530 for fiscal year 2006-07, but it can be increased by up to 2% per year. See Appendix A — “SUMMARY OF SUPPLEMENT TO RESOLUTION — Definitions.”

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, the Improvement Area A Special Tax is exempt from the tax rate limitation of California Constitution Article XIII A pursuant to Section 4 thereof because it constitutes a “special tax” authorized by a two-thirds vote of the qualified electors in Improvement Area A. Consequently, the Community Facilities District is legally authorized and has covenanted in the Supplement to Resolution to cause the levy and collection of the Improvement Area A Special Taxes in an amount determined according to the Rate and Method of Apportionment. See “SECURITY FOR THE BONDS—The Improvement Area A Special Tax” and “SPECIAL RISK FACTORS— Proposition 218” below. The Rate and Method of Apportionment apportions the total amount of the Improvement Area A Special Tax to be collected among the taxable parcels in Improvement Area A as more particularly described herein. See “THE COMMUNITY FACILITIES DISTRICT — Rate and Method of Apportionment” and Appendix D — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

Although the Improvement Area A Special Tax will be levied against taxable parcels within Improvement Area A, it does not constitute a personal indebtedness of the respective property owners. There is no assurance that the property owners will be financially able to pay the annual Improvement Area A Special Tax or that they will pay it even if financially able to do so. See “SPECIAL RISK FACTORS” herein.

## **The Improvement Area A Special Tax**

The Improvement Area A Special Tax applicable to each parcel of Taxable Property within Improvement Area A each Fiscal Year is required to be calculated pursuant to the Rate and Method of Apportionment. See “THE COMMUNITY FACILITIES DISTRICT — Rate and Method of Apportionment” and Appendix D — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

The Improvement Area A Special Tax is expected to be levied and collected by the County at the same time and in the same manner as general *ad valorem* property taxes. The Supplement to Resolution requires that the Community Facilities District shall transfer to the Fiscal Agent for deposit in the Special Tax Fund all Improvement Area A Special Taxes received by the Community Facilities District on the date on which such Improvement Area A Special Taxes are received, provided that a Prepayment of the Improvement Area A Special Tax is required to be deposited directly in the Redemption Account (see Appendix A — “SUMMARY OF SUPPLEMENT TO RESOLUTION — CREATION OF FUNDS; APPLICATION OF PROCEEDS, NET SPECIAL TAXES AND SPECIAL TAX LETTER OF CREDIT - Redemption Account of the Special Tax Fund”) and provided also that net proceeds of delinquent Improvement Area A Special Taxes which caused a draw on a Special Tax Letter of Credit are required to be deposited directly in the Letter of Credit Account (see “SECURITY FOR THE BONDS — Special Tax Letter of Credit”).

The following table shows the amount of Improvement Area A Net Special Taxes that would be available September 1, 2007 and each year subsequent, and the ratio thereof to debt service on the 2002 Bonds and 2006 Bonds, assuming that the Improvement Area A Special Tax was levied and collected at the highest permitted rate and that the Administrative Expense Requirement increases at the rate of two percent per year:



**ESTIMATED DEBT SERVICE COVERAGE  
FROM NET SPECIAL TAXES**

<i>Year Ending September 1</i>	<i>Maximum Improvement Area A Special Tax</i>	<i>Administrative Expense Requirement<sup>(1)</sup></i>	<i>Improvement Area A Net Special Taxes<sup>(2)</sup></i>	<i>2002 Bonds Debt Service</i>	<i>2006 Bonds Debt Service</i>	<i>Total Bonds Debt Service<sup>(3)</sup></i>	<i>Debt Service Coverage Ratio<sup>(4)</sup></i>
2007	\$1,700,911	\$26,530	\$1,674,381	\$679,133.76	\$839,650.48	\$1,518,784.24	110%
2008	1,700,911	27,061	1,673,850	676,213.76	843,901.26	1,520,115.02	110
2009	1,700,911	27,602	1,673,309	677,873.76	841,871.26	1,519,745.02	110
2010	1,700,911	28,154	1,672,757	678,868.76	839,271.26	1,518,140.02	110
2011	1,700,911	28,717	1,672,194	679,128.76	836,276.26	1,515,405.02	110
2012	1,700,911	29,291	1,671,620	678,708.76	837,876.26	1,516,585.02	110
2013	1,700,911	29,877	1,671,034	677,598.76	838,741.26	1,516,340.02	110
2014	1,700,911	30,475	1,670,436	675,833.76	838,841.26	1,514,675.02	110
2015	1,700,911	31,084	1,669,827	678,293.76	838,261.26	1,516,555.02	110
2016	1,700,911	31,706	1,669,205	679,706.26	836,981.26	1,516,687.52	110
2017	1,700,911	32,340	1,668,571	680,021.26	835,106.26	1,515,127.52	110
2018	1,700,911	32,987	1,667,924	679,261.26	832,756.26	1,512,017.52	110
2019	1,700,911	33,646	1,667,265	677,431.26	834,931.26	1,512,362.52	110
2020	1,700,911	34,319	1,666,592	679,591.26	831,037.50	1,510,628.76	110
2021	1,700,911	35,006	1,665,905	675,411.26	836,656.26	1,512,067.52	110
2022	1,700,911	35,706	1,665,205	680,201.26	830,906.26	1,511,107.52	110
2023	1,700,911	36,420	1,664,491	678,311.26	829,656.26	1,507,967.52	110
2024	1,700,911	37,148	1,663,763	680,002.50	827,656.26	1,507,658.76	110
2025	1,700,911	37,891	1,663,020	680,096.26	829,906.26	1,510,002.52	110
2026	1,700,911	38,649	1,662,262	678,593.76	831,156.26	1,509,750.02	110
2027	1,700,911	39,422	1,661,489	675,495.00	831,406.26	1,506,901.26	110
2028	1,700,911	40,211	1,660,700	675,800.00	830,137.50	1,505,937.50	110
2029	1,700,911	41,015	1,659,896	679,120.00	827,843.76	1,506,963.76	110
2030	1,700,911	41,835	1,659,076	680,200.00	824,525.00	1,504,725.00	110
2031	1,700,911	42,672	1,658,239	679,040.00	825,181.26	1,504,221.26	110
2032	1,700,911	43,525	1,657,386	675,640.00	829,556.26	1,505,196.26	110
2033	1,700,911	44,396	1,656,515	--	1,502,393.76	1,502,393.76	110
2034	1,700,911	45,284	1,655,627	--	1,504,356.26	1,504,356.26	110
2035	1,700,911	46,189	1,654,722	--	1,502,987.50	1,502,987.50	110
2036	1,700,911	47,113	1,653,798	--	1,503,287.50	1,503,287.50	110

<sup>(1)</sup> Assumed to increase 2% per year.

<sup>(2)</sup> Equal to the "Maximum Improvement Area A Special Tax" column minus the "Administrative Expense Requirement" column.

<sup>(3)</sup> Equal to the "2002 Bonds Debt Service" column plus the "2006 Bonds Debt Service" column.

<sup>(4)</sup> Equal to the "Improvement Area A Net Special Taxes" column divided by the "Total Bonds Debt Service" column.

Source: Psomas for special tax and administrative expenses and the Underwriter for debt service.

**Reserve Requirement**

In order to secure further the payment of principal and interest on the Bonds, the Community Facilities District will deposit proceeds of the 2006 Bonds in an amount equal to the Reserve Requirement attributable to the 2006 Bonds into the Reserve Account held by the Fiscal Agent. The Reserve Requirement is defined in the Supplement to Resolution as the amount, as of any date of calculation, equal to the sum of, for each series of Bonds, the least of (i) Maximum Annual Debt Service with respect to the Bonds of such series, (ii) one hundred twenty-five percent (125%) of Average Annual Debt Service with respect to the Bonds of such series, or (iii) ten percent (10%) of the initial principal amount of the Bonds of such series.

In connection with the issuance of any Parity Bonds, the Fiscal Agent will also be required to deposit in the Reserve Account the amount required to be so deposited under the Supplemental Indenture pursuant to which the Parity Bonds are issued. See “— Parity Bonds” below.

Moneys in the Reserve Account shall be used solely for the purpose of paying principal of and interest on Bonds in the event of any deficiency in the Special Tax Fund or for transfer to the Redemption Account as further described herein, provided that amounts on deposit therein that are in excess of the Reserve Requirement may be withdrawn therefrom from time to time as provided for in the Supplement to Resolution.

**Covenant for Superior Court Foreclosure**

Pursuant to Section 53356.1 of the Act, the Community Facilities District covenants in the Resolution, with and for the benefit of the Owners of the Bonds, that it will order and cause to be commenced, on or before October 1 of the Fiscal Year immediately following the Fiscal Year in which a delinquency in the payment of an Improvement Area A Special Tax occurs, 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 Improvement Area A Special Tax or any installment thereof not paid when due, provided that the Community Facilities District is not required to commence or pursue such proceedings if both (i) the aggregate amount of such delinquent Improvement Area A Special Taxes does not exceed five percent (5%) of the total Improvement Area A Special Taxes due and payable for the Fiscal Year in question and (ii) the balance on deposit in the Reserve Account is not less than the Reserve Requirement (except the Community Facilities District will nevertheless be required to commence and pursue such proceedings with respect to any property owned by a single property owner who is delinquent in the payment of the Improvement A Special Taxes in the amount of \$5,000 or more).

Pursuant to the Act, the Community Facilities District may waive delinquency penalties and redemption penalties if it determines that (i) the waivers shall apply only to parcels delinquent at the time of the determination, (ii) the waivers shall only be available with respect to parcels for which all past due and currently due Improvement Area A Special Taxes and all other costs are paid in full within a limited period of time specified in the determination, (iii) the waivers shall be available only with respect to parcels sold or otherwise transferred to new owners unrelated to the owner responsible for the delinquency, and (iv) the waivers are in the best interest of the Owners of the Bonds.

In the event foreclosure or foreclosures are necessary, there may be a delay in payments to Bond owners pending prosecution of the foreclosure proceedings and receipt by the Community

Facilities District of the proceeds of the foreclosure sale; it is also possible that no bid for the purchase price or applicable property would be received at the foreclosure sale. See “SPECIAL RISK FACTORS—Enforcement Delays—Bankruptcy.” Notwithstanding any other provision of the Supplement to Resolution, the Water District is not obligated to advance available funds from the Water District Treasury to cure any deficiency in the Special Tax Fund.

### **Special Tax Letter of Credit**

The Water District’s policies with respect to land-secured financings require that any person or entity owning, directly or indirectly, property whose assessments or maximum Improvement Area A Special Taxes exceed twenty-five percent (25%) of the applicable total of assessments or Improvement Area A Special Taxes (a “25% Property Owner”) must provide the Water District or its agent with cash, a letter of credit (or other security satisfactory to the Water District) in an amount equal to the aggregate amount of the applicable special taxes or assessments, as the case may be, estimated to be payable by such person or entity over the course of two years. The letter of credit must permit the Water District or its agent to draw thereon amounts sufficient to pay any such delinquent installment of special taxes or assessments. The amount of the letter of credit will be reduced by the amount of any draw pursuant thereto, and the letter of credit is not required to be reinstated. The amount of the letter of credit is also permitted to be reduced as the 25% Property Owner conveys portions of its property, and the letter of credit terminates at such time as the property owner is no longer a 25% Property Owner.

As discussed below under the caption “PROPERTY OWNERSHIP AND DEVELOPMENT,” the property within Improvement Area A is owned by 466 individual homeowners and the Developer. In compliance with the policies of the Water District described above, prior to the issuance of the 2006 Bonds the Developer will be required to deliver to the Water District cash or a letter of credit in the amount of \$1,945,311.88 (a “Special Tax Letter of Credit”). The Developer anticipates providing a letter of credit from Bank of America, N.A. to satisfy the Special Tax Letter of Credit requirement.

During the period in which a Special Tax Letter of Credit is in effect, the Fiscal Agent will be permitted to draw thereon in the amount of any delinquent Improvement Area A Special Taxes applicable to any property which is owned, directly or indirectly, by the applicable account party. The proceeds of any such drawing will be deposited in the Special Tax Fund. If and to the extent the amount of the delinquency is later recovered, the net proceeds of such recovery will be deposited in the Letter of Credit Account and used to reimburse the provider of the applicable Letter of Credit for the amount of such draw. Although the amount of a draw on a Special Tax Letter of Credit is equal to the amount of Improvement Area A Special Taxes applicable to certain property, the proceeds of such draw will not be deemed to have paid the delinquent Improvement Area A Special Taxes.

As discussed below under the caption “PROPERTY OWNERSHIP AND DEVELOPMENT,” the Developer expects ultimately to convey its land to others. Any such conveyances would result in reductions in the required amount of the Special Tax Letter of Credit and, if the cumulative effect of such conveyances is to cause them to cease to be a 25% Property Owner, the Special Tax Letter of Credit would terminate.

## **Parity Bonds**

The 2006 Bonds will be issued on a parity with the 2002 Bonds, originally issued in the aggregate principal amount of \$8,960,000 and currently outstanding in the aggregate principal amount of \$8,685,000. The Supplement to Resolution permits the Community Facilities District to issue one or more series of Bonds (including the 2002 Bonds and the 2006 Bonds) payable from the amounts pledged to the 2002 Bonds and the 2006 Bonds under the Supplement to Resolution on a parity with all other Bonds theretofore issued under the Supplement to Resolution. However, prior to the issuance of any such Parity Bonds, certain conditions, which are set forth in the Supplement to Resolution must first have been satisfied. See Appendix A — “SUMMARY OF SUPPLEMENT TO RESOLUTION — Issuance of Parity Bonds.” The principal amount of bonds that the Community Facilities District is authorized to issue on behalf of Improvement Area A is \$24,000,000. Thus, after the issuance of the 2006 Bonds, \$1,595,000 will remain as authorized but unissued debt.

Additionally, approximately 310 gross acres of the land within Improvement Area A is being developed by the Developer as Phase 2 are also included within Community Facilities District No. 2003-22 (Brookfield Overlay) of the Eastern Municipal Water District. CFD No. 2003-22 plans to issue approximately \$12,500,000 of bonds secured by special taxes within CFD No. 2003-22 equal in priority to the continuing lien of the Improvement Area A Special Taxes.

## **THE WATER DISTRICT**

The Water District is located in Riverside County, California and includes the Cities of Temecula, Murrieta, Moreno Valley, Hemet, San Jacinto and Perris. The Water District was established in 1950 and is a municipal water district formed and existing pursuant to the Municipal Water District Law of 1911, Division 20 (commencing at Section 71000) of the Water Code of the State of California. The Water District provides both water and wastewater services within its boundaries. Although at the time of its formation the major demand for the Water District’s services was related to agriculture, domestic customers now constitute the major portion of the demand for such services. The Water District encompasses nearly 555 square miles and has a current estimated population of approximately 629,200.

## **THE COMMUNITY FACILITIES DISTRICT**

### **General Information Regarding the Community Facilities District**

The Community Facilities District was organized by the Board under the Act to provide for the financing of public improvements to meet the need of new development within the Community Facilities District. The qualified electors within the boundaries of each Improvement Area of the Community Facilities District, being the owners of the property in the Improvement Areas, authorized the Community Facilities District to incur bonded indebtedness for each Improvement Area to finance certain public facilities to meet the needs of new development within the Community Facilities District, approved the Rate and Method of Apportionment and the levy of the Special Tax within each Improvement Area.

### **General Information Regarding Improvement Area A**

The property in Improvement Area A is located north of the City of Temecula and east of the City of Murrieta in an unincorporated area of the County known as “French Valley.” As of July 1,

2006, Phase 1 of the development of Improvement Area A included approximately 147 acres and 448 completed single family detached residential homes, all of which are owned by individual homeowners. Phase 2 of the development of Improvement Area A included approximately 310 gross acres of land planned to contain approximately 633 single family detached homes at buildout. As of July 1, 2006, the land within Phase 2 of the development of Improvement Area A was owned by the Developer and 18 individual homeowners.

A map showing the general location of the Community Facilities District and the surrounding area appears on page 23, and an aerial photograph of the Community Facilities District appears on page 24.

The property within Improvement Area A is zoned SP, Specific Plan, by the County of Riverside and, with minor exceptions, is designated for residential uses. The minimum permitted lot size is 7,200 square feet. However, the average lot size in the subdivisions of land that have been effected by the four tract maps which have been recorded to date is substantially larger than the required minimum area.

Water and sewer service to the property within Improvement Area A are supplied by the Water District. Electricity is supplied by Southern California Edison, gas by Southern California Gas Company, telephone services by Verizon Communications and public safety services (police and fire) by the County.

Although, like all of Southern California, the land within Improvement Area A is subject to seismic activity, it is not located in a designated Earthquake Study Zone as determined by the California State Geologist.

The Federal Emergency Management Agency has determined that the property is located in a Zone "D" flood area (that is, it is outside the 500-year flood plain and flood insurance will not be required).

### **The Improvement Area A Project**

The Improvement Area A Project includes the acquisition or construction of certain water and sewer system improvements by or for the Water District that are required in order to provide water and sewer service to the property within Improvement Area A, the acquisition of capacity in improvements provided through the Water District's water and sewer Financial Participation Charge Program and improvements to be owned, operated or maintained by the Temecula Valley Unified School District (the "School District").

The specific sewer and water system improvements that are required to provide water and sewer services to the Community Facilities District and that are expected to be financed with Bond proceeds and other funds include:

Water Facilities: The water facilities consist of main and appurtenants located in Abelia Street from Geranium Street to Washington Street, main and appurtenants located in Washington Street from the northerly boundary to Abelia Street, main and appurtenants located in the public street within Tract No. 30069-2, main and appurtenants located in the public street within Tract No. 30069; and

Sewer Facilities: The sewer facilities consist of main, laterals and appurtenants located in Abelia Street from Geranium Street to Washington Street, main and appurtenants located in the public streets within Tract No. 30069-2, main and appurtenants located in the public streets within Tract No. 30069.

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

The Rate and Method of Apportionment is contained in Appendix D — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” In general, the Rate and Method of Apportionment imposes a different Maximum Special Tax on Taxable Property within Improvement Area A depending upon whether such Taxable Property is classified as “Developed Property” (in general, Taxable Property included in a Final Map recorded prior to the January 1 preceding the Fiscal Year in which the Special Tax is being levied and for which a building permit for new construction was issued prior to the April 1 preceding such Fiscal Year), “Approved Property” (in general, parcels of Taxable Property included in a Final Map recorded prior to the January 1 preceding the Fiscal Year in which the Special Tax is being levied but for which no building permit was issued prior to the April 1 preceding such Fiscal Year), “Undeveloped Property” (in general, Taxable Property that is not “Developed Property,” “Approved Property,” “Public Property” or Property Owner’s Association Property”), “Public Property” or “Property Owner’s Association Property.” Different Maximum Special Taxes are also applicable to Developed Property depending upon whether such Developed Property is considered “Residential Property” or “Non-Residential Property.”

Pursuant to the Rate and Method of Apportionment the Board is required to determine the “Special Tax Requirement for Improvement Area A” (as defined therein) for each Fiscal Year. The Special Tax Requirement for Improvement Area A (the “Special Tax Requirement”) is the amount required in any Fiscal Year to pay: (i) annual debt service on all outstanding Bonds during the calendar year which commences in the Fiscal Year for which the Special Tax is being levied, (ii) periodic costs on the Bonds, (iii) Administrative Expenses, (iv) an amount equal to any anticipated shortfall due to Improvement Area A Special Tax delinquencies in the prior Fiscal Year, and (v) any amounts required to establish or replenish the Reserve Account, less (vi) a credit for funds available to reduce the annual Improvement Area A Special Tax levy as determined pursuant to the Supplement to Resolution.

The Special Tax Requirement is to be satisfied first by levying the Improvement Area A Special Tax Proportionately on each Parcel of Developed Property within Improvement Area A at up to 100% of the applicable Assigned Special Tax. If additional moneys are needed to satisfy the Special Tax Requirement, the Special Tax shall be levied proportionately on each Parcel of Approved Property at up to 100% of the Maximum Special Tax for Approved Property. If additional moneys are still needed to satisfy the Special Tax Requirement, the Improvement Area A Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property. If additional moneys are still needed to satisfy the Special Tax Requirement, the Improvement Area A Special Tax that is to be levied on each Parcel of Developed Property whose Maximum Special Tax is derived by the application of the Backup Special Tax shall be increased in equal percentages from the Assigned Special Tax up to the Maximum Special Tax. Finally, any additional amounts required in order to satisfy the Special Tax Requirement shall be raised by the levy of the Improvement Area A Special Tax Proportionately on each Parcel of Public Property and/or Property Owner’s Association Property that is not Exempt Property at up to 100% of the applicable Maximum Special Tax. Notwithstanding the above, under

no circumstances will the Improvement Area A Special Tax levied against any Parcel of Residential Property within Improvement Area A be increased by more than 10% per Fiscal Year as a consequence of a delinquency or default by the owner of any other Parcel within Improvement Area A.

The Assigned Special Taxes for Developed Property within Improvement Area A that is classified as Residential Property range from \$1,092 to \$1,640, depending upon the size of the residence. Developed Property within Improvement Area A that is Non-Residential Property has an Assigned Tax of \$8,489 per acre. The Maximum Special Tax for each Parcel of Approved Property within Improvement Area A is the quotient obtained by dividing (a) the product of (i) \$8,489 multiplied by (ii) the number of Acres of Taxable Property within Improvement Area A within the applicable Final Map (excluding acres associated with Public Property and/or Property Owner's Association Property that is not Exempt Property) by (b) the number of residential lots within such Final Map. The Maximum Special Tax for each Parcel of Undeveloped Property within Improvement Area A is \$8,489 per Acre.

### **Property Values**

*Appraisal.* As shown in the table included under the caption “— Direct and Overlapping Debt,” the estimated assessed value of the property within Improvement Area A, as shown on the County's assessment roll for fiscal year 2005-06, is approximately \$162,305,754, including an estimated assessed value of \$156,904,066 for the 448 completed single family detached homes owned by individual homeowners from the Phase 1 development within Improvement Area A and including an estimated assessed value of \$5,401,688 for the approximately 310 gross acres of property constituting the Phase 2 development of Improvement Area A. However, as a result of the requirements of Article XIII A of the California Constitution, a property's assessed value is not necessarily indicative of its market value. In order to provide information with respect to the value of the approximately 310 gross acres of land within Improvement Area A under development by the Developer, the Water District engaged the Appraiser to prepare the Appraisal. The Appraisal was prepared for only the approximately 310 gross acres of property within Improvement Area A constituting the Phase 2 development of Improvement Area A by the Developer. The president of the Appraiser, who was actively involved in the preparation of the Appraisal, has an “MAI” designation from the Appraisal Institute and has prepared numerous appraisals for the sale of land-secured municipal bonds. The Appraiser was selected by the Water District and has no material relationships with the Water District, the Community Facilities District or the owners of the land within Phase 2 of Improvement Area A other than the relationship represented by the engagement to prepare the Appraisal and other similar engagements for the Water District. The Water District instructed the Appraiser to prepare its analysis and report in conformity with Water District-approved guidelines and the Appraisal Standards for Land Secured Financings published in 1994 and revised in 2004 by the California Debt Advisory Commission. A copy of the Appraisal is included as Appendix B to this Official Statement.

The purpose of the Appraisal was to estimate the “as is” market value of the fee simple estate, subject to special tax and special assessment liens, of the property within the portion of Improvement Area A under development. Subject to the contingencies, assumptions and limiting conditions set forth in the Appraisal (including an assumption that 2006 Bond proceeds of at least \$11,000,000 will be made available to pay a portion of the costs of the Project or reimburse the Developer for such costs), the Appraiser concluded that, as of June 1, 2006, the market value of the 310 gross acres of land within the Phase 2 development of Improvement Area A was \$57,500,000.

The property within Phase 1 of the development of Improvement Area A was not appraised. Reference is made to Appendix B for a complete list and full discussion of the applicable contingencies, assumptions and limiting conditions and the methodology employed by the Appraiser. In the event that any of the contingencies, assumptions and limiting conditions is not actually realized, the value of the property within the undeveloped portion of Improvement Area A may be less than the amount reported in the Appraisal. In any case, there can be no assurance that any portion of the property within the Improvement Area A would actually sell for the amount indicated by the Appraisal. See Appendix B — “APPRAISAL REPORT.”

The Appraisal merely indicates the Appraiser’s opinion as to the market value of the property referred to therein as of the date and under the conditions specified therein. The Appraiser’s opinion reflects conditions prevailing in the applicable market as of the date of value. As set forth in the Appraisal, those market conditions include a rapid escalation in the prices paid for developable land in the Inland Empire. The Appraiser’s opinion does not predict the future value of the subject property, and there can be no assurance that market conditions will not change adversely in the future.

The Appraiser has specifically consented to the inclusion of the Appraisal in this Official Statement. Nevertheless, the Appraisal contains the following statement:

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 the Appraisal 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.

It is a condition precedent to the issuance of the 2006 Bonds that the Appraiser deliver to the Community Facilities District a certification to the effect that nothing has come to the attention of the Appraiser subsequent to the date of the Appraisal that would cause the Appraiser to believe that the value of the 310 gross acres of land within the Phase 2 development of Improvement Area A is less than the value reported in the Appraisal.

**Market Absorption Study.** In order to provide information with respect to the potential market demand for the proposed development within the undeveloped portion of Improvement Area A, the Water District retained Empire Economics, LLC (the “Market Absorption Consultant”) to conduct an absorption analysis and to prepare a report with respect thereto. The Market Absorption Consultant prepared a report dated June 19, 2006 (the “Market Absorption Study”) for the 621 single family detached units planned within Improvement Area A which had not been completed and conveyed to individual homeowners as of the date of the Market Absorption Study. (As of the date of the Market Absorption Study, 12 completed single detached homes within the



Phase 2 development of Improvement Area A had been conveyed to individual homeowners. However, as of July 1, 2006, 18 completed production homes within Phase 2 had been conveyed to individual homeowners. See “PROPERTY OWNERSHIP AND DEVELOPMENT.”) An executive summary of the Market Absorption Study is attached to this Official Statement as Appendix G. The Market Absorption Study assumes that the undeveloped portion of Improvement Area A will be developed with 621 additional single-family detached homes.

Based on the assumptions and subject to the limiting conditions set forth in the Market Absorption Study, the Market Absorption Consultant has concluded that the estimated absorption for the 621 proposed residences remaining to be completed and conveyed to individual homeowners within the three projects planned within the undeveloped portion of Improvement Area A will be approximately 49 homes in 2006, 104 homes in 2007, 104 homes in 2008, 120 homes in 2009, 95 homes in 2010, 75 homes in 2011 and the remaining 74 homes in 2012.

The conclusions set forth in the Market Absorption Study are based upon various expected economic and real estate factors including growth prospects for the Southern California market region in general, and the County and Improvement Area A markets in particular, and competition in the market place. Additionally, the conclusions set forth in the Market Absorption Study also assume moderate mortgage interest rate increases and moderate gasoline prices increases. If any of these and other factors are not achieved, the rates of absorption set forth in the Market Absorption Study could be adversely affected. Moreover, the absorption schedule and land values in the Phase 2 development of Improvement Area A may be affected by the increasing use of adjustable rate loans and creative financing. See “SPECIAL RISK FACTORS — Risks Related to Mortgage Interest Rates and Variable Rate Mortgages.” See Appendix G — “SUMMARY OF MARKET ABSORPTION STUDY,” for a summary of the specific assumptions and methodology employed by the Market Absorption Consultant and a more detailed discussion of its conclusions.

### **Value-to-Lien Ratios**

The value of the property within Improvement Area A is significant because, in the event of a delinquency in the payment of Improvement Area A Special Taxes, the Community Facilities District may foreclose only against delinquent parcels. The appraised value of the Phase 2 development of Improvement Area A as set forth in the Appraisal is \$57,500,000 and the fiscal year 2005-06 assessed value for the 448 completed homes owned by individual homeowners from the Phase 1 development of Improvement Area A is \$156,904,066.

The aggregate appraised value of Phase 2 of Improvement Area A and the fiscal year 2005-06 assessed value of the 448 completed homes within Phase 1 of Improvement Area A is approximately \$214,404,066. Likewise, the ratio of the value of a parcel to its “share” of the Bonds is important because it provides an indication of the extent of the relative burden imposed on each parcel by the applicable Improvement Area A Special Tax. The ratio of that value to the \$13,445,000 total principal amount of the 2006 Bonds plus \$8,685,000, the aggregate principal amount of the outstanding 2002 Bonds (but not including other direct and overlapping tax and assessment debt), is approximately 9.69 to 1. The aforesaid value to lien ratio is for the entire Improvement Area based on the appraised value for undeveloped lots and assessed value for developed lots, however, the ratios of the value of individual lots within the Improvement Area to their respective shares of the principal amount of the 2006 Bonds can be expected to vary substantially depending upon the status of development and selling price thereof.

## **Direct and Overlapping Debt**

Improvement Area A is included within the boundaries of numerous overlapping local agencies providing governmental services, including but not limited to CFD No. 2003-22. Some of these local agencies have outstanding bonds, and/or the authority to issue bonds, payable from taxes or assessments. The existing and authorized indebtedness payable from taxes and assessments that may be levied upon the property within Improvement Area A is shown in the table below. In addition to current debt, new community facilities districts and/or special assessment districts could be formed in the future encompassing all or a portion of the property within Improvement Area A; and, such districts or the agencies that formed them could issue more bonds and levy additional special taxes or assessments.

**IMPROVEMENT AREA A**  
**SECURED PROPERTY TAX ROLL AND DIRECT AND OVERLAPPING DEBT**

**ASSESSED VALUE**  
 2005-2006 Secured Roll Assessed Valuation \$162,305,754

**SECURED PROPERTY TAX ROLL**

<i>Description of Tax Bill</i>	<i>Type</i>	<i>Total Parcels Levied</i>	<i>Total Levy</i>	<i>% Applicable</i>	<i>Parcels Levied in Improvement Area A</i>	<i>Fiscal Year 2005-06 Levy Amount</i>
General Purpose	1%	809,881	\$ 1,708,046,335	0.094%	451	\$ 1,610,352
Temecula Valley Unified School District	GO	39,783	4,321,348	1.052	381	45,443
Metropolitan Water Debt Service	GO	430,515	5,247,282	0.160	451	8,372
R & T Cod 482 Penalty Assessment	SPL	6,060	1,734,923	0.371	19	6,436
NPDES – Santa Margarita	SPL	59,242	401,183	0.187	187	751
Valleywide Regional Facility LMD 88-1	LMD	54,065	1,014,586	0.245	448	2,482
Valleywide LMD French Valley	LMD	4,795	2,019,194	10.625	448	214,538
MWD Standby	WTR	209,944	2,733,248	0.115	3	3,156
EWMD Standby – Combined Charge	WTR	212,481	4,505,616	0.139	451	6,246
Improvement Area A	CFD	451	687,066	100.000	451	687,066
<b>2005-2006 Total Property Tax Liability</b>						<b>\$ 2,584,842</b>
<b>TOTAL PROPERTY TAX AS A PERCENTAGE OF FISCAL YEAR 2005-06 ASSESSED VALUATION</b>						<b>1.59%</b>

**LAND SECURED BOND INDEBTEDNESS**

<i>Overlapping Direct and Overlapping Bonded Debt</i>	<i>Type</i>	<i>Issued</i>	<i>Outstanding</i>	<i>Percent Applicable</i>	<i>Parcels Levied In Improvement Area A</i>	<i>Amount of Debt</i>
Improvement Area A	CFD	\$22,405,000	\$ 22,130,000	100.000%	451	<u>\$22,130,000</u>
<b>Total Land Secured Bonded Debt <sup>(1)</sup></b>						<b>\$22,130,000</b>
<i>Authorized Direct and Overlapping Bonded Debt</i>	<i>Type</i>	<i>Authorized</i>	<i>Unissued</i>	<i>% Applicable</i>	<i>Parcels Levied In Improvement Area A</i>	<i>Applicable</i>
CFD 2003-22 <sup>(2)</sup>	CFD	\$12,500,000	\$12,500,000	100.000%	3	\$12,500,000
Improvement Area A	CFD	24,000,000	1,595,000	100.000	451	<u>1,595,000</u>
<b>Total Unissued Land Secured Bonded Debt <sup>(1)</sup></b>						<b>\$14,095,000</b>
<b>TOTAL OUTSTANDING AND UNISSUED LAND SECURED BONDED INDEBTEDNESS</b>						<b>\$36,225,000</b>

**GENERAL OBLIGATION BOND INDEBTEDNESS**

<i>Overlapping Direct and Overlapping Bonded Debt</i>	<i>Type</i>	<i>Issued <sup>(3)</sup></i>	<i>Outstanding <sup>(3)</sup></i>	<i>% Applicable</i>	<i>Parcels Levied In Improvement Area A</i>	<i>Amount of Debt</i>
Temecula Valley Unified School District B & I	GO	\$ 65,000,000	\$ 46,485,000	1.052%	381	\$ 488,832
Metropolitan Water Debt Service	GO	850,000,000	419,390,000	0.010	451	<u>41,450</u>
<b>Total General Obligation Bonded Debt <sup>(3)</sup></b>						<b>\$ 530,282</b>
<i>Authorized Direct and Overlapping Bonded Debt</i>	<i>Type</i>	<i>Authorized <sup>(3)</sup></i>	<i>Unissued <sup>(3)</sup></i>	<i>% Applicable</i>	<i>Parcels Levied In Improvement Area</i>	<i>Applicable</i>
Temecula Valley Unified School District	GO	\$ 65,000,000	\$ 0	1.052%	381	\$ 0
Metropolitan Water Debt Service	GO	850,000,000	0	0.010	451	<u>0</u>
<b>Total Unissued General Obligation Bonds <sup>(3)</sup></b>						<b>\$ 0</b>
<b>TOTAL OUTSTANDING AND UNISSUED LAND SECURED BONDED INDEBTEDNESS</b>						<b>\$36,225,000</b>
<b>TOTAL OF ALL OUTSTANDING, DIRECT, AND OVERLAPPING DEBT</b>						<b>\$22,660,282</b>
<b>TOTAL OF ALL OUTSTANDING AND UNISSUED DIRECT AND OVERLAPPING BONDED DEBT</b>						<b>\$36,755,282</b>

<sup>(1)</sup> Additional bonded debt or available bond authorization may exist but is not shown because a tax was not levied for the referenced fiscal year.

<sup>(2)</sup> CFD No. 2003-22 is in the process of increasing the maximum authorized bonded indebtedness within CFD No. 2003-22 from \$6,500,000 to \$12,500,000.

<sup>(3)</sup> Data provided by issuing agency as of September 2005.

Source: Psonas.

## Improvement Area A Delinquency History

The following table is a summary of Improvement Area A Special Tax levies, collections and delinquency rates for fiscal years 2002-03 through 2005-06.

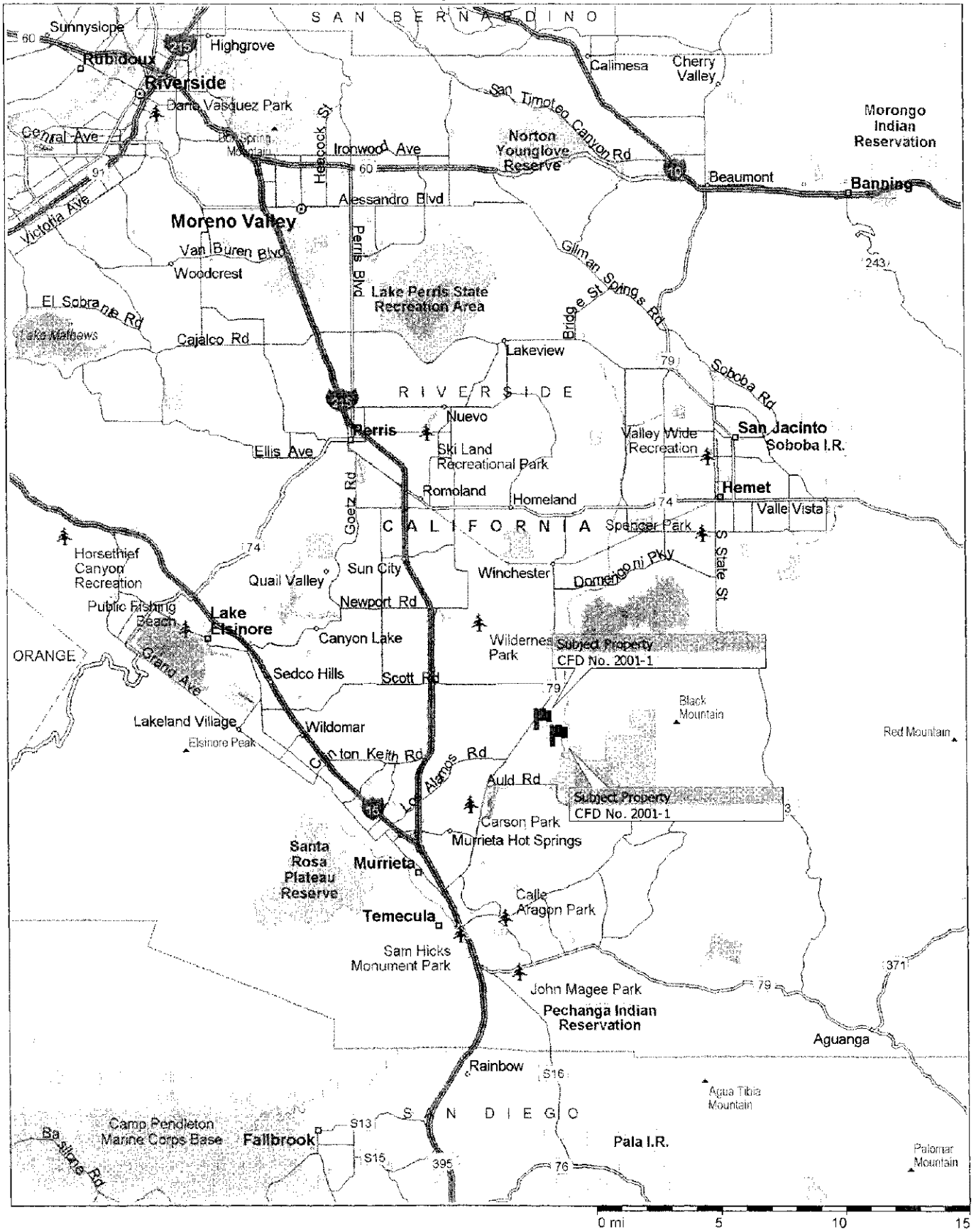
### IMPROVEMENT AREA A SPECIAL TAX LEVIES, DELINQUENCIES AND DELINQUENCY RATES FISCAL YEARS 2002-03 THROUGH 2005-06

<i>Fiscal Year</i>	<i>Amount Levied</i>	<i>Fiscal Year Delinquencies</i>			<i>Delinquencies as of July 19, 2006</i>		
		<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>	<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>
2002-03	\$396,196.90	0	\$ 0.00	0.00%	0	0.00	0.00%
2003-04	635,822.20	0	0.00	0.00	0	0.00	0.00
2004-05	710,741.00	2	1,634.00	0.23	0	0.00	0.00
2005-06	687,066.28	35	41,945.50	6.11	30	\$35,890.50	5.22

Source: Psomas for fiscal year 2005-06; the Water District for prior fiscal years.

# HRA

## Regional Map



CONSULTING REAL ESTATE APPRAISERS

Eastern Municipal Water District  
Community Facilities District No 2001-01  
(Improvement Area A)

Lake Skinner

Washington St

Abena St

Morningstar  
Ranch

POWTOY RD

State Hwy 79

Granddike Apartments



## PROPERTY OWNERSHIP AND DEVELOPMENT

*The following information about the Developer and its proposed developments in Improvement Area A has been provided by the Developer and has not been independently confirmed or verified by the Community Facilities District. Such information is included because it may be relevant to an informed evaluation of the security for the 2006 Bonds. However, because ownership of the property is expected to change, 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.*

### **The Developer**

The developer of the property remaining to be developed within Improvement Area A of the Community Facilities District, otherwise known as Phase 2, is Brookfield W633 LLC, a Delaware limited liability company. The Developer is a wholly owned subsidiary of Brookfield San Diego Holdings LLC, a Delaware limited liability company (“Brookfield San Diego”). Brookfield San Diego is a 90% owned subsidiary of Brookfield Homes Holdings Inc., a California corporation (“Brookfield Holdings”). Brookfield Holdings is a wholly owned subsidiary of Brookfield Homes Corporation, a Delaware corporation (“Brookfield Homes Corporation”).

Brookfield Homes Corporation, through its subsidiaries, operates in five local market areas: San Francisco Bay Area, Orange County/Los Angeles, San Diego/Riverside, Sacramento, and the Washington, D.C. Area, and has been building homes and developing land in these markets since the mid-1990's. Brookfield Homes Corporation is publicly traded and its head office is located in Fairfax, Virginia. In 2005, Brookfield Homes Corporation ranked within the top twenty largest home builders in the United States based on the number of homes sold. Brookfield Homes Corporation is listed on the NYSE under the ticker symbol “BHS” and is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). Such filings, including its Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. Such files can also be accessed over the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov), by using Brookfield Homes Corporation's CTR Number: 0001202157. Copies of such material can also be obtained by mail from the SEC at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates.

The Internet addresses and references to filings with the SEC are included for reference only, and the information on these Internet sites and on file with the SEC are not a part of this Official Statement and are not incorporated by reference into this Official Statement.

**Other Projects Undertaken by Brookfield San Diego.** Recent projects currently under development by Brookfield San Diego in Southern California include the following:

<i>Project Name</i>	<i>Location</i>	<i>Number of Units</i>	<i>Selling Price as of July 1, 2006<sup>(1)</sup></i>	<i>Units Closed as of July 1, 2006</i>	<i>Estimated Completion Date</i>
Mystic Point	SD County	252	\$ 439,000	176	June, 2007
Astoria	SD County	121	915,000	117	October, 2006
Calabria	SD County	139	1,200,000	11	December, 2008
Brookfield 10	SD County	151	1,723,000	0	September, 2009
Cottage Lane	SD County	270	535,000	243	December, 2006
Lantana	SD County	118	687,000	66	June, 2007
Mahogany	SD County	156	765,000	17	December, 2008
Trellis	SD County	126	595,000	0	June, 2008
Arbella	SD County	180	450,000	0	December, 2008

<sup>(1)</sup> Selling Price is the weighted average net sales price for remaining units to close as of July 1, 2006 and includes the base sales price, plus any lot premium, less any incentives.

Source: The Developer.

## **Development Plan**

Improvement Area A is being developed in two phases. The Phase 1 portion of Improvement Area A contains 448 completed single family detached units on approximately 147 acres, all of which are owned by individual homeowners. The Phase 1 development of Improvement Area A was developed by Brookfield Winchester. The Phase 2 development of Improvement Area A is planned to be developed by the Developer into 633 single family detached homes at buildout. Phase 2 includes approximately 310 gross acres in one final tract map and two tentative tract maps. Tract Map No. 30069-1 was recorded on April 1, 2005 and consists of approximately 105.45 acres which have been divided into 341 single family residential lots of approximately 9,620 square feet each. Tentative Tract Map No. 30069-2 is expected to record in August, 2006 and consists of approximately 106.20 acres which have been divided into 189 single family residential lots of approximately 11,490 square feet each. Tentative Tract Map 30069 is expected to record in August, 2006 and consists of approximately 97.98 acres which have been divided into 103 single family residential lots of approximately 11,076 square feet each.

The Phase 2 development of Improvement Area A is being developed by the Developer as a single project comprised of three product lines known as “Veranda,” “Ironwood” and “Acacia” which the Developer plans to contain a total of approximately 633 single family detached residential homes at buildout. At buildout, the Developer plans for Veranda to consist of 186 single family detached residential homes, Ironwood to consist of 262 single family detached residential homes and Acacia to consist of 185 single family detached residential homes in the Community Facilities District.

The Veranda product line is projected to include four floor plans ranging in size from approximately 2,472 square feet to approximately 3,108 square feet featuring four to five bedrooms. The Developer plans to include five floor plans in the Ironwood product line ranging in size from approximately 2,675 square feet to approximately 3,670 square feet and featuring four to six bedrooms. The Developer plans to include four floor plans in the Acacia product line ranging in size from approximately 3,180 square feet to approximately 4,178 square feet and featuring four to six



bedrooms. Base sales prices within the Veranda, Ironwood and Acacia product lines ranged from \$434,000 to \$575,000 as of July 1, 2006.

The following table summarizes, by floor plan, the number of units, base home sizes and base sales prices within each product line as of July 1, 2006:

<i>Floor Plan</i>	<i>Base Number of Units</i>	<i>Base Size (in Square Feet)</i>	<i>Base Sales Price<sup>(1)</sup></i>
<b><i>Veranda</i></b>			
1	37	2,472	\$434,000
2	46	3,172	466,000
3	47	2,946	454,000
4	<u>56</u>	3,108	464,000
Total	186		
<b><i>Ironwood</i></b>			
1	52	2,675	\$455,000
2	52	3,168	480,000
3	52	3,208	490,000
4	53	3,409	505,000
5	<u>53</u>	3,670	515,000
Total	262		
<b><i>Acacia</i></b>			
1	36 <sup>(2)</sup>	3,180	\$540,000
2	47 <sup>(2)</sup>	3,462	555,000
3	46	3,761	565,000
4	<u>56</u>	4,178	575,000
Total	185		

<sup>(1)</sup> As of July 1, 2006.

<sup>(2)</sup> One floor plan 1 unit was changed to a floor plan 2 unit as of July 1, 2006.

Source: The Developer.

The Developer plans to construct its project within the Phase 2 development in three phases. As of July 1, 2006, the property within Tract No. 30069-1 and Tentative Tract Map Nos. 30069 and 30069-2 was in various stages of construction. As of July 1, 2006, within the property being developed by the Developer, four model homes were completed, 18 production homes were completed and closed escrow to individual homeowners, 55 homes were under construction, 325 lots were in finished lot condition and 231 lots were in blue-top condition. As of July 1, 2006, several interior streets were paved with curbs and gutters installed.

As a condition of development, the Developer is completing certain backbone infrastructure improvements to Pourroy Road and Washington Road. As of July 1, 2006, Pourroy Road was paved with full street improvements installed and Washington Road was graded but construction of curbs, gutters and sidewalks had not begun. Final tract maps for Tentative Tract Map Nos. 30069 and 30069-2 are expected to record in August, 2006. In order to record final tract maps for Tentative Tract Map Nos. 30069 and 30069-2, the Developer needs to obtain final signoff of its development plans within Tentative Tract Map Nos. 30069 and 30069-2 from the Riverside County Flood Control and Water Conservation District.

The Developer expects to complete (i) the Veranda project in December 2008, (ii) the Acacia project in August 2009, and (iii) the Ironwood project in October 2010. The absorption rate anticipated by the Developer for completed homes is faster than the absorption rate projected by the Market Absorption Consultant in the Market Absorption Study. See “THE COMMUNITY FACILITIES DISTRICT — Property Values - Market Absorption Study” and Appendix G — “SUMMARY OF MARKET ABSORPTION STUDY.”

Except as described in this Official Statement and except for those consents, permits, authorizations, certifications and approvals of governmental entities required in the ordinary course of development, the Developer has no actual knowledge of any impediment which could have a material adverse effect on its ability to complete the planned development of its property within the Community Facilities District.

### **Financing Plan**

The Developer plans to finance the planned development of its property within Phase 2 of Improvement Area A with a combination of equity contributions, proceeds from several loans described below, proceeds from the sale of the 2006 Bonds and revenues from home closings. The Developer has obtained two acquisition and development loans from Bank of America, N.A. (the “Lender”) in the combined aggregate principal amount of \$49,900,000 (the “A&D Loans”) and two construction loans from the Lender in the aggregate principal amount of \$31,000,000 (\$15,000,000 related to the 262 lots within Ironwood and \$16,000,000 related to the 186 lots within Veranda) (the “Construction Loans” and, together with the A&D Loans, the “Loans”). The Loans are secured by a first lien deed of trust on the Developer’s property within Improvement Area A. The interest rate on the Loans is approximately the prime rate. One A&D loan for \$21,000,000 matures August 31, 2006 with an automatic 6 month extension. One A&D loan for \$28,900,000 matures March 1, 2007 with 4 automatic 3 month extensions. The Ironwood Construction Loan is due July 1, 2008 with 2 automatic 6 month extensions. The Veranda Construction Loan is due October 1, 2007 with 2 automatic 6 month extensions. As of August 1, 2006, the outstanding aggregate principal balance of the A&D Loans was approximately \$40,665,000 and the outstanding aggregate principal amount of the Construction Loans was approximately \$19,009,000. The terms of the Loans limit the amount the Developer may borrow or have outstanding at any particular time.

In addition to the Loans, the Developer expects to finance the planned construction within Phase 2 of Improvement Area A with additional loans, equity contributions and revenues from home closings. The Developer expects total equity contributions of approximately \$23,635,000. As of July 1, 2006, the equity contributions funded totaled approximately \$20,018,000 with an additional \$3,617,000 expected to be funded by December 31, 2006.

The Developer expects to obtain additional loans to complete the planned construction within Phase 2 of Improvement Area A in the approximate aggregate principal amount of \$126,783,000. Although the Developer has been successful in obtaining financing for its initial development of Phase 2 within Improvement Area A, there is no assurance that the Developer will be able to obtain additional loans in the amounts necessary to finance the remaining development costs within Phase 2 of Improvement Area A. Further, there is no assurance that additional equity contributions or other amounts needed to complete the development will be available from the Developer, Brookfield San Diego, Brookfield Homes Corporation, or any other source, when needed.

The following table shows the Developer's pro forma cash flow for its developments within Improvement Area A.

**BROOKFIELD W633, LLC  
VERANDA, IRONWOOD AND ACACIA PROJECTS  
PRO-FORMA CASH FLOW SUMMARY  
(ESTIMATED AS OF JULY 1, 2006)  
(000's)**

	<i>Through June 30, 2006</i>	<i>July 1, 2006 through Dec. 31, 2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>Total<sup>(1)</sup></i>
<b>Sources of Funds</b>							
Residential Sales	\$ 8,230	\$ 28,081	\$ 101,924	\$ 99,197	\$ 59,855	\$ 24,793	\$ 322,080
Bond Proceeds	--	--	6,914	4,053	34	0	11,000
Loan Proceeds	70,481	23,491	47,082	42,188	25,335	9,913	218,490
Equity Contributions	<u>20,018</u>	<u>3,617</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>23,635</u>
<b>Total Sources</b>	<b>\$ 98,728</b>	<b>\$ 55,189</b>	<b>\$ 155,919</b>	<b>\$ 145,438</b>	<b>\$ 85,224</b>	<b>\$ 34,706</b>	<b>\$ 575,208</b>
<b>Uses of Funds</b>							
Land Purchase	\$ 21,522	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 21,522
Site Development	37,962	7,180	4,458	329	--	--	49,929
Site Fees and Permits	5,735	3,689	8,219	6,998	3,871	540	29,052
Direct Construction	9,324	16,481	45,525	43,139	27,526	11,962	150,957
Service and Warranty	57	127	635	690	327	173	2,009
Field Expenses	1,007	1,313	2,391	2,454	1,327	624	9,117
Selling and Marketing	2,718	2,264	2,680	2,478	1,386	429	11,955
General & Administrative	332	1,136	4,103	3,995	2,407	1,002	12,975
Property Taxes	696	363	1,274	1,174	721	263	4,491
Financing Costs	6,535	3,587	6,148	3,648	1,412	258	21,588
Construction Loan Repayment	12,840	19,050	69,142	67,292	40,604	9,560	218,488
Equity Repayment	<u>--</u>	<u>--</u>	<u>14,343</u>	<u>9,292</u>	<u>--</u>	<u>--</u>	<u>23,635</u>
<b>Total Uses</b>	<b>\$ 98,728</b>	<b>\$ 55,189</b>	<b>\$ 155,919</b>	<b>\$ 141,490</b>	<b>\$ 79,581</b>	<b>\$ 24,811</b>	<b>\$ 555,718</b>
<b>Net Cash Flow</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 3,949</b>	<b>\$ 5,643</b>	<b>\$ 9,895</b>	<b>\$ 19,490</b>

<sup>(1)</sup> Numbers may not add due to rounding.  
Source: The Developer.

As of July 1, 2006, the Developer had expended approximately \$85,888,000 on the acquisition and development of its property within Improvement Area A. The Developer expects total costs to complete the development of its property within Improvement Area A to buildout to be approximately \$227,705,000, which includes \$11,284,000 of remaining in-tract and offsite improvements.

There is no assurance that amounts necessary to finance the remaining development costs within Improvement Area A will be available from the Developer, Brookfield San Diego, Brookfield Homes Corporation, or any other source, when needed. Neither the Developer nor any of its affiliated entities are under any legal obligation of any kind to expend funds for the development of the property within Improvement Area A. Any contributions or loans received by the Developer from any source to fund costs of development within Improvement Area A are entirely voluntary. The sole asset of the Developer is the land and improvements which it owns in within Improvement Area A and its only sources of revenue are loans, home sale proceeds, contributions made to it by its member, and proceeds of the 2006 Bonds.

### **SPECIAL RISK FACTORS**

The purchase of the 2006 Bonds involves significant risks that are not appropriate for certain investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the 2006 Bonds. The 2006 Bonds have not been rated by a rating agency. 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 2006 Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Improvement Area A to pay their Improvement Area A Special Taxes when due. Such failures to pay Improvement Area A Special Taxes could result in the inability of the Community Facilities District on behalf of Improvement Area A to make full and punctual payments of debt service on the 2006 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in Improvement Area A. See “— Reductions in Property Values” below.

#### **Insufficiency of Improvement Area A Special Tax Revenues**

As discussed below, Improvement Area A Special Tax revenues may not produce revenues sufficient to pay the debt service on the Bonds either due to nonpayment of the amounts levied or in the event that acreage within Improvement Area A becomes exempt from taxation due to the transfer of title to a public agency.

In order to pay debt service on the Bonds, it is necessary that the Improvement Area A Special Taxes be paid in a timely manner. Should the Improvement Area A Special Taxes not be paid on time, the Community Facilities District has established a Reserve Account in an amount equal to the Reserve Requirement to pay debt service on the Bonds to the extent other funds are not available. See “SECURITY FOR THE BONDS — Reserve Requirement.” The Community Facilities District has covenanted to maintain in the Reserve Account an amount equal to the Reserve Requirement subject, however, to the limitation that the Community Facilities District may not levy the Improvement Area A Special Tax in any fiscal year at a rate in excess of the maximum amounts permitted under the Rate and Method of Apportionment. As a result, if a significant number of delinquencies occurs, the Community Facilities District could be unable to replenish the Reserve

Account to the Reserve Requirement due to the limitations on the Improvement Area A Maximum Special Tax. If such defaults were to continue in successive years, the Reserve Account could be depleted and a default on the Bonds could occur.

The Act provides that, if any property within Improvement Area A not otherwise exempt from the Improvement Area A Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Improvement Area A Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Improvement Area A Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Improvement Area A Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. If for any reason property within Improvement Area A becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to the limitation of the Improvement Area A Maximum Special Tax, the Improvement Area A Special Tax will be reallocated to the remaining taxable parcels within Improvement Area A. This would result in the owners of such property paying a greater amount of the Improvement Area A Special Tax and could have an adverse impact upon their willingness and/or ability to pay the Improvement Area A Special Tax. **Moreover, if a substantial portion of additional land within Improvement Area A became exempt from the Improvement Area A Special Tax because of public ownership, or otherwise, the Improvement Area A Maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Bonds when due and a default will occur with respect to the payment of such principal and interest.**

The Community Facilities District has covenanted that, under certain conditions, it will institute foreclosure proceedings to sell any property with delinquent Improvement Area A Special Taxes in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were ever instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Improvement Area A Special Tax to protect its security interest. See “SECURITY FOR THE BONDS — Covenant for Superior Court Foreclosure” for provisions which apply in the event of such foreclosure and which the Community Facilities District is required to follow in the event of delinquencies in the payment of the Improvement Area A Special Tax.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to Owners of the Bonds (if the Reserve Account has been depleted) pending such sales or the prosecution of such foreclosure proceedings and receipt by the Water District on behalf of the Community Facilities District of the proceeds of sale. The Community Facilities District may adjust the future Improvement Area A Special Tax levied on taxable parcels in Improvement Area A, subject to the limitation on the Improvement Area A Maximum Special Tax, to provide an amount required to pay interest on, principal of, and redemption premiums, if any, on the Bonds, and the amount, if any, necessary to replenish the Reserve Account to an amount equal to the Reserve Requirement and to pay all current expenses. There is, however, no assurance that the total amount of the Improvement Area A Special Tax that could be levied and collected against taxable parcels in Improvement Area A will be at all times sufficient to pay the amounts required to be paid by the Supplement to Resolution, even if the Improvement Area A Special Tax is levied at the Improvement Area A Maximum Special Tax rates. See “— Enforcement Delays - Bankruptcy.”

No assurance 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 installments of the Improvement Area A Special Tax. The Act does not require the Water District to purchase or otherwise acquire any lot or parcel of property to be sold at foreclosure if there is no other purchaser at such sale. The Act and the Resolution do specify that the Improvement Area A Special Tax will have the same lien priority as for *ad valorem* property taxes in the case of delinquency. Section 53356.6 of the Act requires that property sold pursuant to foreclosure under the Act be sold for not less than the amount of judgment in the foreclosure action, plus post judgment interest and authorized costs, unless the consent of the owners of 75% of the Outstanding Bonds is obtained. The Resolution provides that the Water District may waive delinquency penalties and redemption penalties if it determines that (i) the waivers shall apply only to parcels delinquent at the time of the determination, (ii) the waivers shall only be available with respect to parcels for which all past due and currently due Improvement Area A Special Taxes and all other costs are paid in full within a limited period of time specified in the determination, (iii) the waivers shall be available only with respect to parcels sold or otherwise transferred to new owners unrelated to the owner responsible for the delinquency, and (iv) the waivers are in the best interest of the Owners.

Prior to July 1, 1983, the right of redemption from foreclosure sales was limited to a period of one year from the date of sale. Under legislation effective July 1, 1983, the statutory right of redemption from such foreclosure sales has been repealed. However, a period of 20 days must elapse after the date on which the notice of levy of the interest in real property was served on the judgment debtor before the sale of such lot or parcel can be made. Furthermore, if the purchaser at the sale is the judgment creditor (e.g., the Community Facilities District), an action may be commenced by the delinquent property owner within 90 days after the date of sale to set aside such sale. The constitutionality of the aforementioned legislation, which repeals the one year redemption period, has not been tested and there can be no assurance that, if tested, such legislation will be upheld. (Section 701.680 of the Code of Civil Procedure of the State.)

### **Concentration of Ownership**

As of July 2006, of the proposed 1,081 single family detached homes to be constructed in Improvement Area A, all 448 units in Phase 1 were owned by individual homeowners and 18 of the proposed 633 units to be constructed by the Developer within Phase 2 were owned by individual homeowners. In the Phase 2 development of Improvement Area A planned for 633 single family detached residences at buildout, as of July 1, 2006, four model homes were completed, 18 production homes were completed and conveyed to individual homeowners, 55 production homes were under construction, 325 lots were in finished lot condition and 231 lots were in blue-top condition. There is no assurance of any further diversification of ownership of the properties within Improvement Area A. Unless and until such ownership is more broadly diversified, the inability or refusal of the Developer to pay the Improvement Area A Special Taxes applicable to its land when due could result in the total depletion of the Reserve Account prior to reimbursement thereof from enforcement proceedings. Under such circumstances, there could be insufficient moneys with which to pay principal of and/or interest on the Bonds.

### **Uncertainties in Land Development – General**

Within Improvement Area A, as of July 1, 2006, 466 completed single family detached homes were owned by individual homeowners, four model homes were completed, 55 production homes were under construction, 325 lots were in finished lot condition and 231 lots were in blue-top

condition. Since land without completed buildings is generally less valuable than land containing completed buildings, the vacant land will provide less security for the Bonds should it be necessary for the Community Facilities District to commence enforcement proceedings with respect to such land as a result of the non-payment of the Improvement Area A Special Taxes. In short, the successful development of the land within Improvement Area A is important to the ultimate security for, and the payment of principal of and interest on, the Bonds.

There are many reasons why a project may not be developed in the manner and within the time frame and budget originally planned. For example, a project might be adversely affected by opposition to it, unfavorable economic conditions, an inability of the landowner to obtain financing, fluctuations in the local real estate market, fluctuations in interest rates, unexpected increases in development costs, changes in federal, state or local governmental policies relating to the ownership and development of real estate, and the appearance of previously unknown environmental considerations or material changes in known environmental considerations. Some of these factors are discussed below as individual risk factors. In addition to the foregoing, a substantial portion of projects within the County are historically occupied by commuters to employment centers in the neighboring counties of Los Angeles and Orange, and such projects may be adversely affected by circumstances affecting such commuters, including but not limited to rising gasoline prices.

### **Future Land Use Regulations and Growth Control Initiatives**

It is possible that future growth control initiatives could be enacted by the voters or that future local, state or federal land use regulations could be adopted by governmental agencies and be made applicable to the development of the vacant land within Improvement Area A with the effect of negatively impacting the ability of the owner or owners of such land to complete the development of such land if they should desire to develop it. See also “— Endangered Species” below. Potential purchasers of the Bonds should assume that any reduction in the permitted density, significant increase in the cost of development or substantial delay in development caused by growth and building permit restrictions or more restrictive land use regulations would cause the values of such vacant land within Improvement Area A to decrease.

Completion of construction of any proposed structures on the vacant land within Improvement Area A is subject to the receipt of approvals from a number of public agencies concerning the layout and design of such structures, land use, health and safety requirements and other matters. The failure to obtain any such approval could adversely affect the planned development of such land.

Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. Because future development of vacant property in Improvement Area A could occur over several years, if at all, the application of future land use regulations to the development of the vacant land could cause significant delays and cost increases not currently anticipated, thereby reducing the development potential of the vacant property and the ability or willingness of owners of such land to pay the Improvement Area A Special Taxes when due or causing land values of such land within Improvement Area A to decrease substantially from those in the Appraisal.

## **Geologic, Topographic and Climatic Conditions**

The market value of the property within Improvement Area A can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements of the parcels and the continued habitability and enjoyment of such public and private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements) and climatic conditions (such as droughts, fire hazard and floods).

Geocon Incorporated (“Geocon”) prepared a Updated Geotechnical Report dated July 31, 2003, for the undeveloped property in Improvement Area A consisting of the original Tentative Tract Map No. 30069. The report concluded that the proposed development of the site as single family residences is considered feasible from a geotechnical engineering standpoint. The report noted that the site is not located within a Alquist-Priolo Fault Zone, and no active faults are known to traverse the property. The closest known active fault is the Elsinore Fault, located approximately 8.6 miles to the southwest of Improvement Area A. The report also concluded that the potential for liquefaction to occur appeared to be low.

Building codes require that some of these factors be taken into account in the design of private improvements of the parcels, and the County has adopted the Uniform Building Code standards with regard to seismic standards. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of establishment between the present costs of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Consequently, neither the absence of nor the establishment of design criteria with respect to any particular condition means that the applicable governmental agency has evaluated the condition and has established design criteria in the situations in which such criteria are needed to preserve value, or has established such criteria at levels that will preserve value. To the contrary, the Community Facilities District expects 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 actual value of the parcels may well depreciate or disappear, notwithstanding the establishment of design criteria for any such condition.

## **Hazardous Substances**

While government taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may also be relevant. One of the most serious in terms of the potential reduction in the value of a parcel is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Super Fund Act”, is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar in effect. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of a parcel whether or not the owner (or operator) had anything to do with creating or handling the hazardous



substance. The effect, therefore, should any of the parcels within Improvement Area A be affected by a hazardous substance, is to reduce the marketability and value by the costs of remedying the condition because the prospective purchaser of such a parcel will, upon becoming the owner of such parcel, become obligated to remedy the condition just as the seller of such a parcel is. The Appraisal does not take into account the possible liability of the owner (or operator) for the remedy of any hazardous substance affecting any such parcel.

The Community Facilities District is not aware that the owner of any parcel within Improvement Area A has a current liability for hazardous materials. The Developer is not aware of any hazardous materials located on its property within Improvement Area A. However, it is possible that such liabilities do currently exist and that the Community Facilities District and the Developer are not aware of such liabilities.

It is possible that hazardous substance liabilities may arise in the future with respect to any of the parcels within Improvement Area A resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling such substance. All of these possibilities could have the effect of significantly reducing the value of a parcel.

### **Endangered Species**

During the last several years, there has been an increase in activity at the State and federal level related to the listing of certain plant and animal species found in the Southern California area as threatened or endangered. Applicable law precludes activity that constitutes a “taking” of any federally-listed endangered species except pursuant to a permit. Large portions of Riverside County have been identified as containing habitat for two such species, the Stephen’s Kangaroo Rat and the Quino Checkerspot Butterfly. Evidence of habitation by these species has resulted in delays to or substantial revisions of proposed developments. However, in connection with the development of its land in Improvement Area A, the Developer will pay a fee of \$500 per acre in full mitigation of any adverse impact on such habitats.

An Environmental Impact Report (“EIR No. 374”) regarding the undeveloped portion of land within Improvement Area A was conducted in connection with the adoption of Amendment No. 4 of Specific Plan No. 286. EIR No. 374 reviewed the historical uses of the land which comprised the study area, the physical condition thereof, public records pertaining thereto, the uses of areas surrounding it, and other factors deemed relevant to an assessment of “recognized environmental conditions in connection with the subject property.” EIR No. 374 concluded that no environmental issues of concern were identified on the subject property and no off site environmental issues of concern were identified in connection with the subject property.

EIR No. 374 included only limited testing and analysis of the soils on the site. There can be no assurance that hazardous materials or waste will not be discovered on the property during or subsequent to the development of the land. Should such a discovery be made, the permitted land uses and/or the marketability of some or all of the property could be adversely affected, or the owners of contaminated sites could incur significant costs to implement any remedial action required

under state or federal law to clean up such contamination, or significant liabilities to third parties injured as a result of such contamination.

The Developer is currently unaware of the presence of any other species currently listed as threatened or endangered located within Improvement Area A. However, it is always possible that a species for which land within Improvement Area A provides habitat could be so listed.

### **Enforcement Delays – Bankruptcy**

In the event of a delinquency in the payment of Improvement Area A Special Taxes, the Community Facilities District, under certain circumstances, is required to commence enforcement proceedings as described under the heading “SECURITY FOR THE BONDS — Covenant for Superior Court Foreclosure.” However, prosecution of such proceedings could be delayed due to crowded local court calendars, dilatory legal tactics, or bankruptcy. It is also possible that the Community Facilities District will be unable to realize proceeds in an amount sufficient to pay the applicable delinquencies. Moreover, the ability of the Community Facilities District to commence and prosecute enforcement proceedings may be limited by bankruptcy, insolvency and other laws generally affecting creditors’ rights (such as the Soldiers’ and Sailors’ Relief Act of 1940) and by the laws of the State relating to judicial and non-judicial foreclosure. Although bankruptcy proceedings would not cause the liens of the Improvement Area A Special Taxes to become extinguished, bankruptcy of a property owner could result in a delay in the enforcement proceedings because federal bankruptcy laws provide for an automatic stay of foreclosure and tax sale proceedings. Any such delay could increase the likelihood of delay or default in payment of the principal of and interest on the Bonds. The various legal opinions delivered in connection with the issuance of the 2006 Bonds, including Bond Counsel’s approving legal opinion, are qualified as to the enforceability of the 2006 Bonds and the Supplement to Resolution by reference to bankruptcy, reorganization, moratorium, insolvency and other laws affecting the rights of creditors generally or against public corporations such as the Community Facilities District.

### **FDIC/Federal Government Interests in Parcels**

The ability of the Community Facilities District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Improvement Area A Special Taxes may be limited in certain respects with regard to parcels in which the Federal Deposit Insurance Corporation (the “FDIC”) has or obtains an interest. Specifically, in the event that any financial institution making a loan which is secured by parcels is taken over by the FDIC and the applicable Improvement Area A Special Tax is not paid, the remedies available to the Community Facilities District may be constrained. The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that taxes other than *ad valorem* taxes which are secured by a valid lien in effect before the FDIC acquired an interest in a property will be paid unless the FDIC determines that abandonment of its interests is appropriate. The Policy Statement provides that the FDIC generally will not pay installments of non-*ad valorem* taxes which are levied after the time the FDIC acquires its fee interest, nor will the FDIC recognize the validity of any lien to secure payment except in certain cases where the Resolution Trust Corporation had an interest in property on or prior to December 31, 1995. Moreover, the Policy Statement provides that, with respect to parcels on which the FDIC holds a mortgage lien, the FDIC will not permit its lien to be foreclosed out by a taxing authority without its specific consent, nor will the FDIC pay or recognize liens for any penalties, fines or similar claims imposed for the non-payment of taxes.

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

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

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

### **Direct and Overlapping Indebtedness**

The ability of an owner of property within Improvement Area A to pay the Improvement Area A Special Taxes could be affected by the existence of other taxes and assessments imposed upon taxable parcels. See "THE COMMUNITY FACILITIES DISTRICT — Direct and Overlapping Debt" herein. In addition, the Water District and other public agencies whose boundaries overlap those of Improvement Area A could impose additional taxes or assessment liens on the property within Improvement Area A in order to finance public improvements or services to be located or provided inside of or outside of such area. The lien created on the property within Improvement Area A through the levy of such additional taxes may be on a parity with the lien of the Improvement Area A Special Taxes.

The imposition of additional liens on a parity with the Improvement Area A Special Taxes may reduce the ability or willingness of the property owners to pay the Improvement Area A Special Taxes and increase the possibility that foreclosure proceeds will not be adequate to pay delinquent Improvement Area A Special Taxes.

### **Reductions in Property Values**

The value of the land within Improvement Area A is an important factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Improvement Area A Special Taxes, the Community Facilities District's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Improvement Area A Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Improvement Area A Special Taxes.

The Appraiser has estimated, on the basis of certain assumptions and limiting conditions contained in the Appraisal, that as of June 1, 2006 the value of the undeveloped portion of Improvement Area A is \$57,500,000. The Appraisal is based on the assumptions as stated in Appendix B — "APPRAISAL REPORT." The Appraisal does not reflect any possible negative impact which could occur by reason of future slow or no growth voter initiatives, any potential limitations on development occurring due to time delays, an inability of landowners within

Improvement Area A to obtain any needed development approval or permit, the presence of hazardous substances within Improvement Area A, the listing of endangered species or the determination that habitat for endangered or threatened species exists within Improvement Area A, or other similar situations.

### **Risks Related to Mortgage Interest Rates and Variable Rate Mortgages**

In addition to the risks to land value described under the heading “— Reductions in Property Values,” land values in California, and residential land values in particular, may be affected by the use of adjustable rate loans and creative financing have been a primary driving force underlying the housing price appreciation in California since 2002, in contrast historically to strong employment growth as the primary driving force of housing price appreciation. Creative financing includes the use of loan structures other than fixed-rate or 1-year adjustable rate loans, including without limitation interest only loans, payment option loans as well as initial teaser rates with very low initial payments that result in negative amortizations. As a result of increased use of adjustable rate loans and creative financing, many homeowners may face rising mortgage payments due to automatic rate resets as well as rising interest rates, and potential home purchasers may be unable to obtain adjustable rate loans and creative financing, which may reduce property values in Improvement Area A. Additionally, rising mortgage payments due to rising interest rates could affect the ability of individual homeowners to pay Improvement Area A Special Taxes when due, thereby causing higher delinquency levels. See Appendix G — “SUMMARY OF MARKET ABSORPTION STUDY— Potential “Financial” Risk Factors Underlying the Credit Quality and Bond Sizing for Land Secured Financings in Southern California.”

Some economists have also predicted that, as mortgage loan defaults increase bankruptcy filing by such homeowners are also likely to increase. Bankruptcy filings by homeowners with delinquent Improvement Area A Special Taxes would delay the commencement and completion of foreclosure proceedings to collect delinquent Improvement Area A Special Taxes. See “Enforcement Delays - Bankruptcy” above.

### **Rising Special Tax Delinquencies**

As discussed under the caption “THE COMMUNITY FACILITIES DISTRICT — Improvement Area A Delinquency History,” as of July 19, 2006, there was a delinquency rate of 5.22% within Improvement Area A which was attributable to parcels owned by individual homeowners and not the Developer. The July 19, 2006 data, however, does not include the final payments to be received from the County for Fiscal Year 2005-06. In general, in fiscal year 2005-06 the Water District experienced a rise in special tax delinquencies in its 25 community facilities districts and improvement areas therein. The Water District is not aware of the causes for the increased levels of delinquencies within Improvement Area A or the other Water District community facilities districts and improvement areas therein for Fiscal Year 2005-06, and, due to the fact that the current information does not include the final payment from the County, it is unclear whether the delinquency rates will remain at the current level or will decline. See “— Risks Related to Mortgage Interest Rates and Variable Rate Mortgages” above for a discussion of potential economic factors that could affect delinquency rates in Improvement Area A.

## **Risks Related to Current Market Conditions**

Since 2002, the Southern California housing market, including the Inland Empire, has experienced significant price appreciation with accelerating demand. The price acceleration has been due, at least in part, to the increasing use of creative financing options for individual home buyers. The use of creative financing options since 2002 was supported at least in part by historically low interest rates which have risen significantly in this year. See “— Risks Related to Mortgage Interest Rates and Variable Rate Mortgages.” However, the Southern California housing market, particularly in the Inland Empire, appears to be weakening. In an article published June 19, 2006, the Riverside Press Enterprise reported that, according to the Multi-Regional Multiple Listing Service, which tracks real estate activity in Riverside and San Bernardino counties, sales dropped 12% in the first five months of 2006 compared with the first five months of 2005. The article also reported a 46% increase in the number of home listings in the first five months of 2006 compared with the first five months of 2005.

In the past several months, a number of public home builders with significant operations in the Southern California housing market, including Brookfield Homes Corporation, the parent company of the Developer, have reported in SEC filings slowing demand, significant increases in sales cancellation rates and increasing inventory build-ups (including increasing investor/speculator resale inventory) amid rising interest rates. In Brookfield Homes Corporation’s SEC filing on form 10-Q filed August 9, 2006 for the first six months of 2006, Brookfield Homes Corporation reported that it continues to experience a slowdown in its housing markets, particularly in the San Diego, California and the Washington D.C. area. Brookfield Homes Corporation reported that the slowdown is a result of negative homebuyer sentiment and increases in resale inventories.

Additionally, in its SEC filing on form 10-Q filed August 7, 2006 for the first six months of 2006, M.D.C. Holdings, Inc. (“MDC”), the parent company of Richmond American Homes of California, Inc., a Colorado corporation (“Richmond American”), reported that beginning in the second half of 2005 and through the first Six months of 2006, MDC has seen demand for new homes weaken in most markets in which it operates. According to MDC, the factors contributing to the weakening market conditions include: (i) lower demand for new homes, (ii) significant increases in cancellation rates in nearly all markets in which MDC operates, (iii) speculators exiting the new home market, (iv) increases in the supply of new and existing homes available to be purchased, (v) increases in competition for new home orders, (vi) prospective home buyers having a more difficult time selling their existing homes in the more competitive environment, and (vii) higher incentives required to stimulate new home orders and maintain homes under contract.

In its SEC filing on form 8-K filed June 15, 2006, KB Home reported a 19% year-over-year decline in net orders in its second quarter (March 1, 2006 through May 31, 2006) from its second quarter 2005, despite gross orders that nearly matched the second quarter 2005 gross orders. KB Home stated in its release that market performance has receded from the all-time highs established in recent years, largely due to a sharp reduction of speculative purchases and an oversupply of new and resale inventory. KB Home expects these conditions to persist at least through the remainder of 2006.

As of July 1, 2006, just 18 homes of the 633 homes planned within the Phase 2 development of Improvement Area A had been completed and closed escrow to individual homeowners. Worsening market conditions may affect (i) the ability of the Developer to sell the planned units within the Phase 2 development within Improvement Area A within the timeframe and budget set

forth in this Official Statement, the Market Absorption Study and the Appraisal Report, and (ii) the value of the property within Improvement Area A. See “PROPERTY OWNERSHIP AND DEVELOPMENT” “SPECIAL RISK FACTORS — Concentration of Ownership,” “— Reductions in Property Values,” “— Risks Related to Mortgage Interest Rates and Variable Rate Mortgages” and “— Rising Special Tax Delinquencies” and “THE COMMUNITY FACILITIES DISTRICT — Property Values.”

### **No Acceleration Provision**

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Supplement to Resolution.

### **Ballot Initiatives**

Articles XIII A, XIII B, XIII C, and XIII D of the California Constitution were adopted pursuant to measures qualified for the ballot pursuant to the State’s constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the Water District, or other local agencies to increase revenues or to increase appropriations or on the ability of the landowners to complete the development of the vacant land within Improvement Area A. See “SPECIAL RISK FACTORS — Uncertainties in Land Development – General” and “— Future Land Use Regulations and Growth Control Initiatives” above.

### **Proposition 218**

An initiative measure entitled “The Right to Vote on Taxes Act” (“Proposition 218”) was approved by the voters at the November 5, 1996 statewide general election. Among other things, Proposition 218 added a new Article XIII C to the California Constitution which 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. While Proposition 218 has not yet been interpreted by the courts and the matter is not completely free from doubt, it is not likely that Proposition 218 has conferred on the voters the power to effect a repeal or reduction of the Improvement Area A Special Tax if the result thereof would be to impair the security of the Bonds.

It may be possible, however, for voters or the Board, acting as the legislative body of the Community Facilities District, to reduce the Improvement Area A Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Improvement Area A Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the future levy of Improvement Area A Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Nevertheless, to the maximum extent that the law permits it to do so, the Water District has covenanted that it will not initiate proceedings under the Act to reduce the Improvement Area A Maximum Special Tax rates, unless, in connection therewith, (i) the Water District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify

that, on the basis of the parcels of land and improvements existing in Improvement Area A as of the July 1 preceding the reduction, the maximum amount of the Improvement Area A Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment then in effect) in each Bond Year for any Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses and gross debt service in each Bond Year on all Bonds to remain Outstanding after the reduction is approved, (ii) the Water District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds, and (iii) the Water District is not delinquent in the payment of the principal of or interest on the Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultants shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by two percent (2%) in each subsequent Fiscal Year. The Water District also has covenanted that, in the event an initiative is adopted which purports to reduce or otherwise alter the Rate and Method of Apportionment, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

### **Loss of Tax Exemption**

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

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

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

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the Community Facilities District has committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bond owners on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of a credit rating for the 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.

## TAX 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 2006 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 2006 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 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 difference between the issue price of a 2006 Bond (the first price at which a substantial amount of the 2006 Bonds of the same maturity is 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 2006 Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner’s basis in the 2006 Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of a 2006 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 2006 Bonds is based upon certain representations of fact and certifications made by the Water 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 2006 Bonds to assure that interest (and original issue discount) on the 2006 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 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2006 Bonds. The Community Facilities District has covenanted to comply with all such requirements.

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 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2006 Bonds might be affected as a result of such an audit of the 2006 Bonds (or by an audit of Bonds of another series or other similar bonds).

Bond Counsel’s opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the Closing Date. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Supplement to Resolution and the Tax Certificate relating to the 2006 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 2006 Bonds for federal income tax purposes with respect to any 2006 Bond if any such action



is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2006 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 2006 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2006 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 2006 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2006 Bonds.

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

### **ABSENCE OF LITIGATION**

In connection with the issuance of the 2006 Bonds, the Water District's General Counsel will deliver a certificate to the effect that, to his actual knowledge, after due inquiry and investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened, or any unfavorable decision, ruling or finding, against or affecting the Community Facilities District, which would adversely impact the Community Facilities District's ability to complete the transactions described in, or contemplated by, the Supplement to Resolution or this Official Statement, restrain or enjoin the collection of the Improvement Area A Special Taxes, or in any way contest or affect the validity of the 2006 Bonds, the Supplement to Resolution, the Improvement Area A Special Taxes, or the transactions described herein.

### **ABSENCE OF RATINGS**

The Community Facilities District has not made, and does not contemplate making, application to any rating organization for a rating on the 2006 Bonds.

### **UNDERWRITING**

The 2006 Bonds are being purchased by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed to purchase the 2006 Bonds at a price of \$13,243,287.30 (representing \$13,445,000 aggregate original principal amount of the 2006 Bonds, less an Underwriter's discount of \$188,230.00 and less original issue discount of \$13,482.70). The Bond Purchase Agreement relating to the 2006 Bonds provides that the Underwriter will purchase all of the 2006 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriter's compensation is contingent upon the successful issuance of the 2006 Bonds.

The Underwriter may offer and sell 2006 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside front cover page hereof. The offering prices may be changed from time to time by the Underwriter.

## **CONTINUING DISCLOSURE**

The Community Facilities District will execute a continuing disclosure agreement for the benefit of the Owners and Beneficial Owners of the 2006 Bonds to provide certain financial information and operating data relating to the Water District (the "Annual Report") and to provide notices of the occurrence of certain enumerated events (the "Listed Events"). The Annual Report will be filed by the Fiscal Agent as the Dissemination Agent with each Nationally Recognized Municipal Securities Information Repository. Notices of Listed Events will be filed by the Dissemination Agent with the Municipal Securities Rulemaking Board. The specific nature of the information to be included in the Annual Reports and the notices of Listed Events is set forth in Appendix F — "FORMS OF CONTINUING DISCLOSURE AGREEMENTS". This agreement will be entered into in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The Annual Reports are to be filed by the Community Facilities District no later than six months after the end of the Community Facilities District's fiscal year, which is currently June 30. The first Annual Report is due December 31, 2006. The Community Facilities District entered into an undertaking pursuant to the Rule in connection with the issuance of the 2002 Bonds. Neither the Water District nor the Community Facilities District has ever failed to comply in all material respects with any previous such undertakings.

The Developer will enter into a Developer Disclosure Agreement, the format which is attached as Appendix F hereto (the "Developer's Disclosure Undertaking"). The Developer's Disclosure Undertakings will inure solely to the benefit of the Community Facilities District, the Dissemination Agent, the Underwriter and owners or beneficial owners from time to time of the 2006 Bonds. To the actual knowledge of the officers of the Developer involved in the issuance of the 2006 Bonds, neither the Developer nor any of its affiliates has ever failed to comply in all material respects with any previous undertakings under the Rule.

It should be noted that the Community Facilities District is required to file certain financial statements with the Annual Reports. This requirement has been included in the agreement solely to satisfy the provisions of the Rule. The inclusion of this information does not mean that the 2006 Bonds are secured by any resources or property of the Community Facilities District other than as described hereinabove. See "LIMITATION OF LIABILITY," "SECURITY FOR THE BONDS" and "SPECIAL RISK FACTORS." It should also be noted that the list of significant events which the Community Facilities District has agreed to report includes three items which have absolutely no application whatsoever to the 2006 Bonds. These items have been included in the list solely to satisfy the requirements of the Rule. Thus, any implication from the inclusion of these items in the list to the contrary notwithstanding, (with the possible exception of the Special Tax Letter of Credit) there are no credit enhancements applicable to the 2006 Bonds, there are no credit or liquidity providers with respect to the 2006 Bonds, and the 2006 Bonds have not been assigned a rating.

Neither the Water District nor the Community Facilities District has ever failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events. Although other companies affiliated with the Developer have entered into such undertakings, the Developer has not done so previously.

## **CERTAIN LEGAL MATTERS**

Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, will render an opinion with respect to the validity and enforceability of the Supplement to Resolution and as to the

validity of the 2006 Bonds. A copy of the form of such approving opinion is attached hereto as Appendix C. Copies of such approving opinion will accompany each 2006 Bond. Bond Counsel has not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the 2006 Bonds and expresses no opinion relating thereto. Certain legal matters will be passed upon for the Water District by the Water District's General Counsel.

In addition to serving as Bond Counsel in connection with the issuance and sale of the 2006 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, has served as Disclosure Counsel. Although it is serving as Bond Counsel and Disclosure Counsel to the Water District in connection with the issuance and sale of the 2006 Bonds, Bond Counsel represents the Underwriter in connection with other financings and matters unrelated to the Bonds.

Compensation for Bond Counsel and Disclosure Counsel services is contingent upon the successful issuance and sale of the 2006 Bonds.

#### **MISCELLANEOUS**

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as presentations of fact, and actual results may differ substantially from those set forth therein. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the Owners of the 2006 Bonds.

The summaries of certain provisions of the 2006 Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and reference is made to each of them for a complete statement of their provisions. Copies are available for review by making requests to the Water District.

The appendices are an integral part of this Official Statement and must be read together with all other parts of the Official Statement.

The distribution of this Official Statement has been authorized by the Community Facilities District.

/s/ Randy A. Record  
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President, Board of Directors of  
Eastern Municipal Water District

## APPENDIX A

### SUMMARY OF SUPPLEMENT TO RESOLUTION

*The following is a brief summary of certain provisions of the Supplement to Resolution. This summary is not intended to be definitive and is qualified in its entirety by reference to such documents for the complete terms thereof. Copies of the Supplement to Resolution are available upon request from the Community Facilities District.*

### DEFINITIONS

Unless the context otherwise requires, the following terms shall have the following meanings:

“25% Property Owner” means any Person who, together with the Affiliates of such person, owns property in Improvement Area A the aggregate Maximum Special Taxes applicable to which are not less than 25% of the total Maximum Special Taxes applicable to all Taxable Property in Improvement Area A, provided that such Person and all such Affiliates shall be treated as a single 25% Property Owner.

“2002 Bonds” means the Community Facilities District No. 2001-01 (French Valley) of Eastern Municipal Water District Improvement Area A 2002 Special Tax Bonds, issued pursuant to the Resolution of Issuance.

“Account” means any account created pursuant to the Resolution of Issuance.

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

“Acquisition Agreement” means that certain agreement entitled “Community Facilities District No. 2001-01 of the Eastern Municipal Water District Funding, Construction and Acquisition Agreement (Improvement Area A)” dated as of July 18, 2001 by and between the Water District and the Developer.

“Acquisition and Construction Account” means the Account by that name established in the Improvement Fund pursuant to the Resolution.

“Administrative Expense Requirement” means \$25,000, provided that at its option, the District may establish the Administrative Expense Requirement for any Bond Year subsequent to the initial Bond Year at any amount larger than \$25,000 that is not in excess of the lesser of (a) 102% of the Administrative Expense Requirement applicable in the immediately preceding Bond Year or (b) the remainder of (i) the sum of the Maximum Special Tax applicable to each parcel of Taxable Property in Improvement Area A in the Fiscal Year that ends in such Bond Year minus (ii) 110% of Annual Debt Service for such Bond Year.

“Administrative Expenses” means the administrative costs with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Fiscal Agent, any fees and related costs for credit enhancement for Bonds or which are not otherwise paid as Costs of Issuance, any costs related to the District’s compliance with state and federal laws requiring continuing disclosure of information concerning the Bonds and the District, and any other costs otherwise incurred by the Water District on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District under the Resolution.

“Affiliate” means with respect to any Person, (i) each Person that, directly or indirectly, owns or controls, whether beneficially or as a trustee, guardian or other fiduciary, five percent (5%) or more of any class of equity securities of such Person, (ii) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (iii) each of such Person’s executive officers, directors, joint venturers and general partners; provided, however, that in no case shall the Water District be deemed to be an Affiliate. For the purpose of this definition, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“Annual Debt Service” means, for any Bond Year, the sum of (i) the interest payable on all Outstanding Bonds in such Bond Year, assuming that all Outstanding Bonds are retired as scheduled (including by reason of Sinking Fund Payment redemption in such Bond Year), and (ii) the principal amount of all Outstanding Bonds due in such Bond Year (including any Sinking Fund Payment redemptions due in such Bond Year).

“Appraisal” means the appraisal of the undeveloped portion of the property in the District dated June 9, 2006 performed by Harris Realty Appraisal in connection with the initial sale and issuance of the 2006 Bonds.

“Appraiser” means Harris Realty Appraisal or such other appraiser or firm of appraisers selected by the District and meeting the requirements of the Resolution.

“Approved Property” has the meaning ascribed thereto in the Rate and Method of Apportionment.

“Assumed Maximum Permitted Administrative Expense Requirement” means, as of any date of calculation, the largest Administrative Expense Requirement that could be established by the District for any future Bond Year during which Bonds will be Outstanding.

“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 and a certification such investment is an Authorized Investment):

1. (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

2. Federal Housing Administration debentures.

3. The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

- Federal Home Loan Mortgage Corporation (FHLMC)  
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)  
Senior Debt obligations
- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)  
Consolidated system-wide bonds and notes
- Federal Home Loan Banks (FHL Banks)  
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)  
Senior debt obligations  
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- Student Loan Marketing Association (SLMA)  
Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
- Financing Corporation (FICO)  
Debt obligations
- Resolution Funding Corporation (REFCORP)  
Debt obligations

4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank (including the Fiscal Agent and any affiliate) the short-term obligations of which are rated "A-1" or better by Standard & Poor's.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks (including the Fiscal Agent and any affiliate) which have capital and surplus of at least \$5 million.

6. Commercial paper (having original maturities of not more than 270 days rated "A-1+" by Standard & Poor's and "Prime-1" by Moody's.

7. Money market funds rated "AAM" or "AAM-G" by Standard & Poor's, or better (including those of the Fiscal Agent or its affiliates).

8. "State Obligations," which means:

(a) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by Standard & Poor's, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(b) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated “A-1+” by Standard & Poor’s and “Prime-1” by Moody’s.

(c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated “AA” or better by Standard & Poor’s and “Aa” or better by Moody’s.

9. Pre-refunded municipal obligations rated “AAA” by S & P and “Aaa” by Moody’s meeting the following requirements:

(a) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the paying agent for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(b) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(c) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”);

(d) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or paying agent in trust for owners of the municipal obligations;

(e) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(f) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the paying agent or escrow agent.

10. Repurchase agreements:

With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by Standard & Poor’s and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by Standard & Poor’s and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated “A” or better by Standard & Poor’s and Moody’s, provided that:

(a) The market value of the collateral is maintained at levels equal to 104% of the amount of cash transferred by the Fiscal Agent or the District to the provider of the repurchase agreement plus accrued interest with the collateral being valued weekly and marked-to-market at one current market price plus accrued interest;



(b) The Fiscal Agent or a third party acting solely as agent therefor or for the District (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);

(c) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(d) The repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or Standard & Poor’s is withdrawn or suspended or falls below “A-” by Standard & Poor’s or “A3” by Moody’s, as appropriate, the provider must, at the direction of Fiscal Agent or the District, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Fiscal Agent or the District.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least “A” by Standard & Poor’s and Moody’s, respectively.

11. Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “AA” by Standard & Poor’s and “Aa” by Moody’s; provided that, by the terms of the investment agreement:

(a) interest payments are to be made to the Fiscal Agent or the District at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Improvement Fund, construction draws) on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice; the Fiscal Agent or the District agrees to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(c) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof, or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks pari passu with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;

(d) the Fiscal Agent or the District receives the opinion of domestic counsel (which opinion shall be addressed to Fiscal Agent or the District) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Fiscal Agent or the District;

(e) the investment agreement shall provide that if during its term

(i) the provider's rating by either Standard & Poor's or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (y) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Fiscal Agent or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to Standard & Poor's and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (z) repay the principal of and accrued but unpaid interest on the investment; and

(ii) the provider's rating by either Standard & Poor's or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Fiscal Agent or the District, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Fiscal Agent or District; and

(f) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(g) the investment agreement must provide that if during its term

(i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Fiscal Agent or the District, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Fiscal Agent or the District, and

(ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Fiscal Agent or the District.

12. The State of California Local Agency Investment Fund.

"Authorized Representative of the Water District" means the General Manager of the Water District, or his or her designee, the Chief Financial Officer of the Water District, or his or her designee, or any other person or persons designated by the Board of Directors of the Water District and authorized to act on behalf of the Water District by a written certificate signed on behalf of the Water District by the President of the Board of Directors of the Water District and containing the specimen signature of each such person.

"Average Annual Debt Service" means the average of the Annual Debt Service for all Bond Years, including the Bond Year in which the calculation is made.

“Board” or “Board of Directors” means the Board of Directors of the Water District acting as the legislative body of the District.

“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, with respect to any Bond, the person or persons in whose name or names such Bond is registered, as shown on the Bond Register.

“Bonds” means the 2002 Bonds, the 2006 Bonds and all Parity Bonds, provided that if the context clearly so requires “Bonds” means the 2006 Bonds.

“Bond Year” means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the 2006 Bonds or an issue of Parity Bonds shall begin on the Delivery Date thereof and end on the first September 1 which is not more than 12 months after the applicable Delivery Date.

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

“Capacity Improvements Account” means the Account by that name established in the Improvement Fund pursuant to the Resolution.

“Certificate of an Authorized Representative” means a written certificate or warrant request executed by an Authorized Representative of the Water District.

“Code” means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated September 1, 2006, by and between the District and the Fiscal Agent, as dissemination agent thereunder.

“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 for the Bonds, fees of the appraiser and financial consultants and all other related fees and expenses.

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

“Depository” shall mean The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Certificates, or any other securities depository acting as Depository under the Resolution.

“Developed Property” has the meaning ascribed thereto in the Rate and Method of Apportionment.

“Developer” means Brookfield W633 LLC, a Delaware limited liability company, and its successors and assigns.

“Disbursement Amount” has the meaning ascribed thereto in the Resolution.

“Dissemination Agent” means the Fiscal Agent, and any successor thereto.

“District” means Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District established pursuant to the Act and the Resolution of Formation.

“Federal Securities” means, subject to applicable law, United States Treasury notes, bonds, bills or certificates of indebtedness, including United States Treasury Obligations, State and Local Government Series (“SLGS”) or other direct obligations issued by the United States Treasury for which the faith and credit of the United States are pledged for the payment of principal and interest; and obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or other federal agencies or United States Government-sponsored enterprises.

“Fiscal Agent” means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, at its principal corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in the Resolution 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 Special Taxes” means the amount of all Special Taxes received by the District from Improvement Area A, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution of Issuance for the delinquency of such Special Taxes after payment of administrative costs and attorney’s fees payable from such proceeds to the extent not previously paid as an Administrative Expense.

“Improvement Area A” means Improvement Area A of the District as designated by the legislative body of the District in the Resolution of Formation.

“Improvement Fund” means the fund by that name established pursuant to the Resolution.

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

- (1) is in fact independent and not under the domination of the District;
- (2) does not have any substantial interest, direct or indirect, in the District; and
- (3) 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 September 1, 2002.

“Investment Agreement” means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in Subsection (11) of the definition of Authorized Investments in the Resolution.

“Joint Community Facilities Agreement” means the Joint Community Facilities Agreement for Eastern Municipal Water District CFD No. 2001-1 Improvement Area A, dated as of August 22, 2001 by and between the Water District and the School District.

“Market Absorption Consultant” means Empire Economics, LLC, or any other market absorption consultant generally recognized to be well qualified for the intended work and selected by the District in its sole discretion.

“Maximum Annual Debt Service” means, at any point in time, with respect to the Bonds then Outstanding, the greatest amount of Annual Debt Service on the Bonds in the then current or any succeeding Bond Year prior to the maturity of the Bonds.

“Maximum Special Tax” has the meaning ascribed to it in the Rate and Method of Apportionment.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Special Taxes” means Gross Special Taxes minus the amount (not in excess of the then applicable Administrative Expense Requirement) transferred from the Special Tax Fund to the Administrative Expense Fund pursuant to the Resolution.

“Nominee” shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Resolution.

“Ordinance” means Ordinance No. 89 adopted by the legislative body of the District on September 19, 2001, 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 Resolution;

(2) Bonds for payment or redemption of which moneys 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 Resolution of Issuance or any applicable Supplemental Resolution; and

(3) Bonds which have been surrendered to the Fiscal Agent for transfer or exchange pursuant to the Resolution or for which a replacement has been issued pursuant to.

“Overlapping Debt” means with respect to any property within the District, the sum of (a) the aggregate amount of all unpaid assessments which are a lien on such property and which are pledged to secure the repayment of bonds, plus (b) a portion of the principal amount of any outstanding bonds of

other community facilities districts which are payable at least partially from special taxes to be levied on such property (the “Other CFD Bonds”) determined by multiplying the aggregate principal amount of the Other CFD Bonds by a fraction, the numerator of which is the amount of special taxes levied for the Other CFD Bonds on such property and the denominator of which is the total amount of special taxes levied for the Other CFD Bonds on all parcels of property which are subject to the levy of such special taxes, based upon information which is available for the then current Fiscal Year.

“Parcel” has the meaning ascribed thereto in the Rate and Method of Apportionment.

“Parity Bonds” means all bonds, notes or other similar evidences of indebtedness issued, payable out of the Net Special Taxes and which, as provided in the Resolution of Issuance or any Supplemental Resolution, rank on a parity with the 2002 Bonds and/or the 2006 Bonds.

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

“Person” means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

“Prepayments” means any amounts paid by the District to the Fiscal Agent and designated by the District as a prepayment of Special Taxes for one or more parcels in Improvement Area A of the District made in accordance with the Rate and Method of Apportionment.

“Principal Office of the Fiscal Agent” means the corporate trust and agency office of the Fiscal Agent located in Los Angeles, California, provided that for purposes of redemption payment, exchange, transfer or surrender of Bonds shall mean the corporate trust office of the Fiscal Agent located in St. Paul, Minnesota, or such other office or offices as the Fiscal Agent may designate from time to time, or the office of any successor Fiscal Agent where it principally conducts its corporate trust and agency business.

“Project” means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District for the benefit of Improvement Area A, including the improvements for the benefit of the School District and further including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the 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, remarketing, credit enhancement, Fiscal Agent and other fees and expenses relating to the issuance of the Bonds or and the formation of the District, and to pay any other “incidental expenses” of the District, as such term is defined in the Act.

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

“Rate and Method of Apportionment” means that certain Rate and Method of Apportionment of Special Tax approved pursuant to the Resolution of Formation, as amended in accordance with the Act and the Resolution.

“Rebate Fund” means the fund by that name established pursuant to the Resolution in which there are established the Accounts described therein.

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

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

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

“Representation Letter” shall mean the Blanket Letter of Representations from the District and the Fiscal Agent to the Depository as described in the Resolution.

“Reserve Requirement” means that amount as of any date of calculation equal to the sum of, for each series of Bonds, the least of (i) 10% of the initial principal amount of the Bonds of such series, (ii) Maximum Annual Debt Service with respect to the Bonds of such series, or (iii) 125% of Average Annual Debt Service with respect to the Bonds of such series.

“Resolution of Formation” means Resolution No. 3534 adopted by the Board of Directors of the Water District on September 19, 2001, pursuant to which the Water District formed the District.

“Resolution of Issuance” or the “Resolution” means the Supplement to Resolution of Issuance, together with Resolution No. 3590 of the District, approving the Supplement to Resolution of Issuance, Resolution No. 4545 of the District approving the Second Supplement to Resolution of Issuance, the Second Supplement to Resolution of Issuance, and any supplemental resolution approved pursuant to the Supplement to Resolution.

“School District” means the Temecula Valley Unified School District.

“School District Improvements Account” means the Account by that name established in the Improvement Fund pursuant to the Resolution.

“Second Supplement to Resolution of Issuance” means the Supplement to Resolution of Issuance No. 4545 and Second Supplement to Resolution of Issuance No. 3590.

“Sinking Fund Payment” means the annual payment to be deposited in the Principal Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Resolution and any annual sinking fund payment schedule to retire Parity Bonds which are designated as Term Bonds.

“Six-Month Period” means the period of time beginning on the Delivery Date of each issue of Bonds, as applicable, and ending six consecutive months thereafter, and each six-month period thereafter until the latest maturity date of the Bonds (and any obligations that refund an issue of the Bonds).

“Special Tax Administrator” means Psomas in its capacity as the consultant engaged by the Water District to administer the calculation and collection of the Special Taxes, or any successor or replacement entity acting in such capacity.

“Special Tax Fund” means the fund by that name created and established pursuant to the Resolution.

“Special Tax Letter of Credit” means a letter of credit or a Security, as defined in the Acquisition Agreement, delivered to the Water District by a 25% Property Owner or thereafter which may be

delivered to the Water District by a subsequent provider, pursuant to the terms of the Acquisition Agreement.

“Special Taxes” means the taxes authorized to be levied by the District on property within Improvement Area A in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the September 19, 2001 election in the District.

“Standard & Poor’s” means Standard & Poor’s Ratings Group, a division of McGraw-Hill, its successors and assigns.

“Supplement to Resolution of Issuance” means the Supplement to Resolution of Issuance No. 3590.

“Supplemental Resolution” means any supplemental resolution amending or supplementing the Supplement to Resolution of Issuance and this Second Supplement to Resolution of Issuance.

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

“Taxable Property” has the meaning ascribed thereto in the Rate and Method of Apportionment.”

“Term Bonds” means the 2002 Bonds maturing on September 1, 2027 and September 1, 2032, the 2006 Bonds maturing on September 1, 2023, September 1, 2026 and September 1, 2036 and each maturity of Parity Bonds as specified in the applicable Supplemental Resolution.

“Undeveloped Property” has the meaning ascribed thereto in the Rate and Method of Apportionment.

“Value of All Property” means (i) the fair market value, as of the date of value used in the appraisal provided for below, of all of the parcels of property in the District which are subject to the levy of the Special Taxes and which are not delinquent in the payment of any Special Taxes, including the value of the then existing improvements thereon, as estimated by the Appraiser or another appraiser selected and employed by the Water District who has an MAI designation from the Appraisal Institute in an appraisal that utilizes a date of value not more than ninety (90) days preceding the date of such determination and that is based upon a methodology of valuation and (with respect to Undeveloped Property and Approved Property) market absorption consistent with the Appraisal and that includes such value as the appraiser deems appropriate for the portions of the Project for which proceeds of Bonds or Parity Bonds will be made available, provided that a mass appraisal methodology may be applied when valuing Developed Property; or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of Riverside.

“Value of Approved Property” means (i) the fair market value, as of the date of value utilized in the appraisal provided for below, of the parcels of Approved Property which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes, including the value of the then existing improvements thereon, as estimated by the Appraiser or another appraiser selected and employed by the Water District who has an MAI designation from the Appraisal Institute in an appraisal that utilizes a date of value not more than ninety (90) days preceding the date of such determination and that is based upon a methodology of valuation and market absorption consistent with the Appraisal and that includes such value as the appraiser deems appropriate for the portions of the Project for which proceeds of Bonds



or Parity Bonds will be made available, or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of Riverside.

“Value of Developed Property” means (i) the fair market value, as of the date of value used in the appraisal provided for below, of the parcels of Developed Property which are subject to the levy of the Special Taxes and which are not delinquent in the payment of any Special Taxes, including the value of the then existing improvements thereon, as estimated by the Appraiser or another appraiser selected and employed by the Water District who has an MAI designation from the Appraisal Institute in an appraisal that utilizes a date of value not more than ninety (90) days preceding the date of such determination and that is based upon a methodology of valuation consistent with the Appraisal, provided that a mass appraisal methodology may be applied when valuing Developed Property; or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of Riverside.

“Value of Undeveloped Property” means (i) the fair market value as of the date of value utilized in the appraisal provided for below, of the parcels of Undeveloped Property which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes, including the value of the then existing improvements thereon, as estimated by the Appraiser or another appraiser selected and employed by the Water District who has an MAI designation from the Appraisal Institute in an appraisal that utilizes a date of value not more than ninety (90) days preceding the date of such determination and that is based upon a methodology of valuation and market absorption consistent with the Appraisal and that includes such value as the appraiser deems appropriate for the portions of the Project for which proceeds of Bonds or Parity Bonds will be made available, or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of Riverside.

“Water District” means Eastern Municipal Water District.

### **ISSUANCE OF PARITY BONDS**

The District may issue Parity Bonds payable from the Net Special Taxes and other amounts 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 Resolution or under any Supplemental Resolution for any purposes authorized under the Act. Parity Bonds may be issued subject to the following additional specific conditions, which are made conditions precedent to the issuance of any such Parity Bonds:

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

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

(1) The purpose for which such Parity Bonds are to be issued and the funds and accounts into which the proceeds thereof are to be deposited, including payment of all costs and the funding of all reserves incidental to or connected with such issuance;

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

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

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

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

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

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

(8) The form of such Parity Bonds; and

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

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

(1) A certified copy of the Supplemental Resolution authorizing the issuance of such Parity Bonds;

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

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

Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

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

(5) A certificate from one or more Independent Financial Consultants and/or the Special Tax Administrator which, when taken together, certify that:

A. the Value of All Property is at least four (4) times the sum of the aggregate principal amount of Outstanding Bonds, the Parity Bonds proposed to be issued and the Overlapping Debt with respect to all taxable property in the District;

B. the Value of Developed Property is at least four (4) times the sum of the Overlapping Debt allocable thereto plus, that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds which is allocable to the Developed Property (collectively, the "Parity Debt for Developed Property"). For this purpose, there will be allocated to the Developed Property the largest principal amount of Parity Debt for Developed Property that results in (1) the maximum Special Taxes that may be levied on Developed Property (not including any parcels of Developed Property with delinquent Special Taxes) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Parity Debt for Developed Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of the Assumed Maximum Permitted Administrative Expense Requirement allocable to the Developed Property for such Fiscal Year of taxation and (2) a Value of Developed Property at least four times the sum of Parity Debt for Developed Property plus Overlapping Debt allocable to Developed Property;

C. the Value of Approved Property is at least three (3) times the sum of the Overlapping Debt allocable thereto plus, that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds which is allocable to the Approved Property (collectively, the "Parity Debt for Approved Property"). For this purpose, there will be allocated to the Property the largest principal amount of Parity Debt for Approved Property that results in (1) the maximum Special Taxes that may be levied on Approved Property (not including any parcels of Approved Property with delinquent Special) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Parity Debt for Approved Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of the Assumed Maximum Permitted Administrative Expense Requirement allocable to the Approved Property for such Fiscal Year of taxation and (2) a Value of Approved Property equal to at least 3 times the sum of Parity Debt for Approved Property plus Overlapping Debt allocable to Approved Property; and

D. the Value of Undeveloped Property is at least two and one-half (2½) times the sum of the Overlapping Debt allocable thereto plus, that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds which is allocable to the Undeveloped Property (collectively, the "Parity Debt for Undeveloped Property"). For this purpose, there will be allocated to the Undeveloped Property the largest principal amount of Parity Debt for Undeveloped Property that results in (1) the maximum Special Taxes that may be levied on Undeveloped Property (not including any parcels of Undeveloped Property with delinquent Special Taxes) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Parity Debt for Undeveloped Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of the Assumed Maximum Permitted Administrative Expense Requirement allocable to the Undeveloped Property for such Fiscal Year of taxation and (2) a Value of Undeveloped Property equal to at least 2½

times the sum of Parity Debt for Undeveloped Property plus Overlapping Debt allocable to Undeveloped Property;

provided, however, that no parcel of property may be included in any of the foregoing determinations if there is, at the time of any such determination, a delinquency in the payment of any ad valorem real property taxes or Special Taxes levied on such parcel.

The amount of Parity Bonds permitted to be issued shall be the largest integral multiple of \$5,000 that is not greater than the remainder of (a) the sum of (x) the Parity Debt for Developed Property, as specified in the certificate delivered pursuant to (A) above, (y) the Parity Debt for Approved Property, as specified in the certificate delivered pursuant to (B) above, plus (z) the Parity Debt for Undeveloped Property, as specified in the certificate delivered pursuant to (C) above, less (b) the then aggregate principal amount of Outstanding Bonds.

For purposes of the certifications and calculations described in this paragraph (5), the principal amount of and interest on Parity Bonds may be excluded if: (a) proceeds from the sale thereof are required to be deposited and held in an escrow fund in an amount certified by an Independent Financial Consultant to be sufficient (i) to pay the principal of and interest on such Parity Bonds when due for a specified period and (ii) to redeem such Parity Bonds at the expiration of such specified period and (b) such proceeds may be disbursed from such escrow fund (other than to pay principal of and interest on such Parity Bonds when due and to redeem them) only if the amount so disbursed is treated as if it were an additional issuance of Parity Bonds and the tests described in this paragraph (5) would be satisfied with respect thereto.

The provisions of this paragraph (5) shall not apply to Parity Bonds issued for the principal purpose of refunding Outstanding Bonds if the District shall have received a certificate from an Independent Financial Consultant to the effect that Annual Debt Service after the issuance of such Parity Bonds will be no larger than Annual Debt Service would have been prior to the issuance of such Parity Bonds in each Fiscal Year in which Bonds or Parity Bonds (other than the refunding Parity Bonds) will remain Outstanding.

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

**CREATION OF FUNDS; APPLICATION OF PROCEEDS,  
NET SPECIAL TAXES AND SPECIAL TAX LETTERS OF CREDIT**

**Creation of Funds; Application of Proceeds, Net Special Taxes and Special Tax Letters of Credit.**

(a) There is created and established and shall be maintained by the Fiscal Agent the following funds and accounts:

(1) The Improvement Area A Community Facilities District No. 2001-01 (French Valley) Special Tax Fund (the "Special Tax Fund"), in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and, a Letter of Credit Account;

(2) The Improvement Area A Community Facilities District No. 2001-01 (French Valley) Rebate Fund (the "Rebate Fund"), in which there shall be established a Rebate Account and an Alternative Penalty Account; and

(3) The Improvement Area A Community Facilities District No. 2001-01 (French Valley) Special Tax Holding Fund (the “Special Tax Holding Fund”).

The amount on deposit in the foregoing funds and accounts shall be held by the Fiscal Agent, and the Fiscal Agent shall invest and disperse such amounts in accordance with the provisions of the Resolution.

(b) There is created and established and shall be maintained by the District the following fund and accounts:

(1) The Improvement Area A Community Facilities District No. 2001-01 (French Valley) Improvement Fund (the “Improvement Fund”), in which there shall be established a Costs of Issuance Account, an Acquisition and Construction Account, a School District Improvements Account and a Capacity Improvements Account; and

(2) The Administrative Expense Fund.

The amount on deposit in the foregoing funds and accounts shall be held by the District, and the District shall invest and disburse such amounts in accordance with the provisions of the Resolution.

(c) In connection with the issuance of any Parity Bonds, the District, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds.

#### **Special Tax Letters of Credit**

Each Special Tax Letter of Credit shall be held by the Fiscal Agent in trust for the Owners of the Bonds. If the 25% Property Owner which is the account party with respect to a Special Tax Letter of Credit or any Affiliate thereof or any other person on whose behalf the Special Tax Letter of Credit is being maintained is delinquent in the payment of the most recent installment of Special Tax applicable to any of the property of such 25% Property Owner or Affiliate or other Person, the District shall give written notice of such delinquency and the amount thereof to the Fiscal Agent; and the Fiscal Agent shall draw on the Special Tax Letter of Credit the amount of the delinquency, as specified by the District, and shall deposit the proceeds of such draw in the Special Tax Fund. Notwithstanding any such draw on the Special Tax Letter of Credit, the amount of the delinquent Special Tax shall not be deemed to have been paid by reason thereof. In the event that the condition to the release of a Special Tax Letter of Credit as provided in the Acquisition Agreement has been satisfied, the District shall give written notice thereof to the Fiscal Agent; and the Fiscal Agent shall release the Special Tax Letter of Credit to the provider of the Special Tax Letter of Credit. Upon such release neither the Fiscal Agent, the Water District, the District nor the Owners of the Bonds shall have any further right, title or interest in the Special Tax Letter of Credit.

Any provision of the Resolution of Issuance to the contrary notwithstanding, in the event that the District collects delinquent Special Taxes from any parcel whose delinquency caused a draw on a Special Tax Letter of Credit which has not been reimbursed, such Special Taxes (net of the costs incurred by the District in connection with the collection thereof that the District has not recovered and does not expect to recover as an Administrative Expense), in an amount not in excess of the amount drawn on the Special Tax Letter of Credit, shall be deposited to the Letter of Credit Account; and the Fiscal Agent shall disburse to the provider of the Special Tax Letter of Credit from such Special Taxes the amount so deposited.

**Deposits to and Disbursements from Special Tax Fund.**

(a) Except for the portion of any Prepayment to be deposited to the Redemption Account, and except also for delinquent Special Taxes referred to in the Resolution, the District shall, on each date on which the Special Taxes are received by the District, transfer the Special Taxes to the Fiscal Agent for deposit in the Special Tax Fund to be held in trust by the Fiscal Agent. The Fiscal Agent shall use the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following order of priority, to:

(1) Transfer to the Water District for deposit in the Administrative Expense Fund an amount equal to the Administrative Expense Requirement shall be so transferred prior to the date on which the balance on deposit in the Interest Account of the Special Tax Fund is at least equal to the interest payable on the Bonds on March 1;

(2) Deposit in the Interest Account of the Special Tax Fund the amount necessary to cause the balance on deposit therein to equal the interest coming due on the Bonds on the next succeeding Interest Payment Date;

(3) Deposit in the Principal Account of the Special Tax Fund the amount necessary to cause the balance on deposit therein to be equal to the principal amount of the Bonds and/or the Sinking Fund Payment payable on the next succeeding September 1;

(4) Deposit in the Redemption Account of the Special Tax Fund the amount necessary to pay any redemption of the Bonds as provided in the Resolution;

(5) Deposit in the Reserve Account of the Special Tax Fund the amount, if necessary, to cause the balance on deposit in the Reserve Account to equal the Reserve Requirement;

(6) Pay to the Water District any Administrative Expenses in excess of the Administrative Expense Requirement that the Water District has requested be paid or reimbursed to it;

(7) Deposit in the Rebate Fund the amounts required to be deposited therein pursuant to the Resolution; and

(8) Deposit in the Special Tax Holding Fund any amount remaining after all of the foregoing deposits and transfers have been completed.

(b) At maturity of all 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.

**Administrative Expense Fund.** From the first available Special Taxes the Fiscal Agent shall withdraw from the Special Tax Fund and transfer to the Water District for deposit in the Administrative Expense Fund an amount such that the total amounts so transferred to the Water District in any Bond Year do not exceed the Administrative Expense Requirement. In the event Administrative Expenses exceed the Administrative Expense Requirement in any Bond Year, after all deposits required pursuant to the Resolution below have been made for the then current Bond Year, the Fiscal Agent shall transfer from the Special Tax Fund to the Water District for deposit in the Administrative Expense Fund the amount of Administrative Expenses in excess of the Administrative Expense Requirement, as directed in writing by the Water District.

**Interest Account and Principal Account of the Special Tax Fund.** The principal or Sinking Fund Payment of, and interest on, the Bonds until maturity shall be paid by the Fiscal Agent from amounts transferred to the Interest Account and the Principal Account of the Special Tax Fund. For the purpose of assuring that the payment of principal or Sinking Fund Payment of, and interest on, the Bonds will be made when due, after making the transfer required by the Resolution, at least one Business Day prior to each Interest Payment Date, the Fiscal Agent shall make the following transfers 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 the Bonds, or to the extent that a transfer will be made from the Reserve Account to the Interest Account in accordance with the Resolution, the transfer from the Special Tax Fund shall not be made:

(a) To the Interest Account, an amount such that the balance in the Interest Account one (1) Business Day prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds on said Interest Payment Date. Moneys in the Interest Account shall be used for the payment of interest on the Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account one (1) Business Day prior to September 1 of each year commencing September 1, 2007, shall equal the principal payment and Sinking Fund Payment of the Bonds due on such September 1. Moneys in the Principal Account shall be used for the payment of the principal and Sinking Fund Payment of the Bonds as the same become due.

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

(a) After making the transfers and deposits required by the Resolution above, and in accordance with the District's election to call Bonds for optional redemption, 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 called for optional redemption; provided, however, that amounts in the Special Tax Fund may be applied to optionally redeem Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(b) Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to the Resolution for the use of such Prepayments to the payment of the principal of, premium, and interest on the Bonds to be redeemed with such Prepayments.

(c) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds and, in the case of an optional redemption or an extraordinary redemption from Prepayments, 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, other than Prepayments, may be used to purchase Outstanding Bonds in the manner provided in the Resolution. Purchases of Outstanding 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 Resolution. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

**Reserve Account of the Special Tax Fund.** 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 when due in the event that the moneys in the Interest Account or Principal Account, as the case may be, are insufficient therefor and for the purpose of making any required transfer to the Rebate Fund pursuant to the Resolution upon written direction from the District. If the amounts in the Interest Account or Principal Account, as the case may be, are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the 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 from the Reserve Account for deposit in the Interest Account or Principal Account, as the case may be, 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 Resolution, 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 the Reserve Account to the Reserve Requirement. 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 or a partial defeasance of Bonds, amounts in the Reserve Account may be applied to such redemption or partial defeasance at the written direction of the District, so long as the amount on deposit in the Reserve Account following such optional redemption or partial defeasance equals the Reserve Requirement.

(d) To the extent that the amount on deposit in the Reserve Account as of the first day of the final Bond Year equals or exceeds Annual Debt Service for that Bond Year, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds in the final Bond Year for such issue, at the written direction of the District.

(e) If so directed in a Certificate of an Authorized Representative, the Fiscal Agent shall withdraw from the Reserve Account moneys in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of the Resolution one Business Day before each March 1 and September 1 and shall transfer such moneys to the Fund or Account specified in such certificate.

**Rebate Fund.** The Fiscal Agent shall establish and maintain a fund separate from any other fund established and maintained under the Resolution 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 2002 Bonds, the 2006 Bonds and each series 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 shall be governed the Resolution and the Tax Certificate for such issue, unless the District delivers to the Fiscal Agent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on the Bonds will not be adversely affected if such requirements are not satisfied.



**Surplus Money in the Special Tax Fund.** After making the transfers required by the Resolution, as soon as practicable after each September 1, the excess amounts in the Special Tax Fund may, at the written direction of the District, be (i) retained in the Special Tax Fund to pay interest and principal on the Bonds, (ii) transferred to the Administrative Expense Fund if the amount therein is insufficient to pay Administrative Expenses, (iii) transferred to the Improvement Fund to pay Project Costs or (iv) transferred to the Redemption Fund. In the absence of any such written direction of the District, such excess amounts shall be transferred to the Special Tax Holding Fund.

**Special Tax Holding Fund.** Moneys deposited in the Special Tax Holding Fund shall be transferred by the Fiscal Agent at the written direction of the District (i) to the Interest Account or the Principal Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, and interest on the 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 Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Fund are insufficient to pay Administrative Expenses, (iv) to the Improvement Fund to pay Project Costs, or (v) to the District to be used for any other lawful purpose of the District.

The amounts in the Special Tax Holding Fund are not pledged to the repayment of the 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 Special Tax Holding Fund to pay debt service on any Outstanding Bonds, the District shall instruct in writing the Fiscal Agent to segregate such amount into a separate subaccount; and the moneys on deposit in such subaccount of the Special Tax Holding Fund shall be invested 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 Bonds, 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 then Outstanding.

**Improvement Fund.**

(a) The moneys in the Improvement Fund Costs of Issuance Account shall be disbursed by the District for the payment of Costs of Issuance.

(b) The moneys in the Improvement Fund Acquisition and Construction Account shall be disbursed to the Water District or to the Developer, as directed by the Water District, to pay Project Costs upon the filing with the District of a requisition for such moneys executed by an Authorized Representative of the Water District.

(c) The moneys in the Improvement Fund School District Improvements Account shall be disbursed to the School District or to the Developer upon receipt from the School District and the Developer of a Disbursement Request Form as provided in the Joint Community Facilities Agreement and the Acquisition Agreement.

(d) The moneys in the Improvement Fund Capacity Improvements Account shall be disbursed to the Water District upon the filing with the District of a requisition executed by an Authorized Representative of the Water District for the payment of moneys in accordance with the Acquisition Agreement accompanied by a copy of the Developer's request for such disbursement.

(e) If the District shall determine that all or a specified portion of the amount remaining in the Costs of Issuance Account is no longer needed to pay Costs of Issuance or in the School District Improvements Account is no longer used to pay the School District, or in the Capacity Improvements Account is no longer needed to pay the Water District, the District may transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Costs of Issuance Account, School District Improvements Account and Capacity Improvements Account to any other of such accounts. If there is an amount remaining in any of such accounts after the payment of the Project Costs, Costs of Issuance and the Water District, the District shall transfer said amount to the Fiscal Agent for deposit in the Special Tax Fund.

**Investments.** Moneys held in any of the funds, accounts and subaccounts under the Resolution of Issuance shall be invested by the District or the Fiscal Agent, as applicable 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 Improvement Fund, the Special Tax Fund and the Rebate Fund and each account therein (other than the Reserve Account of the Special Tax Fund) shall be deposited in those respective funds and accounts, and (ii) investment earnings on all amounts deposited in the Reserve Account shall be applied as set forth in the Resolution. Moneys in the funds, accounts and subaccounts held under the Resolution of Issuance may be invested by the District or the Fiscal Agent, as applicable, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Improvement 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 Improvement Fund. Amounts in the Improvement Fund three years after the Delivery Date for the 2006 Bonds and the proceeds of each series of Parity Bonds issued on a tax-exempt basis which are remaining on deposit in the Improvement Fund on the date which is three years following the Delivery Date for such 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 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 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 Special Tax Fund, and 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 as the same become due.

(c) Moneys in the Reserve Account of the Special Tax Fund may be invested only in (i) Authorized Investments not less than 50% of which must mature within 6 months and all of which must mature within 1 year, (ii) Authorized Investments of the type defined in clause (7) of the definition of said term or (iii) one or more Investment Agreements.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (1) 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 Resolution or in Authorized Investments of the type described in clause (7) of the definition thereof.

The District or the Fiscal Agent, as applicable, 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 Resolution, the District or the Fiscal Agent, as applicable, 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. The District or the Fiscal Agent, as applicable, shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Resolution of Issuance.

The District or the Fiscal Agent, as applicable, 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 Resolution, the District or the Fiscal Agent, as applicable, shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the District or the Fiscal Agent, as applicable, may commingle the funds and accounts established under the Resolution, 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 or the Community Facilities District the right to receive brokerage confirmations of securities transactions as they occur, the District will not receive such confirmations to the extent permitted by law. The Fiscal Agent shall furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Fiscal Agent hereunder. The Fiscal Agent and its affiliates may act as sponsor, advisor, depository, principal or agent in the holding, acquisition or disposition of any investment.

**COVENANTS AND WARRANTY**

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

**Covenants.** So long as any of the Bonds issued under the Resolution are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Resolution of Issuance (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 and other amounts deposited to the Special Tax Fund:

(a) Punctual Payment; Against Encumbrances. The District covenants that it will receive all Special Taxes in trust for the Owners (other than the Special Taxes to be deposited in the Administrative Expense Fund) and will deposit all Special Taxes in the Special Tax Fund, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Resolution of Issuance. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Resolution, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District further covenants that, in connection with the delivery of any Prepayment to the Fiscal Agent, the District will also deliver to the Fiscal Agent a certificate of the Special Tax Administrator identifying with respect to the Prepayment: (i) the "Future Facilities Amount" (as defined in the Rate and Method of Apportionment), with instructions that said amount shall be deposited in an appropriate Account of the Improvement Fund, (ii) the "Administrative Fees and Expenses" (as defined in the Rate and Method of Apportionment), with instructions that said amount shall be deposited in the Administrative Expense Fund, (iii) the amount that represents the Special Taxes levied in the current Fiscal Year on the subject Assessor's Parcel which had not been paid, with instructions to deposit portions of said amount in the Interest Account and the Principal Account of the Special Tax Fund, (iv) the amount of the "Reserve Fund Credit" (as defined in the Rate and Method of Apportionment), with instructions to withdraw said amount from the Reserve Account and transfer it to the Prepayment Account in connection with the redemption of Bonds, and (v) the amount to be deposited in the Prepayment Account.

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 Resolution, 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 Resolution of Issuance to the extent that Net Special Taxes and other amounts pledged under the Resolution are available therefor, and that the payments into the Funds and Accounts created under the Resolution will be made, all in strict conformity with the terms of the Bonds, and the Resolution of Issuance, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution of Issuance and all Supplemental Resolutions and of the Bonds issued under the Resolution.

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

(b) Levy and Collection of Special Tax. On or before each August 1, the Fiscal Agent shall provide a written notice to the District stating the amounts then on deposit in the various funds and accounts established by the Fiscal Agent pursuant to the Resolution. 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 may retain an Independent Financial Consultant to assist in the levy of the Special Taxes each Fiscal Year, in accordance with the Ordinance, such that the computation of the levy is complete before the final date on which the Treasurer of the County will accept the transmission of the Special Tax amounts for the Parcels within Improvement Area A 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 of the County, such data as the Treasurer of the County 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 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, to the maximum extent permitted by law, 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.

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 Resolution and any reconciliation of amounts levied to amounts received, as well as the costs and expenses of the District (including a charge for District staff time) in conducting its duties under the Resolution, shall be an Administrative Expense.

(c) Commence Foreclosure Proceedings. Pursuant to Section 53356.1 of the Act, the District covenants with and for the benefit of the Bondowners that it will order, and cause to be commenced, on or before October 1 of the Fiscal Year immediately following the Fiscal Year in which a delinquency in the payment of a Special Tax occurs, 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, provided that the District need not commence or pursue such proceedings with respect to any property other than property owned by a single property owner who is delinquent in the payment of Special Taxes in an amount more than \$5,000 if both (i) the aggregate amount of such delinquent Special Taxes does not exceed 5% of the total Special Taxes due and payable for the Fiscal Year in question and (ii) the balance on deposit in the Reserve Account of the Special Tax Fund is not less than the Reserve Requirement.

Except as otherwise provided in the Resolution, Special Taxes collected resulting as a result of a foreclosure proceeding shall be deposited in the Special Tax Fund and only inure to the benefit of the Bonds in the manner provided in the Resolution.

(d) Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Special Taxes or other funds in the Special Tax Fund or which might impair the security of the Bonds or then Outstanding; provided that nothing in the Resolution shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

(e) 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 records and accounts shall at all times during business hours be subject to the inspection by the Owners of not less than 10% of the principal amount of the Bonds then Outstanding or their representatives authorized in writing.

(f) Federal Tax Covenants. Notwithstanding any other provision of the Resolution of Issuance, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds issued on a tax-exempt basis for federal income tax purposes will not be adversely affected for federal income tax purposes, 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 moneys or property which would cause the Bonds or issued on a tax-exempt basis for federal income tax purposes to be “private activity bonds” within the meaning of Section 141 of the Code;

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

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

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

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

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

(7) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any 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 issued on a tax-exempt basis.

(g) Reduction of Maximum Special Taxes. The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the Improvement Area below the levels provided in the Resolution would interfere with the timely retirement of the Bonds. The District determines it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the Improvement Area, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the Improvement Area as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property in each Bond Year for any Bonds Outstanding will equal at least 110% of the sum of the estimated

Administrative Expenses and gross debt service in each Bond Year on all Bonds to remain Outstanding after the reduction is approved, (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds, and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultants shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by two percent (2%) in each subsequent Fiscal Year.

The District further covenants that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIII C of the California Constitution, which purports to reduce or otherwise alter the maximum Special Tax rates, it will commence and pursue legal action seeking to preserve its ability to comply with its covenant contained in the preceding paragraph.

(h) 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 Resolution or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Resolution, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(i) 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 Taxes unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds when due.

(j) Special Tax Letter of Credit. The District covenants to deliver the Special Tax Letter of Credit to the Fiscal Agent. Notwithstanding the foregoing, the District and the Water District have the right to amend the provisions of the Acquisition Agreement relating to the Special Tax Letter of Credit in any manner (including authorizing its reduction or release and return to the issuer thereof) without the consent of the Bondowners, and neither the District nor the Water District shall be liable to any person or entity, including Bondowners, for any such amendment.

(k) Continuing Disclosure. The District covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Agreement. Notwithstanding any other provision of the Resolution, failure of the District to comply with its obligations under the Continuing Disclosure Agreement shall not be considered an event of default under the Resolution, and the sole remedy, in the event of any failure of the District to comply with the Continuing Disclosure Agreement shall be an action to compel performance. Upon receipt of indemnification to its satisfaction, the Fiscal Agent shall at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) 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 Resolution. "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.

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

(m) **Opinions.** In the event that an opinion is rendered by Bond Counsel as provided in the Resolution from a firm other than the firm which rendered the Bond Counsel opinion at closing, such subsequent opinion by Bond Counsel shall also include the conclusions set forth in numbered paragraphs 3 and 5 of the original Bond Counsel opinion.

#### **AMENDMENTS TO RESOLUTION OF ISSUANCE**

**Supplemental Resolutions 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 Supplemental Resolutions for any of the following purposes:

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

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

(c) to provide for the issuance of any Parity Bonds in accordance the Resolution.

(d) to modify, amend or supplement the Resolution of Issuance in such manner as to permit the qualification of the Resolution under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect, 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 or then Outstanding; or

(e) 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 property within the District to an amount which is less than 110% of the principal and interest due in each corresponding future Bond Year with respect to the Bonds Outstanding as of the date of such amendment; or

(f) to modify, alter, amend or supplement the Resolution of Issuance in any other respect which is not materially adverse to the Bondowners.

Notwithstanding the foregoing, no Supplemental Resolution may modify any of the duties or responsibilities of the Fiscal Agent without the written consent of the Fiscal Agent.

**Supplemental Resolutions or Orders Requiring Bondowner Consent.** Exclusive of the Supplemental Resolutions described the Resolution not requiring Owner consent, the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Resolutions 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 Resolution of Issuance; provided, however, that nothing in the Resolution 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, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Resolution, without the consent of the Owners of all Bonds then Outstanding.

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

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

**Notation of Bonds; Delivery of Amended Bonds.** After the effective date of any action taken as provided in the Resolution, the District may determine that the Bonds or 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 his 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 shall be made on such Bonds. If the District shall so determine, new Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond at such effective date such new Bonds shall be exchanged at the 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.** U.S. Bank National 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 Resolution and to allocate, use and apply

the same as provided in the Resolution. In the event that the District fails to deposit with the Fiscal Agent any amount due under the Resolution when due, the Fiscal Agent shall provide telephonic notice to the District and shall confirm the amount of such shortfall in writing.

The Fiscal Agent is authorized to and shall mail by first class mail, postage prepaid, interest payments to the Bondowners, to select Bonds for redemption, and to maintain the Bond Register. The Fiscal Agent is authorized to pay the principal of and premium, if any, on the Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds presented to it for such purposes, to provide for the cancellation of Bonds all as provided in the Resolution, and to provide for the authentication of Bonds, and shall perform all other duties assigned to or imposed on it as provided in the Resolution. The Fiscal Agent shall keep accurate records of all funds administered by it and all Bonds paid, discharged and cancelled by it. The Fiscal Agent shall deliver to the District a monthly accounting of the funds and accounts it holds under the Resolution; provided, however, that the Fiscal Agent shall not be obligated to deliver such accounting for any fund or account that has a balance of zero. The Fiscal Agent may establish such funds and accounts as it deems necessary or appropriate to perform its obligations under the Resolution.

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

The District shall from time to time, subject to any agreement between the District and the Fiscal Agent then in force, pay to the Fiscal Agent compensation for its services, reimburse the Fiscal Agent for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties under the Resolution, and indemnify and save the Fiscal Agent, its officers, directors, employees and agents, harmless against costs, claims, expenses and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties under the Resolution. The obligations of the District under this Section shall survive the discharge of the Bonds and the resignation or removal of 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 shall 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 Resolution 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 shall 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 shall 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 shall be made within forty-five (45) days after the Fiscal Agent shall have received written notice from the District of its removal as Fiscal Agent or given to the District written notice of its resignation as Fiscal Agent, the Fiscal Agent, at the expense of the District, or any Owner 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.

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

The Fiscal Agent shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Fiscal Agent may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered under the Resolution in good faith and in accordance therewith.

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

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

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

No provision of the Resolution or any other document related thereto shall require the Fiscal Agent to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights thereunder.

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

## **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

(c) Except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Resolution of Issuance, any Supplemental Resolution, the 2002 Bonds, the 2006 Bonds or any Parity Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Fiscal Agent or the Owners of 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 Resolution;

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

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

Nothing in the Resolution or in any other provision of the Resolution, the Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Resolution, out of the Net Special 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 Resolution. The principal of the Bonds shall not be subject to acceleration under the Resolution.

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

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

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

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

**Application of Revenues and Other Funds After Default.** All amounts received by the District pursuant to any right given or action taken by the Owners under the provisions of the Resolution of Issuance relating to the Bonds shall be applied by the District in the following order upon presentation of the several Bonds:

First, to the payment of the fees, costs and expenses of the Owner in carrying out the provisions of the Resolution, including reasonable compensation to its agents, attorneys and counsel, and to the payment of all other outstanding fees and expenses of the Owner; and

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

(a) first to the payment of all installments of interest on the Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing,

(b) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing, and

(c) third, to the payment of interest on overdue installments of principal and interest on the Bonds on a pro rata basis based on the total amount then due and owing.

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

A waiver of any default or breach of duty or contract by any Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any

such default or an acquiescence therein; and every power and remedy conferred upon the Owners by the Act or by the Resolution may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners, as the case may be.

## **DEFEASANCE**

**Defeasance.** If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Resolution, then the Owner of such Bond shall cease to be entitled to the pledge of Net Special 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 Resolution shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to the Resolution, the Fiscal Agent shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent shall, after payment of amounts payable to the Fiscal Agent under the Resolution, pay over or deliver to the District's general fund all money or securities held by it pursuant to the Resolution 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 first paragraph of this section 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 Resolution, 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 shall not have been surrendered for payment, all obligations of the District under the Resolution 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 Resolution 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 shall 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 Resolution, 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 Resolution and any applicable supplemental resolution. Upon a defeasance, the Fiscal Agent, upon request of the District, shall release the rights of the Owners of such Bonds which have been defeased under the Resolution 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 of all Outstanding Bonds, after paying any unpaid fees and expenses of the Fiscal Agent, 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. The Fiscal Agent shall, 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 be upon payment therefor, and any Bond purchased by the District as authorized in the Resolution and delivered to the Fiscal Agent for such purpose shall be, cancelled forthwith and shall not be reissued. The Fiscal Agent shall destroy such Bonds, as provided by law, and, upon request of 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 Resolution of Issuance 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 Resolution of Issuance (except as otherwise provided in the Resolution), 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 shall be registered in the Bond Register shall 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 shall 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. Neither the District nor the Fiscal Agent shall be affected by any notice to the contrary.

Nothing contained in the Resolution of Issuance shall be construed as limiting the Fiscal Agent or the District to such proof, it being intended that the Fiscal Agent or the District may accept any other evidence of the matters which the Fiscal Agent or the District 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 or the District in pursuance of such request or consent.

**Unclaimed Moneys.** Anything in the Resolution of Issuance to the contrary notwithstanding, any money held by the Fiscal Agent or the Fiscal Agent in trust for the payment and discharge of any of the Outstanding Bonds which remain unclaimed for two years after the date when such Outstanding Bonds have become due and payable, if such money was held by the Fiscal Agent or the Fiscal Agent at such date, or for two years after the date of deposit of such money if deposited with the Fiscal Agent or

the Fiscal Agent after the date when such Outstanding Bonds become due and payable, shall be repaid by the Fiscal Agent or the Fiscal Agent to the District, as its absolute property and free from trust, and the Fiscal Agent or the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds; provided, however, that, before being required to make any such payment to the District, the Fiscal Agent at the written request of the District or the Fiscal Agent shall, at the expense of the District, cause to be mailed by first-class mail, postage prepaid, 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 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 Resolution of Issuance shall constitute a contract between the District and the Bondowners and the provisions of the Resolution shall be construed in accordance with the laws of the State of California.

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

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

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



**APPENDIX B**

**APPRAISAL REPORT**

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**APPRAISAL REPORT**

**EASTERN MUNICIPAL WATER DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2001-1, Improvement Area A  
TRACT NOS. 30069, 30069-1 & 30069-2  
FRENCH VALLEY**

Prepared for:

**EASTERN MUNICIPAL WATER DISTRICT  
2270 Trumble Road  
Post Office Box 8300  
Perris, CA 92572-8300**

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

June 2006

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June 9, 2006

Ms. Debra Haskell  
Special Funding Districts Supervisor  
EASTERN MUNICIPAL WATER DISTRICT  
2270 Trumble Road  
Post Office Box 8300  
Perris, CA 92572-8300

Re: ***Community Facilities District No. 2001-1, Improvement Area A  
Tract Nos. 30069, 30069-1 & 30069-2  
French Valley***

Dear Ms. Haskell:

In response to your authorization, we have prepared a self-contained appraisal report that addresses all of the undeveloped property within the boundaries of Community Facilities District No. 2001-1, Improvement Area A (CFD No. 2001-1, I A - A), French Valley. This appraisal includes an estimate of Market Value of all the undeveloped property subject to special tax. This undeveloped land is under the ownership of one merchant builder, Brookfield W633, LLC, and twelve individual homeowners. The land in this CFD is under site and unit construction, ranging from a blue-top lot condition to completed production dwellings and completed model homes.

According to the specific guidelines of the California Debt and Investment Advisory Commission (CDIAC), each ownership is valued in bulk, representing a discounted value to that ownership as of the date of value. The aggregate bulk value of the land and dwelling units represents Market Value of the property subject to special tax within Community Facilities District No. 2001-1, Improvement Area A.

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, 2006.

**FIFTY-SEVEN MILLION FIVE HUNDRED THOUSAND DOLLARS**

**\$57,500,000**

CONSULTING REAL ESTATE APPRAISERS

Ms. Debra Haskell  
June 9, 2006  
Page Two

**TM No. 30069-1 and TTM Nos. 30069 and 30069-2, owned by Brookfield W633, LLC, and 12 Homeowners contains 310.0+ gross acres, proposed for 633 residential dwellings. The developer has provided engineering site cost for the development. These costs total \$76,480,753 or \$120,823 per lot. The estimated value includes about \$11,000,000 of reimbursements from this bond issue. Proceeds from CFD No. 2001-1, Improvement Area A are to reimburse the developer for a portion of the completion of Eastern Municipal Water District (EMWD) sewer and water facilities, EMWD fees, and Valleywide Park and Recreation District (Valleywide) improvements. The value estimate is contingent upon the funding of CFD No. 2001-1, I A - A.**

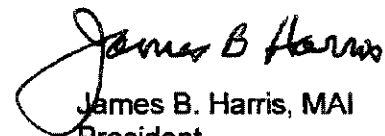
The self-contained report that follows sets forth the results of the data and analyses upon which our opinions of value are, in part, predicated. This report has been prepared for Eastern Municipal Water District for use in the sale of Community Facilities District No. 2001-1, Improvement Area A bonds. The intended users of this report are Eastern Municipal Water District, its underwriter, legal counsel, consultants, and potential bond investors. This appraisal has been prepared in accordance with and is subject to the requirements of The Appraisal Standards for land secured financing as published by the California Debt and Investment Advisory Commission; the *Uniform Standards of Professional Appraisal Practice* (USPAP) of the Appraisal Foundation; and the *Code of Professional Ethics* and the *Standards of Professional Appraisal Practice* of the Appraisal Institute.

We meet the requirements of the Competency Provision of the *Uniform Standards of Professional Appraisal 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

Eastern Municipal Water District  
Community Facilities District No. 2003-22

Lake Skinner

Washington St

Boone St

Morningside  
Kendall

Pourroy Rd

State Hwy 79

Downside Approach



**SUMMARY OF FACTS AND CONCLUSIONS**

<b>EFFECTIVE DATE OF APPRAISAL</b>	June 1, 2006
<b>DATE OF REPORT</b>	June 9, 2006
<b>INTEREST APPRAISED</b>	Fee Simple Estate, subject to special tax liens
<b>LEGAL DESCRIPTION AND OWNERSHIP</b>	<i>APN 467-260-047, 053, 056; CFD No. 2001-1, Improvement Area A</i>  Tract Map No. 30069-1, Tentative Tract Map Nos. 30069 and 30069-2 (full legal description is included in the preliminary title report); proposed for 633 dwelling units  <i>Brookfield W633, LLC</i> <i>Twelve individual homeowners</i>
<b>SITE CONDITION</b>	The land is under site and unit construction, ranging from blue-top lot to completed dwellings and completed model homes.
<b>HIGHEST AND BEST USE</b>	Development as a planned community with a Specific Plan for 633 single-family detached homes.
<b>VALUATION CONCLUSION</b>	<b>\$57,500,000 MARKET VALUE</b>



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**INTRODUCTION**

**Purpose of the Report**

The purpose of this appraisal is to estimate the Market Value for the *fee simple estate, subject to special tax liens* for the undeveloped property within Community Facilities District No. 2001-1, Improvement Area A, French Valley, located near the City of Temecula, in unincorporated Riverside County. The purpose of this appraisal is to estimate the "As Is" Market Value of the land under the ownership of the merchant builder and any individual homeowners.

The opinions set forth are subject to the assumptions and limiting conditions set forth in this appraisal, and the appraisal guidelines as set forth by Eastern Municipal Water District (EMWD).

**Function of the Report and Intended Use**

It is our understanding that this appraisal report is to be used for Community Facilities District bond financing purposes only. The subject property is described more particularly within this report. The bonds are issued pursuant to the Mello-Roos Community Facilities District Act of 1982, as amended. The maximum authorized bond indebtedness for CFD No. 2001-1, I A - A is \$24,000,000.

**Client and Intended Users of the Report**

This report was prepared for our client, Eastern Municipal Water District. The intended users of the report include EMWD; its legal counsel, underwriter, consultants, and potential bond purchasers.

**Scope of the Assignment**

According to the CDIAAC guidelines, the total value conclusion includes the "As Is" estimate of Market Value for the land subject to special tax within the boundaries of CFD No. 2001-1, I A - A. This is a fully documented self-contained appraisal report. Any lands designated for park, open space or civic uses within this CFD and not subject to special tax are not included in this assignment.

# HRA

The residential land is valued in its "As Is" condition as of the date of value. Site development for CFD No. 2001-1, I A - A is well underway. The undeveloped portion of the District has four completed model homes, 12 completed production dwellings, 9 model homes under construction, 16 dwellings under construction, 348 finished lots, and 244 blue-top lots.

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

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

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

### Date of Value and Report

The opinions of Market Value expressed in this report are stated as of June 1, 2006. The date of the appraisal report is June 9, 2006.

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### Date of Inspection

The subject property was inspected on numerous occasions, with the most recent on May 28, 2006.

### Property Rights Appraised

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

### Property Identification

The subject portion of CFD No. 2001-1, I A - A is comprised of 310.0± acres identified as Assessor Parcel Nos. 467-260-047, 053 and 056. These parcels are located on the east side of Pourroy Road, and the west side of Washington Road, approximately one-half mile north of Thompson Road. The subject is in various stages of completion as of the date of value. Site construction is well under way with model homes, dwellings under construction, finished lots, blue-top lots and lots in near blue-top condition.

### Legal Description and Ownership

The table below identifies lot and tract, and ownership.

<u>Tract No.</u>	<u>Gross Acres</u>	<u>No. of Lots</u>	<u>Ownership</u>
TM 30069-1	105.45	341	Brookfield W633, LLC and 12 Homeowners
TTM 30069-2	106.20	189	Brookfield W633, LLC
TTM 30069	<u>97.98</u>	<u>103</u>	Brookfield W633, LLC
	309.63	633	

### Property History

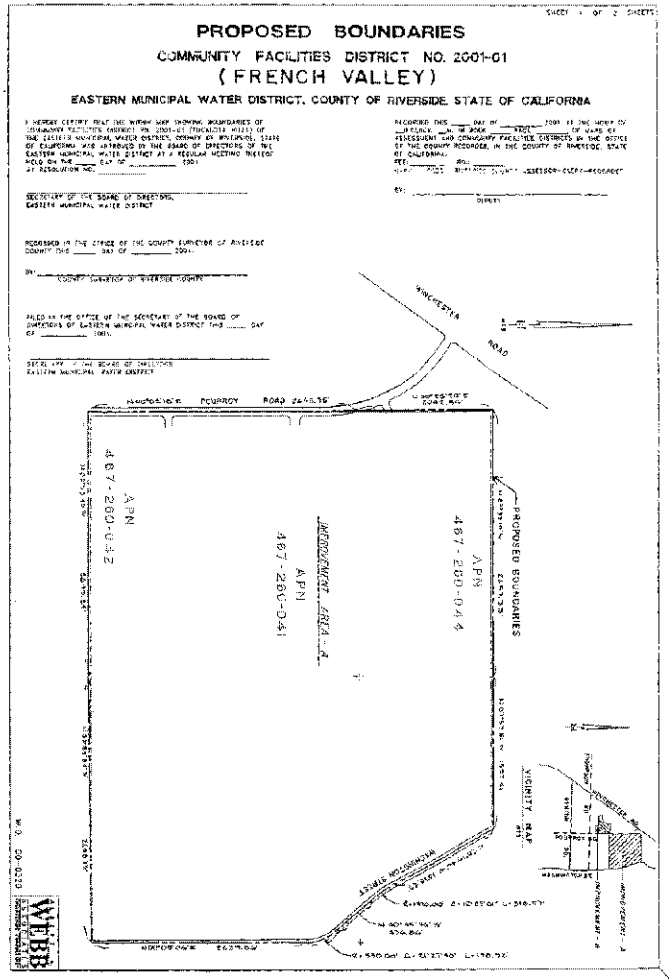
The Brookfield-French Valley property was purchased in three transactions. Approximately 350 acres were purchased in 1990 for \$5,600,000. The balance was purchased in 2000 for \$3,400,000. This property included the 633 lots in CFD No. 2001-1, I A - A plus the land for 448 dwellings now nearing completion in Phase 1 of the French

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### Boundaries of Improvement Area A CFD No. 2001-1



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Valley development. These prices were based on raw, unentitled land. However, all of the land received Specific Plan Approval in 1997. On February 20, 2002, 448 lots that comprise Phase I of the French Valley development were sold to Brookfield Winchester, LLC. The purchase price was \$10,000,000 for the property, in a raw condition. On December 29, 2003, the 633 lots within CFD No. 2001-1, Improvement Area A were sold to Brookfield W633, LLC. The purchase price was \$21,522,000 for the property in a raw condition.

#### Definitions

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

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

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

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

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

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

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

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## Fee Simple Estate Subject to Special Tax and Special Assessment Liens

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

The Market Value included herein, reflects the value potential buyers would consider given the special tax lien of CFD No. 2001-1, I A - A.

## Retail Value

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

## Blue-Top Graded Parcel

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

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

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

## Mass-Graded Parcels

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

## Assumptions and Limiting Conditions

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

Standards Rule ("S.R.") 2-1(c) of the "Standards of Professional Appraisal Practice" of the Appraisal Institute requires the appraisers to "clearly and

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

# HRA

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

## Contingencies of the Appraisal

The appraisal is contingent upon the successful issuance and funding of CFD No. 2001-1, I A - A through Eastern Municipal Water District. The special tax formula was prepared on behalf of Eastern Municipal Water District by Albert A. Webb Associates, consulting engineers.

The Market Value estimate reported in this report reflects a portion of the funding for the infrastructure improvements and fees from the proceeds of CFD No. 2001-1, I A - A. The public improvements and fees subject to reimbursement include EMWD fees, sewer and water improvements and park improvements. The total construction funds and fees with contingency subject to possible reimbursement are about \$11,000,000 for CFD No. 2001-1, I A - A. If the CFD is not funded and/or the amount or timing of the reimbursements should change, the value opinion stated herein could change. Please refer to the Valuation section for further detail of the reimbursements and timeline for reimbursement.

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

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

## Assumptions and Limiting Conditions

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

## HRA

The date of value for which the opinions of Market Value are expressed in this report is June 1, 2006. The dollar amount of this value opinion is based on the purchasing power of the United States dollar on that date.

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

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

The appraisers were provided a soils report prepared by Geocon, Inc., dated July 31, 2003. Based on these reports, the subject property is assumed to be feasible if all engineers' recommendations are implemented. 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 appraisers have been provided with three preliminary title reports for CFD No. 2001-1, 1 A - A. The title reports were prepared by Chicago Title Company and dated March 3, 2005, July 8, 2005 and July 12, 2005. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of the subject properties.

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

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

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

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

## HRA

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

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

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

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

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

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

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

## HRA

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

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

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

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

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

James B. Harris is a Member, and Berr 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 appraisers and in any event only with properly written qualification and only in its entirety. **Eastern Municipal Water**

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District, its underwriter and legal counsel may publish this report in the Official Statement for this Community Facilities District.

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

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

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

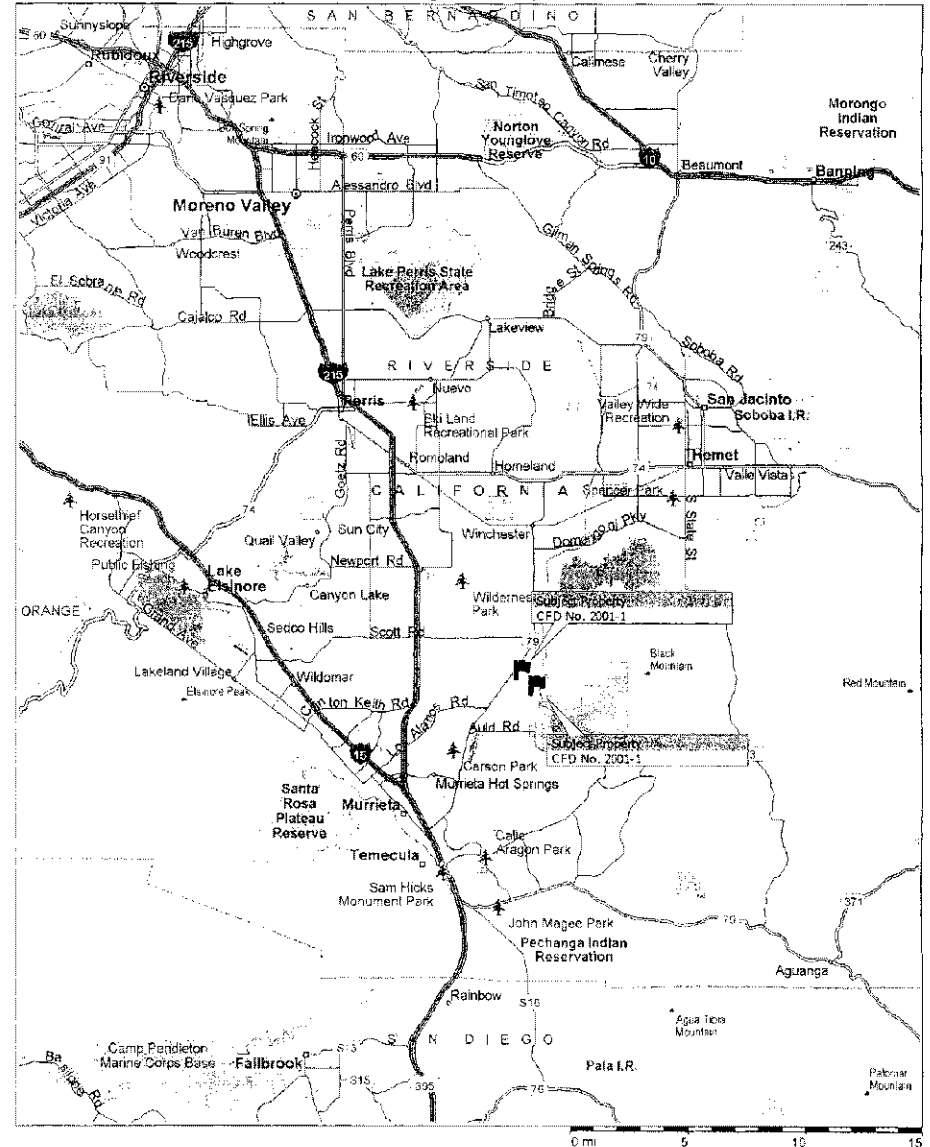
The Southern California region has added about 7.7 million new residents since 1980 as indicated in the table shown on page 14. According to the California Department of Finance, the most recent data available indicate that as of January 2006, the regional population stood at over 21.1 million. If the 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 1.2% to 2.0% per annum.

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## Regional Map



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As of January 2006 the population of the six-county area stood at 21,147,200 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 2006, the population growth rate declined compared to the growth experienced in the late 1980s.

**Population Trends  
1980-2006**

Year	Population	Average Annual Change	
		Number	Percent
1980 <sup>1</sup>	13,359,673	--	--
1981	13,571,785	212,112	1.6%
1982	13,868,390	296,605	2.2%
1983	14,179,920	311,530	2.2%
1984	14,483,010	303,090	2.1%
1985	14,795,200	312,190	2.2%
1986	15,189,600	394,400	2.7%
1987	15,613,100	423,500	2.8%
1988	16,027,400	414,300	2.7%
1989	16,460,900	433,500	2.7%
1990	17,029,545	568,645	3.5%
1991	17,232,000	202,455	1.2%
1992	17,539,200	307,200	1.8%
1993	17,746,100	206,900	1.2%
1994	17,862,000	115,900	0.7%
1995	17,949,300	87,300	0.5%
1996	18,041,500	92,200	0.5%
1997	18,223,500	182,000	1.0%
1998	18,467,800	244,300	1.3%
1999	18,750,300	282,500	1.5%
2000	19,187,500	437,200	2.3%
2001	19,522,500	335,000	1.7%
2002	19,919,900	397,400	2.0%
2003	20,299,100	379,200	1.9%
2004	20,629,300	330,200	1.6%
2005	20,902,600	273,300	1.3%
2006	21,147,200	244,600	1.2%

<sup>1</sup> April 1, 1980, 1990, and 2000, all other years January 1  
Source: California Department of Finance. 5/06

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  
1983-2005<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	7,288,100	192,100	2.7%
1991	7,104,000	(184,100)	(2.5%)
1992	6,900,700	(203,300)	(2.9%)
1993	6,798,100	(102,600)	(1.5%)
1994	6,833,900	35,800	0.5%
1995	6,957,800	123,900	1.8%
1996	7,084,100	126,300	1.8%
1997	7,300,900	216,800	3.1%
1998	7,546,800	245,900	3.4%
1999	7,767,800	221,000	2.9%
2000	7,985,900	218,100	2.8%
2001	8,082,300	96,400	1.2%
2002	8,073,100	(9,200)	(0.1%)
2003	8,102,100	29,000	0.4%
2004	8,224,600	122,500	1.5%
2005	8,362,000	137,400	1.7%

<sup>1</sup> 2005 benchmark  
Source: Employment Development Department 5/06

In the Southern California region, average annual non-agricultural employment has grown from 5,691,000 jobs in 1983, to a then peak employment of 8,082,300 in 2001.



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Employment declined to 8,073,100 in 2002. This decline was mostly caused by a 40,100 job decrease in Los Angeles County. In 2005, employment climbed to a new record level, 8,362,000. This was in spite of Los Angeles County only adding an additional 20,000± jobs. This represents an increase of over 280,000 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 gains have recovered in 2005 with an additional 137,400 new jobs or a 1.7% increase.

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

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past five years. During the period from 1991 through 1994, construction employment declined in response to decreased residential and commercial construction activity. From 1994 through 2005, 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

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to continue but at a level moderately lower than recent years. Factors that will affect employment growth include the direction of the national economy, wage levels, housing prices, and population trends. 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 state budget deficit has negatively impacted both state and local government employment.

### Riverside County

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

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

### **Population**

Riverside County has more than tripled its population, adding approximately 1,290,000 new residents since 1980 as illustrated in the following table. As of the 2000 Census, the countywide population stood at 1,545,387 residents. The 2006 estimate by the State of California indicates that the County had 1,953,300 residents on January 1, 2006. Annual population gains, from natural increase and immigration, have ranged from

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25,300 persons in 1997 up to 81,303 persons in 2004. From 1991 to 1996, the rate of growth in population declined moderately each year. Recent gains of 44,799 to 100,300 persons represent annual changes of 2.2% to 5.6%.

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

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

**Riverside County  
Population Trends  
1980-2006**

Year	Population	Average Annual Change Number	Percent
1980	663,199	--	--
1885	815,100	30,380	4.6%
1990	1,170,413	71,063	6.0%
1991	1,223,200	52,787	4.5%
1992	1,268,800	45,600	3.7%
1993	1,304,400	35,600	2.8%
1994	1,332,000	27,600	2.1%
1995	1,356,600	23,600	1.8%
1996	1,381,900	26,300	1.9%
1997	1,400,400	18,500	1.3%
1998	1,447,200	46,800	3.3%
1999	1,473,300	26,100	1.8%
2000	1,545,387	72,087	4.9%
2001	1,590,200	44,813	2.9%
2002	1,653,800	63,600	4.0%
2003	1,726,300	72,500	4.4%
2004	1,807,600	81,300	4.7%
2005	1,888,300	80,700	4.5%
2006	1,953,300	65,000	3.4%

April 1, 1980, 1990, 2000; all other years January 1.  
Source: California Department of Finance, U.S. Census 5/06

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## Employment

Employment data for Riverside County are compiled for the entire MSA, which includes San Bernardino and Riverside Counties. These counties have become a diverse economy, with manufacturing, construction and tourism the major industry groups. In conjunction with the rapid population growth experienced in the past two decades, the employment base has continued to grow and diversify. The Inland Empire's unemployment rate is moderately above the Southern California average and similar to the State. The higher unemployment rate is due to the seasonal nature of agricultural employment in the area. The following exhibit illustrates the area's unemployment compared to California as of May 2006. Unemployment rates have declined 64% from the recession high of 12.2% in 1993.

	<u>Labor Force</u>	<u>Unemployment</u>
California	17,716,500	4.6%
Inland Empire	1,713,000	4.3%

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

Nonagricultural employment has grown from an annual average of 443,100 jobs in 1983 to 1,235,400 jobs in 2005. This represents an increase of over 792,000 new jobs created in San Bernardino and Riverside Counties during the past 22 years. As the economy rebounded from the national recession in 1981-1982, annual employment gains jumped by approximately 30,500 new jobs in 1984. Job gains peaked in 1990 with 67,000 new jobs. During the economic recession of 1991 to 1996, increases ranged from 4,300 to 28,600 new jobs representing a 0.6% to 3.7% gain per annum. Since 1999, job increases have ranged from 34,100 new jobs to a near record increase of 59,300 new jobs in 2004. The percentage increases have ranged from 3.2% to 6.3%. The table below

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illustrates the annual employment trends from 1983 through 2005. In May 2006, the non-agricultural employment had increased to 1,246,200, a 2.1% increase from May 2005.

Employment among the individual industry categories reflects changes in the Inland Empire economy during the past decade. Construction employment gains generally mirror the regional economy. In response to the high level of construction activity that occurred in the County during the period from 1984 to 1989, construction employment reached nearly three times the level recorded in 1982. From 1992 through 1995, construction employment declined in response to decreased building activity. The 2005 levels were more than double the 1993 low.

San Bernardino-Riverside MSA  
Employment Trends  
1983-2005

Year	<u>Employment</u>	Average Annual Change	
		<u>Number</u>	<u>Percent</u>
1983	443,100	--	
1984	473,600	30,500	6.9%
1985	514,100	40,500	8.6%
1986	551,400	37,300	7.3%
1987	588,700	37,300	6.8%
1988	625,100	36,400	6.2%
1989	668,200	43,100	6.9%
1990	735,200	67,000	10.0%
1991	741,600	6,400	0.9%
1992	751,500	9,900	1.3%
1993	755,800	4,300	0.6%
1994	772,800	17,000	2.2%
1995	801,700	28,900	3.7%
1996	824,800	23,100	2.9%
1997	863,200	38,400	4.7%
1998	903,800	40,600	4.7%
1999	960,300	56,500	6.3%
2000	1,010,100	49,800	5.2%
2001	1,050,700	40,600	4.0%
2002	1,064,800	34,100	3.2%
2003	1,119,400	34,600	3.2%
2004	1,178,700	59,300	5.3%
2005	1,235,400	56,700	4.8%

2005 Benchmark

Source: Employment Development Department 5/06

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The number of manufacturing jobs in the Inland Empire has increased over 45% from the levels recorded in 1991. However, manufacturing jobs declined 5.5% from the 2000 high of 120,000 jobs to 113,400 jobs by 2003, but increased back to 120,200 in 2005. Due to the high labor and capital costs in Los Angeles and Orange Counties, manufacturing firms have expanded or relocated some of their manufacturing operations to Riverside and San Bernardino counties to take advantage of the labor force and lower land costs.

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

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

The future employment growth in the Inland Empire is expected to continue as more firms relocate to the area to take advantage of lower land prices and the abundant labor pool. Factors that will affect employment growth include the direction of the state and national economy, and consumer confidence. Due to the terrorist attack on September 11, 2001 and the Iraq conflict, consumer confidence has been negatively impacted. Most economists report that we were in a flat economy in 2002 and the first half of 2003, but that we began recovery during the second half of 2003. The recovery continued into 2006.

### Income

The average household income in Riverside County is estimated to be \$64,601. The median household income stands at \$49,128. These figures are moderately below the Southern California region average. The lower income level is due to the lower wages in agriculture, manufacturing, service and government employment. The household income distribution for Riverside County is illustrated in the following table.

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### County of Riverside Household Income Distribution 2006

Income Range	Households	Percent <sup>1/</sup>
Less than \$15,000	79,214	12.60%
\$15,000 - \$24,999	77,892	11.56%
\$25,000 - \$34,999	70,749	11.20%
\$35,000 - \$49,999	97,465	15.50%
\$50,000 - \$74,999	121,784	19.36%
\$75,000 - \$99,999	77,360	12.30%
\$100,000 - \$149,999	74,100	11.78%
\$150,000 or more	35,544	5.66%
<b>Total</b>	<b>628,908</b>	<b>100.0%</b>
Median Household Income		\$49,128
Average Household Income		\$64,601

<sup>1/</sup> Percent of total distribution  
Source: Claritas 5/06

### Retail Sales

Retail demand continues to be fueled by the growth in population as outlined previously. For Riverside County, taxable retail sales have increased from \$3.9 billion in 1985 to over \$7.1 billion by 1994 and to over \$18.7 billion by 2004. During the past four years, annual changes have ranged from an increase of \$768 million in 1998 to an increase of \$2.7 billion in 2004, as shown on the next table. Data for 2005 are not available as of the date of this report, although on a statewide basis, retail sales were reportedly up over 7% in 2005.

The increases in retail sales are due to the exceptionally high County population growth rates experienced during the period from 1983 through 1990. During the period from 1991 through 1993, retail sales were stagnant due to the economic recession. From 1994, and continuing through 2004, there was a significant rebound in retail sales. Official state reports for 2005 will not be released until later this year. In the future, retail sales growth should mirror the population growth in the County.

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## Riverside County Retail Sales Trends 1/ 1985-2004

Year	Taxable Retail Sales (000's)	Average Annual Change	
		Number (000's)	Percent
1985	\$3,974,400	\$319,832	8.7%
1986	\$4,338,628	\$364,228	9.2%
1987	\$4,868,644	\$530,016	12.2%
1988	\$5,486,787	\$618,143	12.7%
1989	\$6,257,222	\$770,435	14.0%
1990	\$6,596,974	\$339,752	5.4%
1991	\$6,389,890	(\$207,084)	(3.1%)
1992	\$6,684,107	\$294,217	4.6%
1993	\$6,716,763	\$32,596	0.5%
1994	\$7,131,216	\$414,513	6.2%
1995	\$7,435,414	\$304,196	4.3%
1996	\$8,003,061	\$567,647	7.6%
1997	\$8,508,010	\$504,949	6.3%
1998	\$9,276,448	\$768,438	9.0%
1999	\$10,685,724	\$1,409,278	15.2%
2000	\$12,190,474	\$1,504,750	14.0%
2001	\$13,173,281	\$982,807	8.1%
2002	\$14,250,753	\$1,077,472	8.2%
2003	\$16,030,952	\$1,780,199	12.5%
2004	\$18,715,949	\$2,684,997	16.7%

1/ Taxable Retail Sales Total (not adjusted for inflation)  
Source: State Board of Equalization 5/06

### Transportation

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

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

### Environmental Concerns

The Endangered Species Act of 1973 precludes any activity that constitutes a taking of a federally listed endangered species except by permit. Numerous areas within

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Riverside County have been identified as containing potential habitat of the Stephen's Kangaroo Rat, a listed species. The evidence of habitation by this rat has resulted in delays or substantial revisions of proposed developments. The California Department of Fish and Game is currently reviewing the status of additional wildlife for possible inclusion on a list of endangered or threatened species. A Multiple Species Habitat Conservation Plan (MSHCP) was approved by the County Board of Supervisors on June 17, 2003. The MSHCP is a comprehensive, multi-jurisdictional effort that includes the County and 14 cities. This plan focuses on the conservation of 146 species. The MSHCP consists of a reserve system of approximately 500,000 acres of which 347,000 acres are within public ownership and approximately 153,000 acres are in private ownership. The purchase of the privately owned lands will be funded by an adopted fee. A MSHCP fee of \$1,651 per dwelling unit is imposed for housing built in the MSHCP area.

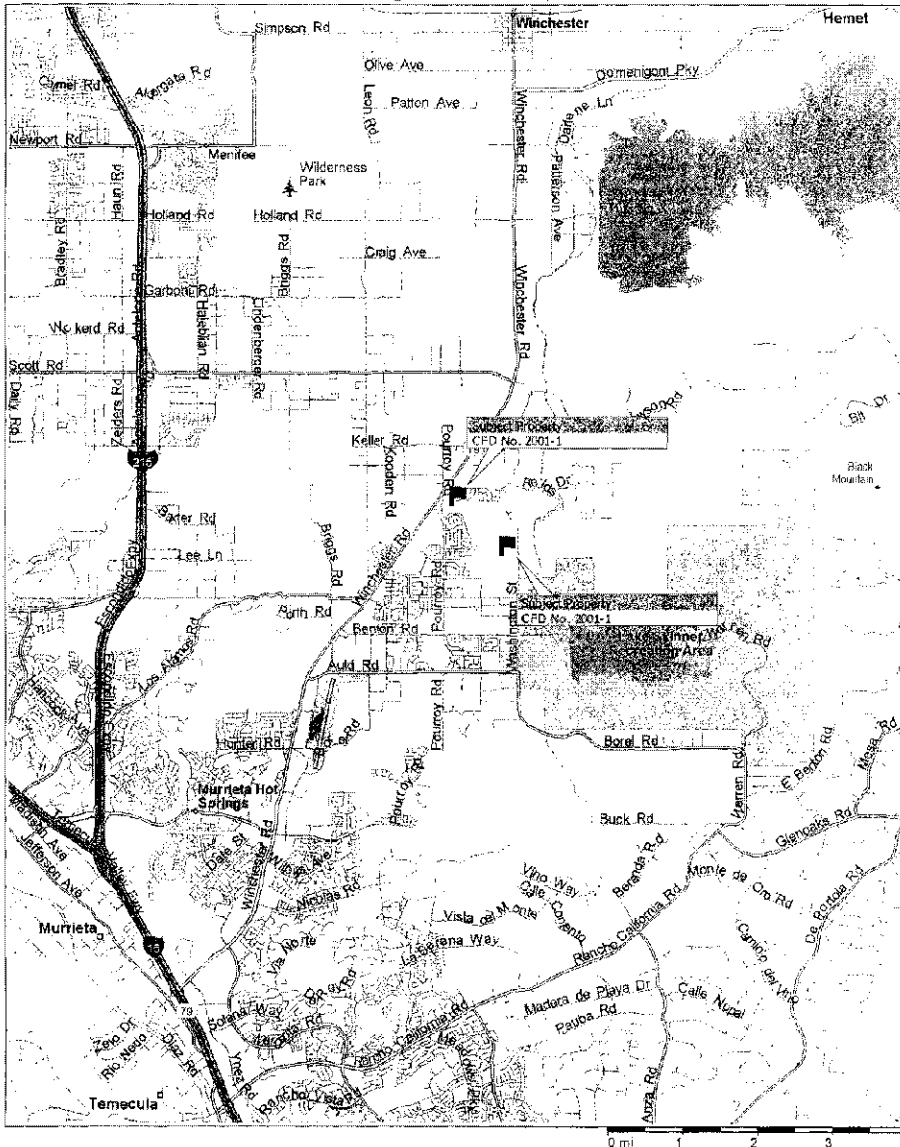
In summary, the region exhibited very strong population and employment growth during the 1980 to 1989 period. The recession of the early 1990s had significantly slowed population growth and resulted in overall job losses from 1990 to 1995. Over the past seven years, as the economy recovered, population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

### Temecula

The City of Temecula is located in the Temecula Valley about 40 miles southeast of the City of Riverside and 60 miles north of San Diego. Development of the Temecula Valley began in the late 1960s, with the sale of the Vail Ranch to Kaiser Land Development Company. Prior to 1964, the land had been under the ownership of the Vail Family since 1904. Kaiser's development, known as "Rancho California," was the beginning of one of the fastest growing regions in California. The completion of the I-15 between San Diego and San Bernardino speeded this area's growth.

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## Neighborhood Map



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Temecula is located along the I-15, I-215 and State Highway 79. The City of Murrieta is north of Temecula and to the west of the District. The Pechanga Indian Reservation is southeast and unincorporated Riverside County surrounds the cities.

## Population

As of the 2000 Census, Temecula had a population of 57,716 or a 113.0% increase over its 1990 population. The State of California estimated the 2006 population at 93,900 for the City of Temecula. With last year's annexation of Redhawk, Temecula's population increased by over 10,000 persons. When the nearby community of Winchester and the City of Murrieta are included the population increases to over 200,000 people.

## Income Levels

The city of Temecula has an income distribution significantly higher than the countywide distribution. The median household income for Temecula is \$70,500, which is much higher than the countywide figure. The average household income in the City is \$81,356, which is significantly higher than the countywide figure.

City of Temecula  
Household Income Distribution  
2006

Income Range	Households	Percent 1/
Less than \$15,000	1,687	6.73%
\$15,000 - \$24,999	1,436	5.74%
\$25,000 - \$34,999	1,681	6.70%
\$35,000 - \$49,999	3,135	12.50%
\$50,000 - \$74,999	5,604	22.35%
\$75,000 - \$99,999	4,535	18.09%
\$100,000 - \$149,999	5,083	20.27%
\$150,000 or more	1,910	7.62%
Total	25,073	100.0%
Median Household Income		\$70,500
Average Household Income		\$81,356

Source: Claritas

5/06

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## Retail Sales

In 2004, the City generated retail sales of \$2,052,502,000 or 10.9% of the County's total retail sales. The retail sales increased 77.5% from the area's 2000 level, while the County's retail sales increased only 53.5% during the same period. This shows the explosive growth of income and population for the subject area. Annual data for 2005 has not been released at this time.

## Employment

The unemployment rate for this area is 2.6%, lower than the countywide rate. The top ten employers in this area are shown on the following table.

Top Ten Employers

Temecula School District	2,398
Guidant Corp.	2,354
Manpower of Temecula	1,871
Albertsons	604
Professional Hospital Supply	600
International Rectifier/Hexfet	560
Hudson RCI	500
Costco	404
Milgard Manufacturing	325
Turnkey Companies, Inc.	316

Source: City of Temecula 2005

## Transportation

Temecula is served by Interstate Highway 15/215 and State Highway 79. These provide access to most other parts of Southern California. In addition, rail service is provided by the Burlington Northern railway in Winchester.

## Immediate Surroundings

The subject property is located in the French Valley area of the Temecula Valley. This is a mostly rural area, but residential development is beginning. This area is north of the City of Temecula and east of the City of Murrieta. Most major commercial/retail

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developments in the Temecula Valley are located in these two cities, between three and six miles from the subject. The subject's Specific Plan includes land for residential uses, retail/commercial uses, as well as future industrial uses.

Within eight miles of the subject area are various service providers and several neighborhood and community shopping centers, including the Murrieta Springs Plaza along the I-15 Freeway, and the Murrieta Town Center along the I-215 Freeway in nearby Murrieta. Approximately four miles to the southwest is the Promenade at Temecula Mall, a regional mall located in the northwest corner of the City of Temecula. The 1.02 million square foot mall contains over 110 specialty stores and is anchored by JC Penney, Robinsons-May, and Sears.

Nearby recreational facilities include the Vail Lake and Lake Skinner Recreation Areas, as well as numerous golf courses and wineries.

Development of single-family dwellings in the subject market area is taking place at this time in the French Valley area as well as adjacent cities. These homes are up to 3,800 square feet in size located on lots that are approximately 7,200 square feet in size. A review of the currently selling projects, included in the Highest and Best Use section of this report, indicates that units range from 2,100 to 4,200 square feet. As a general rule, the newer the development, the larger the home sizes. This is a typical trend in a healthy residential market. The product currently planned for Tract 30069 of the District will include the largest floor plans currently offered. In terms of path of development, the subject area will be among the next developments in the northeast direction from the more densely developed areas of Murrieta/Temecula.

The market area is bisected from southwest to northeast by Winchester Road, which is the main traffic artery for this area. The entire market area is relatively level and physically capable of being developed. The nearest existing school is approximately six miles to the south, although an elementary school is planned within the District. Much of the land in this market area that is not yet developed with

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subdivisions is used either for farming or is left vacant and unused. In the rolling hills of the subject area are generally larger custom homes selling for up to the mid-\$700,000s, while much of the land to the distant north has yet to be developed.

### Conclusion

The Temecula Valley and the surrounding area has been experiencing rapid population growth during the past few years. New residents are being attracted to the area because of the affordable housing in comparison to the coastal regions of Los Angeles, San Diego and Orange counties. The demand for continued development supports the build-out of the subject property.

The economy has experienced economic growth beginning in the third quarter of 2003, due largely to increased consumer and business spending. The anticipated continued strength should bring renewed job growth. Inflation is reported to remain moderate, which should keep mortgage rates from rising too steeply while the economy gains strength. The Inland Empire's housing boom has shown recent signs of slowing. Previously, builders in Riverside County responded to demand for new housing permits and pulled 34,228 residential permits during 2004, and 34,330 residential permits in 2005.

The Riverside County housing prices as of March 2006 were up 4.0% over the same month last year. The median detached new home price in the County was \$448,823 in March 2006. Although up 4.0% from the end of the first quarter 2005, the median price is up only 0.75% from the fourth quarter 2005 level, and down 1.7% from the record high median price of \$456,699 in the third quarter of 2005. New home sales volume for the quarter is down 27.0% from the first quarter of 2005. No new home submarkets had sales increases. All submarkets had declines. For all of 2005, all submarkets declined in their sales per project, with a decline of 13.8% for all of Riverside County, compared to 2004. During the first quarter of 2006, all sub-markets continued their decline, with a decline of 30.9% from the sales rate per project in the first quarter of 2005.

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### SITE ANALYSIS

#### General

The subject property of this appraisal is identified as the undeveloped land of CFD No. 2001-1, I A - A. The subject District ranges from blue-top lots to finished lots with completed models and completed production homes. CFD No. 2001-1, I A - A is a portion of Specific Plan No. 286 - Winchester 1800. Please refer to page 4 for a map of the CFD.

#### Location

The subject parcel is located on the east side of Pourroy Road, about one-half mile north of Thompson Road and one-quarter mile south of Winchester Road (State Highway 79). At Thompson Road, Pourroy Road is about one mile east of Winchester Road (State Highway 79). The property extends easterly to Washington Road.

#### Current Site Condition

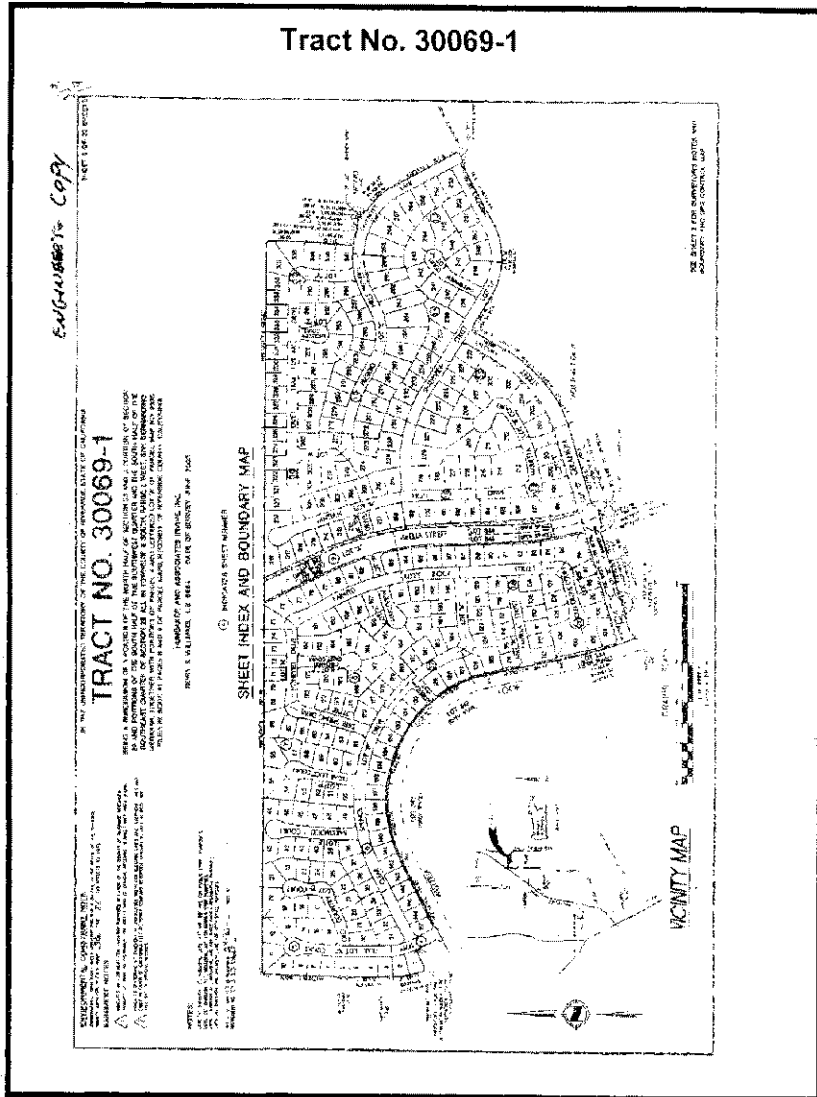
As of the date of value of this appraisal, the undeveloped land of the subject District is in various stages of site and dwelling construction. There are four completed model homes, 12 completed production dwellings, 9 model homes under construction, 16 production dwellings under construction, 348 near finished lots and 244 blue-top lots. Several interior streets are paved with curbs and gutters. Pourroy Road is a paved road, with full street improvements. Washington Road is paved, but has no curbs, gutters or sidewalks.

#### Size and Shape

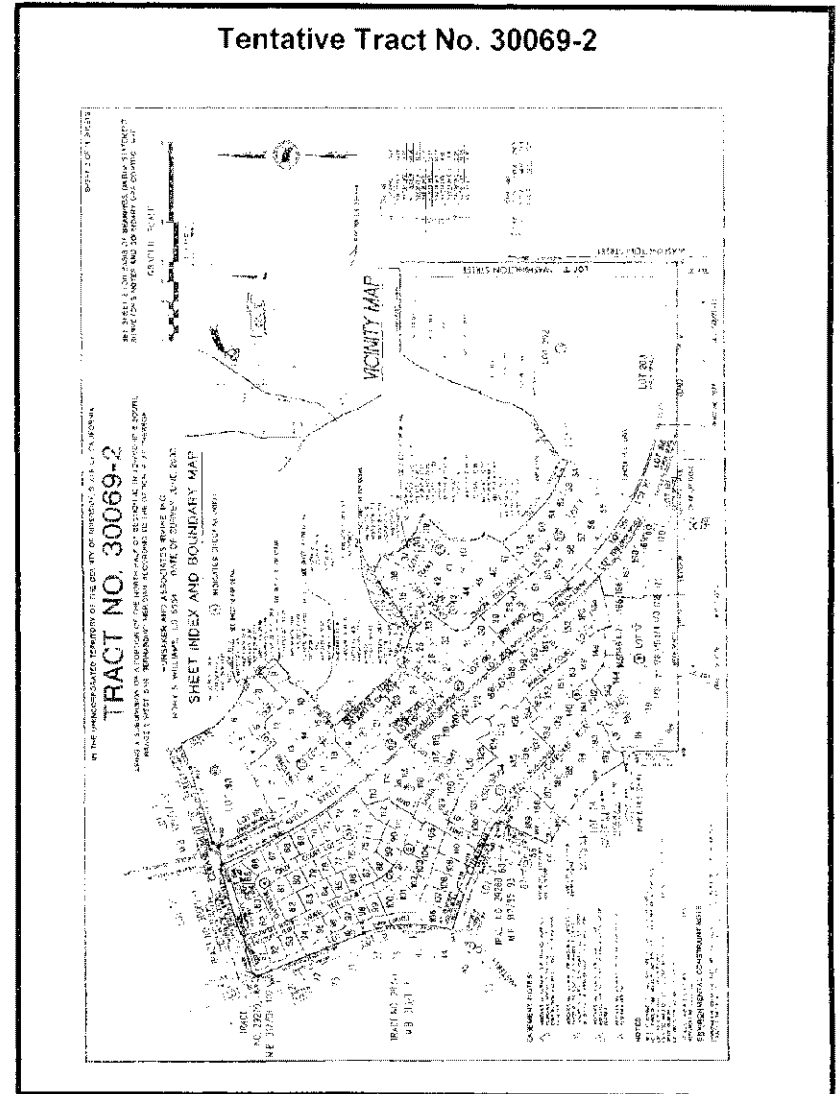
The overall shape of the subject property is irregular and contains 310± undeveloped gross acres. CFD No. 2001-1, I A - A has been subdivided into three tract maps, Tract Map No. 30069-1, Tentative Tract Map No. 30069-2 and Tentative Tract Map No. 30069. Please refer to the table on page 35, which summarizes the tracts. The following three pages show copies of the maps. The tentative maps are expected to record within two months.



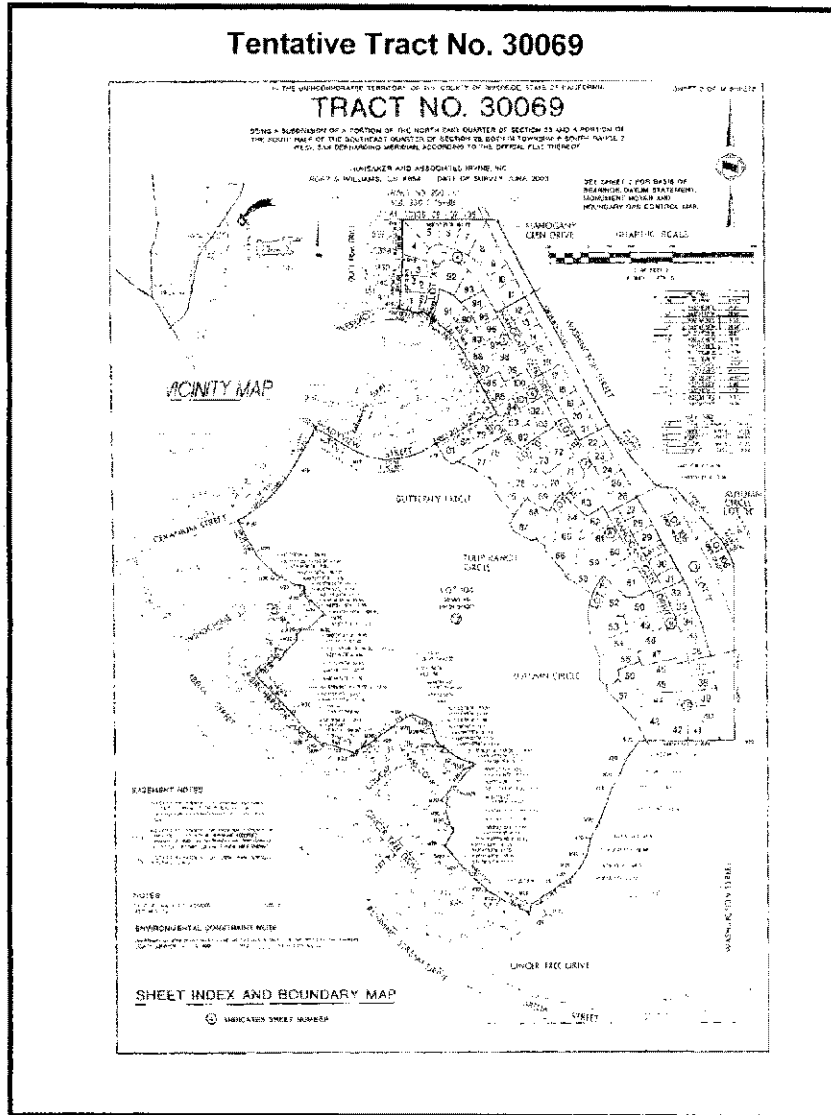
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CFD 2001-1, I A - A			
Tract No.	Gross Acres	No. of Lots	Ownership
TM 30069-1	105.45	341	Brookfield W633, LLC and 12 Homeowners
TTM 30069-2	106.20	189	Brookfield W633, LLC
TTM 30069	97.98	103	Brookfield W633, LLC
	309.63	633	

**Soils and Geology**

A soils report was provided for TTM No. 30069. The report was prepared by Geocon, Inc., and dated July 31, 2003. The report indicates that the project as proposed is feasible. The appraisers assume that the soil conditions allow all of the proposed development as discussed in the Highest and Best Use section of this report and as proposed by the developer.

**Topography and Drainage**

CFD No. 2001-1, I A - A is mostly level along its west line, to rolling hillside in the eastern portion of the property. Elevations range from 1,385 feet up to 1,620 feet above sea level. Some lots may have view premiums when graded.

Drainage is via natural sheet flow and percolation. There were no storm drains serving the subject property, but the surrounding area has storm drains as a part of the new development. Storm drain capacity for the subject is and will be constructed during the development process. During our inspection of the site, we observed no drainage problems that would not be cured by the proposed development of the site.

**Zoning**

The subject property is zoned SP, Specific Plan, by the County of Riverside. This zone allows for a variety of compatible uses that comprise a master planned community. The subject parcels are designated for residential uses within their master planned communities. The minimum lot size is 7,200 square feet per dwelling.

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However, the average lot size for this tract is 10,000± square feet and range to over 19,000 square feet. These very large lot sizes are considered a very desirable aspect of the subject property.

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

### Access and Circulation

The subject property is located on the east side of Pourroy Road, north of Thompson Road. Pourroy Road is currently dedicated 100 feet wide and paved with two lanes of traffic in each direction, with curbs, gutters and sidewalks. All interior streets will be dedicated 60 feet wide and paved with one lane in each direction with curbs, gutters and sidewalks. Washington Road is paved with one lane in each direction, but no curbs, gutters, or sidewalks are built. It will be fully improved adjacent to the subject during site construction.

Pourroy Road extends northerly from the subject and connects with Highway 79, Winchester Road. Highway 79 connects to the I-15 Freeway about 10 miles southwest of the subject.

### Easements

The appraisers have been provided with three preliminary title reports for CFD No. 2001-1, I A - A. The title reports were prepared by Chicago Title Company and dated March 3, 2005, July 8, 2005 and July 12, 2005.

There did not appear to be any easements, restrictions or conditions that would adversely impact the value of the subject property. It is a specific assumption of this appraisal that all easements and encumbrances impacting the property are not detrimental to value. The title report shows two construction trust deeds; \$28,650,000 and \$28,900,000. Notice of special tax liens was reported for CFD No. 2001-1.

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### Utilities

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

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

### 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 "D" flood designated area according to Federal Emergency Management Agency Community Panel No. 060245-2125B effective date September 30, 1988. This designation references an area that is outside the 500-year flood plain. Flood insurance is not required. No other nuisances or hazards were observed on physical inspection of the subject properties as of the date of value.

### Environmental Issues

The subject parcel had been dry farmed or vacant for many years. The property is reportedly not impacted by any negative environmental issues.

### Taxes and Special Assessments

The three individual assessor parcels have property taxes as shown on the following table. Pursuant to Proposition 13, passed in California in 1978, current Assessed Values may or may not have any direct relationship to current Market Value. Real estate tax increases are limited according to Proposition 13 to a maximum of 2% per year plus bonds, if any. If the property is sold, real estate taxes are normally subject to modification to the then current Market Value.

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In addition, there are special taxes for the existing EMWD CFD No. 2001-1, French Valley. CFD. No. 2001-1 has special taxes ranging from \$1,399 to \$1,640 depending on house size. CFD No. 2001-1, I A - A will have special taxes ranging from \$1,289 to \$1,433 depending on house size. The total tax rate will not exceed 2.0%.

The office of Albert A. Webb Associates estimates the Special Taxes on the undeveloped residential land within CFD No. 2001-1, I A - A. The Special Taxes for the individual homes are also estimated. The estimated land values are based, in part, on the Special Taxes estimated for the ultimate homeowner. Within the Addenda of this report, is a summary of the special taxes as estimated by Albert A. Webb Associates for the developed homes.

**EMWD  
Community Facilities District No. 2001-1, I A - A  
Assessed Values and Taxes 2005-06**

APN	A.V. Land A.V. Imps. A.V. Total	R.E. Taxes
467-260-47	\$3,305,537 \$0 \$3,305,537	\$42,427.40
467-260-53	\$30,817 \$0 \$30,817	\$703.78
467-260-56	\$2,065,334 \$0 \$2,065,334	
Total		\$20,760.72 \$63,891.90

The subject property falls within the taxing jurisdiction of the Riverside County Assessor's office. The applicable tax rate area is 94-172. The published annual tax rate in this area is 1.03817%. In addition to the base tax rate, there is additional bond indebtedness related to school district debt service, water districts, and flood control district debt service. As of June 1, 2006 all taxes were reported as paid in full.

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

### Site Improvements

As of the date of value, CFD No. 2001-1, I A - A, is improved from a blue-top lot condition to finished lots with completed model homes and completed dwellings.

The developer provided a summary site improvement budget which totals \$76,480,759. The costs are reported to include the fee credits and/or reimbursements eligible from this CFD. A summary of the costs is included in the Addenda of this report. The costs are reported to bring the land from a raw condition to a physical and legal finished lot condition. According to the developer's cost information, \$45,011,114 has been expended as of the date of value. Approximately \$31,470,000 remain in costs to bring the subject from its current "as is" condition to finished lot condition. Eligible reimbursement for infrastructure improvements and/or fee credits from CFD No. 2001-1, Improvement Area A is \$8,024,344.

It is a specific assumption of this appraisal, that the site costs provided by the developer are all the site costs required to bring the undeveloped land within CFD No. 2001-1, I A - A, from its "as is" condition to a totally finished lot condition, ready to issue building permit condition for the 633 lots within Tract Map No. 30069-1 and Tentative Tract Map Nos. 30069 & 30069-2. This appraisal report and estimated value is based on the developer receiving reimbursements or fee credits of about \$11,000,000. If there is any change in the reimbursements, the value estimate would likely change.

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## PROPOSED IMPROVEMENT DESCRIPTION

### General

The subject property is proposed for development of three products, Veranda, Ironwood and Acacia. The 633 proposed dwellings will be developed on 310± gross acres located east of the existing Morningstar Ranch I, which is complete. The 633 proposed dwellings within CFD No. 2001-1, I A - A will be the second phase of Morningstar Ranch. Twelve homes in Veranda have closed escrow.

The appraisers have not been provided with plans or specifications for the proposed improvements within the District. For purposes of this appraisal, we have assumed that the quality of construction, functional utility, amenities and features will be similar to the currently selling projects and will meet market demand for new product in the subject's market area. The following table represents the proposed number of units, lot size and home size for the proposed homes as indicated by the builder. The Acacia units have not been released and the prices shown are the appraiser's estimate. The prices reflect a recent price reduction for the three products. The reduction average \$27,000.

Product	Lot Size	Floor Plan	Unit Mix	Sales Price
Veranda	7,200	2,472	37	\$430,000
		3,172	46	\$450,000
		2,946	47	\$482,000
		3,108	56	\$460,000
Ironwood	7,200	2,675	52	\$455,000
		3,114	52	\$480,000
		3,208	52	\$490,000
		3,394	53	\$505,000
		3,670	53	\$515,000
Acacia	7,200	3,182	36	\$500,000
		3,482	47	\$510,000
		3,761	46	\$520,000
		4,178	56	\$530,000
<b>Total Units</b>		<b>3,255</b>	<b>633</b>	<b>\$485,100</b>

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As previously discussed, the subject property is under construction with four completed model homes and 12 completed production homes. Sixteen production homes are completed or under construction. Most lots are in a blue-top to near finished lot condition. First home occupancies occurred in February 2006.

The following list is some of the assumed general construction specifications for the detached single-family homes of Veranda, Ironwood and Acacia, by Brookfield Homes.

### **Construction**

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

### **Foundations**

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

### **Structural Frame**

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

### **Roofs**

Roofs are of concrete tile.

### **Windows**

Vinyl dual glazed windows.

### **Floor Covering**

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

### **Interior Finish**

Custom trowelled ceiling and painted drywall.

### **Heating/HVAC**

Energy efficient central air conditioning and gas forced air heating. Dual air conditioning in some plans.

### **Kitchens**

Kitchens will be equipped with beech cabinets and ceramic tile countertops. Each kitchen will include a 30-inch cook top, 30-inch oven, microwave oven and dishwasher.

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### **Bathrooms**

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

### **Garage**

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

### **Fireplace**

One fireplace per dwelling.

### **Laundry Facilities**

Interior laundry rooms

### **Options**

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

### **Conclusion of the Improvements**

We have not been provided with detailed information regarding quality of construction or specifications for the proposed floor plans. However, we have inspected the model homes. The quality and utility of the floorplans are similar to the products currently being constructed in the subject's marketplace.

### **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 633 dwellings will be a part of the Morningstar Ranch Homeowner's Association. At build-out, dues are estimated to be \$45.00 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>4</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>5</sup> The four criteria interact and, therefore, may also be considered in concert. A use may be financially feasible, but it is irrelevant if it is physically impossible or legally prohibited.

### **Legally Permissible Use**

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

The subject property is located in the French Valley area of Riverside County. The subject property is within the Specific Plan of Winchester 1800, S. P. No. 286, which was approved on April 29, 1997. Final Tract Map No. 30069-1 was approved in April 2005. The final maps are expected to record for Tract Nos. 30069-2 and 30069 in July or August 2006. The Specific Plan allows for development of 633 single family

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

<sup>5</sup> *The Appraisal of Real Estate*, 10<sup>th</sup> Edition, Pub. By the Appraisal Institute, Chicago, IL., P. 280.

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homes on 7,200 square foot minimum lots, 77± acres for an open space and a 25± acre school site.

The subject property will be entitled with three Final Tract Maps. Final Tract Map No. 30069-1, to be developed with 341 homes, No. 30069-2, to be developed with 189 homes, and No. 30069 to be developed with 103 homes.

### Physically Possible Use

CFD No. 2001-1, I A - A is generally irregular in shape and contains approximately 310± gross acres according to the three tract maps. The site has a flat to rolling topography and natural watercourses. This Brookfield development is a natural extension of existing nearby residential developments, located in the community of French Valley and the cities of Temecula and Murrieta.

All normal utilities are available to serve the subject site. Utilities and streets have been completed for 389 lots as of the date of value. The property is generally bounded by residential development and undeveloped land. Access is considered to be adequate via Pourroy Road, Washington Road, State Highway 79, and the I-15 Freeway. This appraisal considers the benefits and/or improvements that are to be funded by CFD No. 2001-1, I A - A.

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

### Financial Feasibility and Market Conditions

The financial feasibility of the development of the subject property is based on its ability to generate sufficient income and value in excess of the costs to develop the property to its highest and best use. Please refer to the Valuation section of this report, which gives support to the financial feasibility of CFD No. 2001-1, I A - A.

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*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.*

The appraisers have reviewed an independently prepared absorption analysis which relates to the subject property, CFD No. 2001-1, I A - A. This independent study is titled Market Absorption Study, Eastern Municipal Water District, CFD No. 2001-1, I A - A (French Valley), prepared by Empire Economics, Inc., dated September 20, 2004, updated on December 19, 2005 and further updated on June 19, 2006. A copy of a portion of the current absorption analysis summary is included in the Addenda of this report.

The following paragraphs will examine the assumptions, analysis and conclusions of the Empire Economics report. The data contained in this section will assist in estimating the anticipated absorption period and other pertinent characteristics for the remaining land under the master developer ownership as of the date of value. It should be noted that the Empire Economics study is based on absorption of product by the end-user, an individual homebuyer. This typically is 6 to 12 months later than land absorption to the builders.

### Market Absorption Study, Empire Economics

The Empire Economics absorption schedule presented for the subject property is predicated on basic assumptions concerning the regional economy and is considered a reasonable blending of the cyclical and structural factors that influence the California economy. The analysis is based on a computer model which uses population and employment as the generators of residential demand. The market study uses the proposed product by the merchant builder for Tract Nos. 30069, 30069-1 and 30069-2. The valuation of the land proposed for 633 dwelling units reflects the most current unit mix. The market study for the three tracts uses a product mix that is supported in the market as of the date of the market study and appraisal. The average dwelling size for the

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build-out of the District is 3,224 square feet. Based on the previously mentioned economic premise, and the proposed dwelling sizes, the Empire Economics' report presents the following absorption summary for the residential land uses.

**Empire Economics, Inc.**  
**CFD 2001-1, I A - A**  
**Estimated Absorption Summary**  
**June 2006**

Tract Map	2006	2007	2008	2009	2010	2011	2012	Total
Veranda	41	40	40	45	20	0	0	186
Ironwood	20	36	36	42	42	42	44	262
Acacia	0	28	28	33	33	33	30	185
Total Units								633

### General Market Conditions – Riverside County

The Inland Empire housing market has continued to increase in demand and price over the past several years. As in the past, the increased housing prices in Orange, San Diego and Los Angeles counties have encouraged buyers to look at alternative locations for homes. The Riverside County housing prices as of January 2006 were up 15.8% over the same month last year. The median detached new home price in the County hit a record high of \$445,424 in December 2005, according to a survey by the Hanley Wood Market Intelligence. San Bernardino County had a median price of \$363,816, up 3.5% in one year, but down 17.0% from September 2005. Sales volume is still at historic highs for the month, up 9.3% from January 2005. Only the Desert and North Central submarket had sales declines. All other submarkets had moderate increases. The subject property is located in the South submarket, which had a 4.5% increase in sales from one year ago. However, all submarkets declined in their sales per project, with a decline of 13.6% for all of Riverside County.

The current projection for the housing market is that we are seeing a return to a more balanced and normal market. The past several years of record high sales volume and record high appreciation appears to have stabilized, causing property values to

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plateau or even decline in some areas. The Inland Empire is expected to stay stronger longer where homes are more affordable than on the coast. The Inland Empire is expected to continue to draw homebuyers from Orange, Los Angeles and San Diego counties where home prices are significantly higher.

Over the last 12 to 18 months, these three counties saw a decline in home sales from a year earlier, while the Inland Empire experienced its strongest or second strongest monthly sales rates. Most markets throughout Southern California plateaued during the last quarter of 2004 and the first two months of 2005. However, between March and November 2005, sales prices and sales rates improved. Sales have slowed over the last six months.

While overall inventory is up, the impact is to a more normal market especially when it comes to supply and demand. Job creation was moderate over the past 24 to 30 months of recovery from the previous recession and the economy is still growing at a reasonable pace overall. Given the supply of new residential product in the Riverside County market, the subject tract should sell at a reasonable rate, but without the increases in price that have been experienced over the past several years. More and more news articles are suggesting that home prices are reaching a maximum level, and might even decline in 2006 or 2007.

Builders within Riverside County sold 3,947 new single-family detached homes and 365 condominiums during the fourth quarter of 2005. Both are significant declines from the third quarter of 2005. This represents a decrease of 5.7% for detached product and 1.9% for attached product over the fourth quarter of 2004. The bulk of the attached homes sold in Riverside County during the fourth quarter of 2005 is priced under \$350,000 and comprise 86%± of the total sales. Sales of homes priced between \$250,000 and \$350,000 continue to see the most activity, comprising 81%± of the attached market. The number of active attached projects in Riverside County increased by three projects during the fourth quarter of 2005. The submarket with the greatest number of projects is the Desert submarket.

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Standing (completed, but unsold) attached inventory increased in the fourth quarter of 2005 compared to the fourth quarter of 2004 to 181 units in Riverside County. This is up from three units at the end of the third quarter of 2005. At the current sales rate, that is less than a four-week supply of attached homes. Attached total (built, under construction, planned) unsold inventory consisted of 2,627 units at the end of the fourth quarter of 2005, which is up from 2,526 units last year. At the current sales rates, this level of inventory equates to a 10.7 month supply, which is down from 34.7 months last year.

Home prices continued to increase during the fourth quarter of 2005. However, in general, percentage increases have moderated since the first and second quarters of 2004. Interviews with builders in the Inland Empire anticipate significantly smaller price increases per phase. Many tracts have begun offering incentives and concessions to buyers. The higher prices have prompted more people to sell their homes which is bringing the supply and demand into better balance.

According to an interest rate survey published weekly in The Los Angeles Times, the typical 30-year, fixed rate conforming loan was between 5.75% and 6.50% as of the date of this report. Mortgage rates have been in the 5.00% to 6.50% range over the past year, following more than a year of rates in the 6% range. While a slight increase in rates may impact demand, we do not anticipate a significant drop in demand as long as rates remain near or below the 8% level.

### Riverside - South Submarket

The subject property is situated in the South submarket region, which accounted for 969 detached sales during the fourth quarter of 2005, or about a 24.6% market share of the Riverside County market. This number of sales declined from 1,417 sales in the third quarter of 2005. The median price in the South submarket has decreased over the past year to \$466,775, a 3.2% decrease. The fourth quarter price decreased 5.2% from the third quarter median price of \$492,233. The South submarket is one of

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the more expensive submarkets in Riverside County with a price per square foot ratio of \$177.00. The price per square foot in the subject's submarket increased by 7.3%, but the average size of a detached home declined by 9.8% to 2,637 square feet.

During the fourth quarter of 2005, the subject's submarket did not sell any new detached homes priced under \$349,999; 155 detached homes priced between \$350,000 and \$399,999 were sold, 200 detached homes priced between \$400,000 and \$449,999 were sold, 334 detached homes sold between \$450,000 and \$549,999; and 280 homes sold over \$550,000. There were 108 attached units that sold in the subject's submarket, all but 11 under \$350,000.

Within the South submarket there are 116 detached projects, which is eight more than last year at this time. The subject's market area reports 70 unsold standing inventory units and 715 unsold units under construction. This is a 1.5 month absorption time for the units under construction. Total inventory which includes units built, under construction and future construction totals 4,741 units which equates to a 10.1 month supply at the current sales rate. One year ago total inventory was at 4,067 units, and the months to absorb based on last year's sales rate was 8.0 months.

### Feasibility

It is our opinion, after surveying the competitive projects and analyzing the pricing, design, location differences and other pertinent factors, that the subject property should experience good absorption.

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

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The table on the following page reports the prices and absorption of 10 near-by currently selling residential developments. Absorption has slowed to a range from 0.8 units per month to 6.7 units per month. This sales rate is down significantly from earlier in 2005 and in 2004. Most projects reported that sales and traffic were weak during the first quarter of 2006. Most projects are offering incentives or concession to buyers, typically ranging from \$3,000 to \$20,000 per unit. Many projects have reduced prices over the last five months. The subject is projected to have three projects that will range from an average base price of approximately \$430,000 to \$530,000 per dwelling. Based on current sales of competing projects, sales rates could range from 3.0+ to 4.0+ units per month per project.

### Maximally Productive

In considering what uses would be maximally productive for the subject property, we must consider the previously stated legal considerations. We are assuming the land uses allowed under the Specific Plan with the County of Riverside 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.

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

### Conclusion

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

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French Valley Market Area Comparable Residential Project Summary Detached Single Family Homes June 1, 2006									
No.	Project Location	Total Units	Lot Size	Price Range	Size Range	\$/Sq. Ft. Range	No. Sold	Start Dt.	Overall Mo. Abs.
1	Veranda Brookfield Homes French Valley Subject	186	7,200	\$430,000	2,472	\$173.95	31	Aug-05	3.2
				\$450,000	2,802	\$160.60			
				\$462,000	2,946	\$156.82			
				\$460,000	3,108	\$148.01			
2	Capistrano Barratt American French Valley	259	7,200	\$428,500	2,081	\$205.91	166	Dec-03	5.6
				\$459,500	2,465	\$186.41			
				\$484,000	2,822	\$171.51			
				\$494,000	3,259	\$151.58			
				\$597,000	3,799	\$157.15			
				\$510,000	3,456	\$147.57			
3	Jasmine Estates Ryland Homes French Valley	131	6,500	\$437,000	2,079	\$210.20	33	Jul-05	3.3
				\$416,000	2,134	\$194.84			
				\$494,000	2,415	\$204.55			
				\$487,000	2,589	\$188.10			
				\$470,000	2,784	\$168.82			
				\$490,000	2,931	\$167.18			
4	Orchid Park Ryland Homes French Valley	84	5,200	\$383,000	1,856	\$206.38	33	Jul-05	3.3
				\$425,000	2,026	\$209.77			
				\$458,000	2,584	\$177.24			
5	Stratton Pointe Van Daele Homes French Valley	74	7,200	\$440,000	2,420	\$181.82	17	Oct-05	2.2
				\$474,000	3,083	\$153.75			
				\$489,000	3,273	\$149.40			
				\$517,000	3,592	\$143.93			
6	Norington Ridge Van Daele Homes French Valley	73	7,200	\$406,000	1,824	\$222.59	7	Oct-05	0.9
				\$430,000	2,374	\$181.13			
				\$428,000	2,400	\$178.33			
				\$447,000	2,700	\$165.56			
7	Vista Del Valle CPH French Valley	109	7,000	\$436,000	2,523	\$172.81	103	Aug-04	4.7
				\$431,000	2,689	\$159.69			
				\$477,000	3,349	\$142.43			
				\$502,000	3,689	\$136.08			
				\$522,000	3,829	\$136.33			
8	Brindsi KB Homes French Valley	147	5,000	\$379,000	1,597	\$237.32	147	Aug-04	6.7
				\$391,000	1,864	\$209.75			
				\$394,000	1,999	\$197.10			
				\$435,000	2,492	\$174.56			
				\$465,000	2,873	\$161.85			
9	Vedado Buie Communities French Valley	153	5,500	\$407,000	2,119	\$192.07	148	Jan-04	5.1
				\$424,000	2,593	\$163.52			
				\$444,000	2,712	\$163.72			
				\$455,000	3,037	\$149.82			
10	French Valley Estates DHI French Valley	32	7,300	\$524,000	2,545	\$205.89	8	Oct-05	0.8
				\$555,000	2,774	\$200.07			
				\$562,000	3,019	\$186.15			
				\$584,000	3,287	\$177.67			

## HRA

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

### **As Vacant**

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

### **As Improved**

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

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### VALUATION METHODOLOGY

#### Basis of Valuation

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

#### Valuation Approaches

Three basic approaches to value are available to the appraiser:

##### **Cost Approach**

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

##### **Income Approach**

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

##### **Direct Comparison Approach**

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

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

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The Developmental Analysis residuals to a bulk "As Is" estimate of value by identifying all required costs to improve the proposed lots, absorption and required profit margin. This analysis is considered an appropriate procedure 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 unimproved land. The Direct Comparison Approach is used to estimate finish lot prices used in the Developmental Analysis.

The subject properties are in a blue-top to near finished lot condition with model homes and some production homes complete or under construction by the merchant builder. The products being built by the builder are considered the highest and best use of the properties and are in demand by the Riverside County homebuyer. Therefore, the partially completed improvements are considered to add value. The units under construction are valued based on a conservative estimate of their completion. This percentage is applied to the estimated average base sales price of the average size home in the projects for an indication of value. The finished lots are valued by the Direct Comparison Approach and Static Residual Analysis. The appraisers have been

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provided with the costs to bring all of the land within the District from its "as is" condition as of the date of value to a finished lot condition with all development fees paid. The costs have been provided by the builder. The analysis will provide an aggregate value, on a per lot basis, based on the current development condition of the 633 lots in CFD No. 2001-1, I A - A. The lots that do not include vertical construction will be valued as finished lots. The costs to complete to finished lot condition will be deducted in the discounted cash flow.

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## VALUATION OF CFD No. 2001-1, 1A - A

### General Information

All of the subject lots are anticipated to be developed by the merchant builder or a joint venture with the merchant builder. The actual sales price of a particular parcel is always considered the best indication of value, assuming the transaction is arm's length, current and meets the definition of Market Value. In the case of the subject parcel, its Market Value will be best indicated by the merchant builder residential land sales that have occurred in the Temecula area. Eight recent sales within the Temecula Valley were uncovered for comparison.

### Direct Comparison Approach

The Direct Comparison Approach is based upon the premise that, when a property is replaceable in the market, its value tends to be set by the purchase price necessary to acquire an equally desirable substitute property, assuming no costly delay is encountered in making the decision and the market is reasonably informed. In appraisal practice, this is known as the Principle of Substitution.

This approach is a method of analyzing the subject property by comparison of actual sales of similar properties, when available. These sales are evaluated by weighing both overall comparability and the relative importance of such variables as time, terms of sale, location of sale property, and lot characteristics. For the purpose of this report, the unit of comparison utilized is the price per unit for the residential land. The indicated values reflect the finished lot values for merchant builder parcels. Please refer to the following page, which summarizes the sales considered similar to the subject parcel.

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Land Sale Summary Temecula Market Area Merchant Builder Parcels							
Date No./ Location	Buyer/ Seller	Sale Date	Lot Size	No. of Lots	Price/ Lot	Finished Price/Lot	Remarks
No. 1 SWC Murietta Hot Springs Rd. & Roparugh Meadows Rd. Temecula	Tanamera Homes Shea Homes	11/00	5,000	99	\$185,293	\$206,163	Sold as blue-top lots Property in CFD
No. 2 SEC Murietta Hot Springs Rd. & Roparugh Meadows Rd. Temecula	Tanamera Homes Griffin Communities	6/05	5,000	100	\$196,250	\$207,150	Sold as blue-top lots Property in CFD
No. 3 S/S Murietta Hot Springs Rd. E/O Roparugh Meadows Rd. Temecula	Tanamera Homes Meeker Homes	1/08	5,000	113	\$187,035	\$203,696	Sold as blue-top lots Property in CFD
No. 4 NEC Butterfield Stage Rd. & Morgan Hill Dr. Temecula	McMillin Moriavina McMillin Homes	12/04	6,000	146	\$194,000	\$198,000	Sold as blue-top lots Property in CFD
No. 5 SEC Butterfield Stage Rd. & Morgan Hill Dr. Temecula	McMillin Ruffino McMillin Homes	12/04	7,200	131	\$188,800	\$206,250	Sold as blue-top lots Property in CFD
No. 6 SWC Villa Helena St. & Morgan Hill Dr. Temecula	McMillin Blackstone McMillin Homes	12/04	8,000	69	\$202,300	\$223,000	Sold as blue-top lots Property in CFD
No. 7 SEC Leon Rd. & Juan Nichols Rd. French Valley	CPH Silver Caks 183	4/05	7,200	49	\$140,000	\$210,000	Land in raw condition Property to be in CFD
No. 8 S/O Auld Rd. W/O Pourroy Rd. French Valley	Ryland Homes Warm Springs Inv.	12/05	7,200 and 20,000	128	\$200,000	\$264,000	Sold as blue-top lots Large lots with views Property in CFD

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### Land Sale Data No. 1

Location: Southwest corner Murrieta Hot Springs Road and Roripaugh Meadows Road, Temecula

Legal Description: Lots 1-44, 46-59, 61-101 Tract 29661-3

Buyer: Tanamera/Roripaugh II, LLC

Seller: Shea Homes Limited Partnership

Parcel Size: 15.90 acres

No. of Units: 99

Lot Size: 5,000 sq. ft. (min.)

Zoning: SP

Intended Use: To construct 99 single-family detached dwellings from 1,974 to 2,699 square feet. The average base sales price is estimated at \$498,000.

Date Recorded: November 1, 2005

Sale Price: \$18,340,000

Price/Unit: \$185,253

Finish Lot Cost: \$206,153

Site Condition: Blue-top at sale

Financing: All cash to the seller

Verification: Buyer

Comments: This is a portion of the Roripaugh Ranch master planned community. This community is located four miles south of the subject property. The property is in a CFD with a similar tax rate to the subject. Although 27 building permits were available in March 2006, the remainder won't be available until September 2006.

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### Land Sale Data No. 2

Location: Southeast corner Murrieta Hot Springs Road and Roripaugh Meadows Road, Temecula

Legal Description: Lots 1-82, 84-101 Tract 29661-4

Buyer: Tanamera/Roripaugh, LLC

Seller: Roripaugh Ranch 100, L.P. (Griffin Communities)

Parcel Size: 16.10 acres

No. of Units: 100

Lot Size: 5,000 sq. ft. (min.)

Zoning: SP

Intended Use: To construct 100 single-family detached dwellings from 2,007 to 3,246 square feet. The average base sales price is estimated at \$522,000.

Date Recorded: June 29, 2005

Sale Price: \$18,625,000

Price/Unit: \$186,250

Finish Lot Cost: \$207,150

Site Condition: Blue-top at sale

Financing: All cash to the seller

Verification: Buyer

Comments: This is a portion of the Roripaugh Ranch master planned community. This community is located four miles south of the subject property. The property is in a CFD with a similar tax rate to the subject. Although 26 building permits were available in March 2006, the remaining 74 permits are not available until September 2006.

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### Land Sale Data No. 3

Location: South side corner Murrieta Hot Springs Road 1,200 feet east of Roripaugh Meadows Road, Temecula

Legal Description: Lots 1-113, Tract 29661

Buyer: Traditions at Roripaugh, LLC

Seller: Roripaugh Ranch I, L.P. (Meeker Acres)

Parcel Size: 18.15 acres

No. of Units: 113

Lot Size: 5,000 sq. ft. (min.)

Zoning: SP

Intended Use: To construct 113 single-family detached dwellings from 2,346 to 2,951 square feet. The average base sales price is estimated at \$517,000.

Date Recorded: January 6, 2006

Sale Price: \$18,875,000

Price/Unit: \$167,035

Finish Lot Cost: \$203,696

Site Condition: Blue-top at sale

Financing: All cash to the seller

Verification: Buyer

Comments: This is a portion of the Roripaugh Ranch master planned community. This community is located four miles south of the subject property. The property is in a CFD with a similar tax rate to the subject. Building permits for this tract are not available until September 2006.

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### Land Sale Data No. 4

Location: Northeast corner of Butterfield Stage Road and Morgan Hill Drive, Temecula

Legal Description: Lots 1 to 146, Tract 30347-1

Buyer: McMillin Montevina, LLC.

Seller: McMillin Morgan Hill, LLC

Parcel Size: 51.90 acres

No. of Units: 146

Lot Size: 6,000 square feet

Zoning: SP 313

Intended Use: To construct single-family detached dwellings from 2,494 to 3,239 square feet. The average base sales price is estimated at \$521,000.

Date Recorded: December 27, 2004

Sale Price: \$26,864,000

Price/Unit: \$184,000

Finish Lot Cost: \$199,000

Site Condition: Blue-top condition at sale.

Financing: All cash to the seller

Verification: Seller & buyer

Comments: This is a portion of the Morgan Hill Development. Price was based on finished lot cost, less cost to finish. Although an inter-company transfer, seller reported that the sales price was an open-market transaction. Tax rate is similar to the subject.

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### Land Sale Data No. 5

Location: Southeast corner of Butterfield Stage Road and Morgan Hill Drive, Temecula

Legal Description: Lots 1 to 131, Tract 30347-2

Buyer: McMillin Ruffino, LLC.

Seller: McMillin Morgan Hill, LLC

Parcel Size: 38.60 acres

No. of Units: 131

Lot Size: 7,000 square feet

Zoning: SP 313

Intended Use: To construct single-family detached dwellings from 2,774 to 3,650 square feet. The average base sales price is estimated at \$546,500.

Date Recorded: December 28, 2004

Sale Price: \$24,733,000

Price/Lot: \$188,800

Finish Lot Cost: \$205,250

Site Condition: Blue-top condition at sale.

Financing: All cash to the seller

Verification: Seller & buyer

Comments: This is a portion of the Morgan Hill Development. Price was based on finished lot cost, less cost to finish. Although an inter-company transfer, seller reported that the sales price was an open-market transaction. Tax rate is similar to the subject.

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### Land Sale Data No. 6

Location: Southwest corner of Villa Helena Street and Morgan Hill Drive, Temecula

Legal Description: Lots 1 to 59, Tract 30347-3

Buyer: McMillin Blackstone, LLC.

Seller: McMillin Morgan Hill, LLC

Parcel Size: 20.45 acres

No. of Units: 59

Lot Size: 8,000 square feet

Zoning: SP 313

Intended Use: To construct single-family detached dwellings from 3,284 to 3,836 square feet. The average base sales price is estimated at \$610,000.

Date Recorded: December 23, 2004

Sale Price: \$11,938,000

Price/Unit: \$202,300

Finish Lot Cost: \$223,000

Site Condition: Blue-top condition at sale.

Financing: All cash to the seller

Verification: Seller & buyer

Comments: This is a portion of the Morgan Hill Development. Price was based on finished lot cost, less cost to finish. Although an inter-company transfer, seller reported that the sales price was an open-market transaction. Tax rate is similar to the subject.



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## Land Sale Data No. 7

Location: Southeast corner Leon Road & Jean Nichols Road, French Valley

Legal Description: Portion NW Quarter Section 32 T6S R2W

Buyer: Capital Pacific Holdings

Seller: Silver Oaks 183

Parcel Size: 18.4± acres

No. of Units: 49

Lot Size: 7,200 square feet

Zoning: R-1

Intended Use: To construct single-family detached dwellings.

Date Recorded: April 18, 2005

Sale Price: \$6,860,000

Price/Unit: \$140,000

Finish Lot Cost: \$210,000

Site Condition: Raw condition at sale date.

Financing: All cash to the seller

Verification: Selling broker

Comments: This property is located in an inferior area of French Valley, west of Highway 79. This property is located in a CFD, with a similar tax rate.

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## Land Sale Data No. 8

Location: South of Auld Road and west of Pourroy Road, French Valley

Legal Description: Lots 1 to 128, Tract No. 29865-2

Buyer: Ryland Homes

Seller: Warm Springs Investment

Parcel Size: 43.09 ac.

No. of Units: 128

Lot Size: 105 lots at 7,200 square feet; 23 lots at 20,000 square feet

Zoning: SP-238 (Crown Valley Village)

Intended Use: To construct single-family detached dwellings from 3,200± to 4,500± square feet. The average base price is \$600,000±.

Date Recorded: December 1, 2004

Sale Price: \$25,600,000

Price/Unit: \$200,000

Finish Lot Cost: \$254,000 average

Site Condition: Blue-top lot at sale date.

Financing: All cash to the seller

Verification: Seller

Comments: This property is located in the French Valley in the Crown Valley Village CFD. The tax rate will be similar to the subject. The sales price was based on the finished lot price.

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### Analysis

#### *Financing*

All of the comparable sales were all cash transactions or financing considered to be cash, therefore, no adjustments for financing were warranted.

#### *Property Rights Conveyed*

All of the comparables involved the transfer of the fee simple interest. The subject's fee simple interest is appraised in this report, and therefore, no adjustment is warranted.

#### *Time of Sale*

During the past 8 years, Southern California has sharply rebounded from its lengthy recession. Demand for land sales has dramatically exceeded supply. Prices paid for residential land increased annually by 15% to 20% and more from 1997 to 2000. However, 2001 saw a leveling of land prices, only to increase again during 2002, 2003, 2004 and the first six months of 2005. Home prices have increased from the lows of 1996. The average new home price in Riverside County has increased from \$156,907 in the first quarter of 1996 to \$445,424 in the fourth quarter of 2005. The median price increased 3.9% in the last 12 months. This is a record high, median price level for existing homes in Riverside County. However, while prices have continued up, the increase is significantly lower than in the past 5+ years. Sales activity has declined for the last six months, compared to one year earlier sales activity. The market in general began to plateau during August and September 2004. The price stabilization continued through February 2005. Sales prices resumed moderate increases from February 2005 to August 2005. Prices have plateaued through the beginning of 2006 and appear to be declining over the last two to three months. No adjustments to the comparables appear warranted.

#### *Conditions of Sale*

Typically, adjustments for conditions of sale reflect the motivations of the buyer and the seller in the transfer of real property. The conditions of sale adjustment reflects

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the difference between the actual sales price of the comparable and its probable sales price if it were sold in an arms-length transaction with typical motivations. Some circumstances of comparable sales that will need adjustment include sales made under duress, eminent domain transactions and sales that were not arm's length. All of the transactions were reported to be arm's length in nature. Accordingly, no adjustment is indicated.

#### *Location*

The location adjustment is based on proximity to existing infrastructure and employment. All of the data are located in the Temecula Valley with similar overall appeal. However, Data No. 7 has an inferior location and requires an upward adjustment and Data Nos. 4, 5, and 6 have a superior location and require downward adjustment. The remaining data do not require adjustment.

#### *Entitlement/Map Status*

All of the sales are entitled. No adjustment is required.

#### *Tax Rate*

The subject is expected to have an average overall tax rate around 2.00% of base value. Because all of the items have similar CFD's, no adjustment is required. The merchant builders of the land are aware of the various taxes and have factored the impact of the higher tax rates into the prices paid for the land.

#### *Lot Size*

The comparables have lot sizes that range from 5,000 to 20,000 square feet. The subject's minimum lot size is 7,200 square feet. Interviews with sales persons indicated that lot size is an important feature to the Temecula Valley home buyer. Therefore, we have given heaviest weight to the sales with similar lot size to the subject.

Condition of Lots

All of the data had adjusted prices based on a finished lot condition. Because the valuation is based on finished lots, no adjustment is indicated. Deductions for costs to bring the subject parcels from finished lot condition to their "As Is" condition is made at the Conclusion of Value in this analysis.

Please refer to the previous page for the adjustment grid of the eight comparable land sales.

The sales consists of eight merchant builder parcels with lot sizes of 5,000 square feet, 6,000 square feet, 7,000 square feet, 8,000 square feet and 20,000 square feet.

After all adjustments, and giving equal emphasis to all of the data, the comparable data indicated a per lot value of \$210,000 per finished lot, for lots with 7,200 square feet. The cost to finish for the subject lots were reported to be about \$50,000 per lot.

Static Residual Analysis

CFD No. 2001-1, 1A - A is being developed by Brookfield Homes. The subject area consists of three detached projects. The development is proposed for 633 detached homes on 7,200 square foot minimum lots. The homes range in size from 2,472 to 4,178 square feet with current base prices that range from \$430,000 to \$530,000. Thirteen floor plans are offered. The development has closed escrow on 12 individual dwellings and has met with a fair response from the market. The sales staff at the tract was questioned about seller concessions. The staff stated that concessions and brokers co-ops totaling about \$15,000 per unit were being offered. Additionally, Veranda and Ironwood have had recent price reductions. The reductions range from \$9,000 to \$38,000 per floorplan. The average reduction for all of the nine units is \$27,000.

The merchant builder land is valued by the Direct Comparison Approach and by the Static Residual Analysis. The purpose of this analysis is to estimate a value for the

Land Sales Adjustments														
CFD 2001-1, 1A - A														
MAY 10, 2001														
Projec	Date	No.	Acres	Lot	Entire	Fin	Time	Time Adj	Location	Approved	Tax	Lot	Condition	Adj
No.	Date	Acres	Size (SF)	Entire	Lot Cost	Cost	Adj	Cost	Adj	Map	Rate	Size	of Lts	Finished Lot
SEC Murrells Hill Springs Rd & Reaugh Meadows Rd, Tennessee	6/05	100	5,000	Entire	\$207,155	0%	\$207,150	0%	0%	0%	0%	5%	0%	\$27,500
SEC Murrells Hill Springs Rd & Reaugh Meadows Rd, Tennessee	7/05	113	5,000	Entire	\$203,696	0%	\$203,696	0%	0%	0%	0%	5%	0%	\$213,861
M/C Benthel Stages Rd & Morgan Hill Dr, Tennessee	12/04	140	6,000	Entire	\$198,000	0%	\$198,000	-5%	0%	0%	0%	5%	0%	\$199,000
SEC Benthel Stages Rd & Morgan Hill Dr, Tennessee	12/04	131	7,000	Entire	\$208,253	0%	\$208,253	-3%	0%	0%	0%	0%	0%	\$194,988
SEC Villa Helena St & Morgan Hill Dr, Tennessee	12/04	56	8,000	Entire	\$223,900	0%	\$223,900	-4%	0%	0%	0%	0%	0%	\$211,850
SEC Leon Rd & Jean Nichols Rd French Valley	6/05	48	7,200	Entire	\$210,000	0%	\$210,000	5%	0%	0%	0%	0%	0%	\$220,500
S/O Judd Rd French Valley	12/05	128	7,200	Entire	\$254,000	0%	\$254,000	0%	0%	0%	0%	-10%	0%	\$228,600

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land assuming no direct construction has taken place. This method is particularly helpful when development for a subdivision represents the highest and best use and when competitive house sales are available. Reportedly, this analysis is by far the most commonly used by merchant builders when determining price for land.

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

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

### *End-product Sales Prices*

The analysis uses the average base sales price without lot premiums. Our estimate of sales price includes a review of the subject's current sales prices as reported by Brookfield Homes and prices of products selling in the subject's market area. Brookfield Homes has just instituted price reductions for the project ranging from \$9,000 to \$38,000 per unit. The average reduction is \$27,000 for all of the floorplans.

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### *Direct Development Costs*

We have interviewed local builders in the Inland Empire market area for estimates of direct construction costs for the proposed products. We have compared this information with in-house data on actual developments throughout Riverside County and adjacent counties. The merchant builder, Brookfield Homes has provided detailed cost to build the product within the District. The three projects, Veranda, Ironwood and Acacia have a direct cost of around \$50.00 per square foot. We are aware that construction costs have increased significantly over the past 12 months. Based on our understanding of the proposed quality of construction, home size and functional utility, the estimates used appear reasonable and supportable.

Indirect construction costs have been estimated at 4% of sales price, which is found to be an industry standard used for this analysis.

### *General and Administrative*

General and administrative costs are estimated at 3% of retail value. This category covers such expenses as administrative, professional fees, HOA dues, and miscellaneous costs. This estimate is typical and consistent with the market.

### *Marketing and Warranty*

Marketing and sales expenses plus warranty costs are estimated at 5% of retail value. This category covers such expenses as advertising and sales commissions and home warranties. This estimate is typical and consistent with the market.

### *Developer Profit*

The line item for profit reflects the required margin to attract an investor in light of the risk and uncertainties of the specific project. This analysis assumes a finished lot and no on-site construction. Therefore, additional risk of development is unknown. However, given the current residential market, and demand for the proposed project, the risk of development is less.

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CFD No. 2001-1 Product A			
	Project	Avg. Size	Base Price
	Veranda	2,924	\$450,500
	Ironwood	3,212	\$489,000
	Acacia	3,628	\$515,000
	<b>Average</b>	<b>3,255</b>	<b>\$484,833</b>
Less: Average Concession			(\$15,000)
<b>Net Average Sales Price</b>			<b>\$469,833</b>
<b>Brookfield Homes</b>			
<i>Average for 3 Proposed Products</i>			
Average Retail Value of Improvements		\$469,833	\$144.38 (Per sq. ft.)
Average Dwelling Size (Sq. Feet)	3,255		
Direct Building Cost Per Sq. Ft.	\$50.00	\$162,733	
Indirect Construction Costs	4.00%	\$18,793	
General & Administrative Costs	3.00%	\$14,095	
Property Tax	1.80%	\$8,727	
Marketing and Warranty Costs	5.00%	\$23,492	
Builder's Profit	8.00%	\$37,587	
Interest During Holding Period	5.00%	\$23,492	
Costs to bring to Finished Lot		<u>None</u>	
<b>Finished Lot Value Estimate</b>		<b>\$180,915</b>	
		<b>\$181,000</b>	
		<b>Finished Lot</b>	<b>0.39</b>

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Based on surveys of builders and developers, profit requirements are typically between 7% and 10% of revenues, with occasional responses down to 6% and as high as 15%. These profit estimates are for projects that can be constructed and sold out in a two year period. Higher profits can be required for longer construction/sellout periods and riskier projects. Lower profits can be accepted in inexpensive land cost areas where homes sell quickly. The subject property is proposed for detached homes on minimum lot sizes of 7,200 square feet in an area of good demand in Riverside County. Based on a review of the competing subdivisions, a sales rate of 3 to 4 units per month per product is sustainable. We have estimated an 8% line item for profit.

*Interest During Holding Period*

A typical allowance for financing during the holding period has been between 4% and 6%. Due to the lenders requiring a higher equity participation from the builders, the allowance for profit has been decreased. Based on recent interviews with builders in the subject's market area, we have chosen a 5% deduction for financing during the holding period.

*Site Costs*

Because this analysis residuals to a finished lot condition, deductions for costs to bring to a finished lot condition are not required to estimate the finished lot value. The previous page illustrates the Static Residual Analysis for the average size unit of the existing products within CFD No. 2001-1, I A - A.

**Finished Lot Value by Static Residual Analysis**

The indicated finished lot value for the 633 lots proposed for CFD No. 2001-1, I A - A is \$181,000. Because of the recent price reductions, the Static Residual Analysis will be given the most weight in our lot value conclusion.

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## Conclusion of Finished Lot Values

The following table summarizes the conclusions of finished lot value by the Direct Comparison Approach, the Static Residual Analysis and the concluded finished lot value.

<u>Project</u>	<u>Finished Lot Value Conclusions</u>		<u>Concluded Finished Lot Value</u>
	<u>Direct Comparison Approach</u>	<u>Static Residual Analysis</u>	
CFD No. 2001-1, IA - A	\$210,000	\$181,000	\$181,000

## "As Is" Valuation Conclusion of CFD No. 2001-1, IA - A

As previously discussed, the subject property has undergone significant site improvements within Tract No. 30069-1 and Tentative Tract Nos. 30069 and 30069-2. Veranda model home construction for four models is complete, 9 additional models for Ironwood and Acacia are under construction, 16 production dwellings in Veranda are under construction, and 12 Veranda production dwellings are complete. The previous analysis to finished lot condition was provided, in part, because that is the condition the subject land prices are based on. In addition, the comparable land sales are sold in various stages of site construction. Bringing each land sale to a finished lot condition with costs provided by the builders, allows the appraisers to complete the analysis with fewer adjustments and avoids possible incorrect estimates of costs to blue-top lot condition.

To value the various models and production dwellings, we first inspected each product to determine the completion status of models and production dwellings. Veranda has models and production dwellings completed and production dwellings under construction. Ironwood and Acacia models are under construction, but no production dwellings have started vertical construction. We then determined the average base sales prices for each of the three products. Veranda has an average base price of \$450,500, Ironwood has an average base price of \$489,000 and Acacia has an average base price of \$515,000.

# HRA

To account for the completed Veranda model home upgrades and landscape improvements, we have increased the current base price for each completed model by \$25,000. Units in various stages of construction were valued based on our inspection of the property. An estimate of completion (stated as a percent) of each unit as of the date of value is used to value the units. The estimate of completion has been arrived at with input from the merchant builder and review of the builder's cost estimates. That percent is then applied to the base sales price of the average size unit.

A physical inspection of the subject property indicated that there were 25 homes under construction. Sixteen Veranda production dwellings are in a color stucco coat condition and considered 75% complete. Four Acacia models are wrapped and considered 50% complete. Five Ironwood models are being stuccoed and considered 70% complete.

The estimated "As Is" value of the model homes and production homes will be included in the Discounted Cash Flow in the initial time period, which is not discounted.

EMWD	
CFD 2001-1, IA - A	
4 Veranda Models @ \$475,500	\$1,902,000
12 Veranda Completed Dwellings @ \$450,500	\$5,406,000
16 Veranda Dwellings U/C @ \$340,000	\$5,440,000
5 Ironwood Models @ \$342,300	\$1,711,500
4 Acacia Models @ \$257,500	\$1,030,000
Improvement Value CFD No. 2001-1, IA - A	\$15,489,500
<b>Say</b>	<b>\$15,500,000</b>

# HRA

## DEVELOPMENTAL ANALYSIS

### General

The land within Tract Map Nos. 30069, 30069-1 and 30069-2, proposed for 633 units, is in various stages of construction from blue-top lot condition to finished lot condition with completed model homes and dwellings and with model homes and dwellings under construction. *It is a specific assumption of this appraisal that the recordation of the remaining two tentative tract maps and construction of the site improvements will be completed in a timely manner to meet the demand of home construction and home sales.*

The subject property is in various stages of construction from blue-top lot plus wet utilities condition to finished lot condition with completed model homes and dwellings. There remains a significant in-tract and backbone infrastructure cost to bring the property from its current physical condition to completed finished lot condition. Those costs are deducted from the indicated finished lot value which results in an estimate of the "as is" value of the land.

The Developmental Analysis discounts the revenue from sales of merchant builder parcels over an estimated absorption period, deducting all related direct and indirect expenses associated with sales of the finished lots or mass graded parcels. The net cash flows are then discounted for time, risk and the required profit margin to entice a developer to purchase the land for development as proposed.

The steps in the discounted cash flow analysis are:

1. Estimate the merchant builder land values.
2. Estimate the absorption period for sales of the merchant builder land.
3. Estimate the direct and indirect costs including marketing and G & A.
4. Estimate the required annual before tax discount rate, including profit, required to attract a developer in light of the risks and uncertainties.

# HRA

## Land Values

Finished lot values for the proposed uses have been estimated in the preceding section of this report. The individual lot values and proposed phasing of the development are used in the discounted cash flow analysis.

## Absorption Estimates

The absorption estimates are included in the Empire Economics' market study and summarized within the Highest and Best Use section of this report. The absorption estimates are consistent with the phasing schedule of this development. Please refer to the Addenda of this report for a portion of the Empire Economics' report. It is important to note that the market study reflects absorption to the ultimate homeowner or end user and our analysis estimates sales of the merchant builder land. Land sales typically precede occupancies by 6 to 12 months. In the case of the subject parcels, the land is to be delivered in finished lot condition for the detached products, therefore, the sale of the merchant builder parcels is assumed to precede home sales by approximately six months.

## Expenses

The development costs included in the discounted cash flow include both direct and indirect costs of development. General and administrative costs typically range from 2% to 3% for master planned communities. Marketing is typically estimated between 2% and 5%. A marketing expense at the high end of the range is typically appropriate for sales of high end product and custom lots. These expense deductions are considered standard in the industry and accepted by major banks in the area.

## General and Administrative

General and administrative costs are estimated at 3%. The percentage is considered appropriate considering the current development and entitlement of the land. This category covers such expenses as administrative, professional fees, holding costs, and miscellaneous costs. These expenses are realized at the time of sale.

## HRA

### **Marketing and Sales Costs**

Marketing and sales expenses are estimated at approximately 3% of gross revenue. This category covers such expenses as marketing, escrow and title costs and sales commissions.

### **Development Costs**

Development costs include direct and indirect costs of site construction. The costs are reported to include all costs associated with the development of the District. The costs are reported to include all costs to bring the detached lots to a finished lot condition with development fees paid up to building permit. The building permit and associated fees of home construction are costs of the merchant builder and not included in the development/infrastructure costs. The cost estimates are assumed to be all costs required to satisfy the Conditions of Approval of the tentative and final tract maps. This appraisal is based on the accuracy of those costs. *Please refer to the Addenda of this report for a copy of the site costs from the developer.* The total costs are estimated at \$76,480,753. As of the date of value, \$45,011,114 had been spent. The remaining cost to finish is estimated at \$31,469,639.

### **Special Tax**

When the Community Facilities District bonds are issued, the subject property will be subject to Special Tax after 12 months of Capitalized interest from the bond sale that is scheduled for September 2006. The special tax payments have been estimated by the special tax consultant, Webb & Associates for each proposed product. Please refer to the Addenda of this report for a copy of the annual Special Taxes. The discounted cash flow includes the estimated payments for the land still under the developer's ownership as of January 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 and historic high

## HRA

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 that go into selecting a discount rate for master planned communities 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 that 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 6% to 10% with an average of 8%. The estimated holding period was one to two years for the merchant builder.

Recent 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 residential community developments and very large scale, full integrated master planned community developments with a wide variety of user types.

A representative from Grubb and Ellis who is involved in the sale of Northlakes, a 1,300 acre proposed, master planned community in Castaic, 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.



## HRA

A representative of Dale Poe Development who is 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.

MSP California, LLC, was also interviewed, which is a company based in Denver, Colorado, but involved in several Southern California large land deals, most in Riverside County and a few in Santa Clarita. They consider themselves risk takers and expect the higher returns for entitling properties. For large land deals from raw unentitled to tentative map stage, he would expect an IRR of 35%, unleveraged or leveraged. From tentative map to pad 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 ESE Land Company, formerly James Warmington 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 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, the preponderance of input regarding inflation/appreciation rates was 3% to 4% for revenue and 2% to 3% for costs.

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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 higher risk than a typical master planned community in several ways. The property is not completely entitled and currently just beginning site construction. However, over the last two years, the subject's submarket has experienced significant strength in the number of sales and in price increases. Our recent investigation indicated a softening of the market that has resulted in some concessions at a small number of competing projects.

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. There is a slight over supply of higher priced for-sale product in the subject's neighborhood. The proposed products for the subject offer relative high-end housing in a planned community. Based on sales of similar products in the subject's primary and secondary markets, the subject's proposed products should meet with average response from the marketplace.

Consistent with the Empire Economics report, the discounted cash flow reflects a five-year absorption period for the subject. A six to eight-year holding period would be considered a typical period for a land 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. We are of the opinion that the appropriate place to reflect risk is in the model assumptions and not the discount rate. Our model reflects the associated risks of development and sell out. Using the current price structure and supported absorption time reflect the anticipated ownership risks attributable to the current market.

**EMWD CFD NO. 2001-1  
DEVELOPMENTAL ANALYSIS**

Product Description	Price/lot	No. Lots	Units	July-June 07	July-June 08	July-June 09	July-June 10	July-June 11	July-June 12	Total
TTM No. 3008	\$181,000	152	20	10	112	135	143	150	162	502
Completed or UIC dwellings	\$377,800	41	0	0	0	0	0	0	0	41
Change Residential Lots Sold		633	34	169	304	419	530	632	832	632
Unsold Residential Lots Per Semi-Annual Period		633	599	464	329	199	103	41		
<b>Revenue/Product</b>										
TTM No. 3008			\$0	\$3,194,000	\$24,426,000	\$29,496,000	\$23,771,000	\$17,795,000	\$11,222,000	\$107,152,000
Completed or UIC dwellings			\$15,489,800	\$0	\$0	\$0	\$0	\$0	\$0	\$15,489,800
10 Yr. REVENUE			\$15,489,800	\$1,194,000	\$24,426,000	\$29,496,000	\$23,771,000	\$17,795,000	\$11,222,000	\$172,641,800
<b>EXPENSES</b>										
Inflation factor of 0% annually - Revenues			1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000	
Inflation factor of 0% annually - Costs										
Total Site Costs	\$31,460,639		\$0	\$1,807,276	\$7,776,363	\$7,776,363	\$6,982,728	\$6,090,026	\$3,285,097	\$31,460,639
Less O & A Costs @ 3%			\$0	\$184,620	\$733,052	\$733,052	\$711,930	\$638,660	\$326,660	\$3,214,860
Less Marketing Costs 5%			\$0	\$307,700	\$1,221,750	\$1,221,750	\$1,165,250	\$959,750	\$604,100	\$5,357,000
Plus Bond Redevelopment \$8,024,317			\$0	\$1,000,000	\$0	\$0	\$0	\$0	\$0	\$1,000,000
Special Taxes Unimproved Land			\$0	\$80,100	\$80,100	\$80,100	\$80,100	\$80,100	\$80,100	\$372,600
Total Expenses			\$0	\$2,299,746	\$9,811,315	\$9,811,315	\$8,863,808	\$7,818,536	\$4,395,857	\$31,941,000
Net Before Discounting			\$15,489,800	\$14,894,254	\$14,660,660	\$14,609,022	\$14,388,931	\$10,691,691	\$6,883,562	\$9,128,334
Present Worth Factor at 22.5%			1.000000	0.816297	0.668395	0.546391	0.444074	0.362510	0.296226	
Present Worth Factor at 22.5%			\$15,489,800	\$12,126,961	\$9,838,428	\$7,971,112	\$6,389,755	\$4,800,328	\$3,037,146	\$57,465,525
<b>AS IS VALUE</b>										
				\$57,465,525	\$57,465,525	\$57,465,525	\$57,465,525	\$57,465,525	\$57,465,525	\$57,465,525
<b>Rounded To</b>										
				\$57,465,525	\$57,465,525	\$57,465,525	\$57,465,525	\$57,465,525	\$57,465,525	\$57,465,525

CONSULTING REAL ESTATE APPRAISERS

**HRA**

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 4.0%, a real estate risk rate of 4.0 times the safe rate and inflation of 3%, the indicated discount rate is: (4.0% x 5.0) + 3% = 23.0%.

We believe a discount rate of 22.5% is appropriate for this project and is consistent with the results of numerous interviews with informed investors. The discount rate takes into account the subject property's entitlements, infrastructure time-line, Community Facilities District funding, proposed products, time-line for absorption and specific market. Please refer to the following page which illustrate the discounted cash flow analysis for the "As is" value of the undeveloped land. The discounted cash flow indicated an "As Is" value of \$57,500,000 for CFD No. 2001-1, I A - A.

# HRA

## VALUATION CONCLUSION

Based on the investigation and analyses undertaken, our experience as real estate appraisers, and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value is formed as of June 1, 2006.

**FIFTY-SEVEN MILLION FIVE HUNDRED THOUSAND DOLLARS**

**\$57,500,000**

*TTM No. 30069, owned by Brookfield W633, LLC, contains 310.0+ gross acres, proposed for 633 residential dwellings. The developer has provided engineering site cost for the development. These costs total \$76,480,753 or \$120,823 per lot. The estimated value includes about \$11,000,000 of reimbursements from this bond issue. Proceeds from CFD No. 2001-1, Improvement Area A are to reimburse the developer for a portion of the completion of Eastern Municipal Water District (EMWD) sewer and water facilities, EMWD fees, and Valleywide Park and Recreation District (Valleywide) improvements. The value estimate is contingent upon the funding of CFD No. 2001-1, I A - A.*

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# HRA

## CERTIFICATION

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

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

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

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

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

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

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

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

No one provided professional assistance to the persons signing this report.

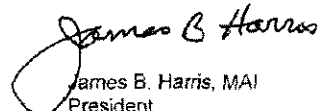
The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. In furtherance of the aims of the Appraisal Institute to develop higher standards of professional performance by its

# HRA

Members, we may be required to submit to authorized committees of the Appraisal Institute copies of this appraisal and any subsequent changes or modifications thereof.

Respectfully submitted,

  
Berri J. Cannon Harris  
Vice President  
AG009147

  
James B. Harris, MAI  
President  
AG001846

ADDENDA

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**QUALIFICATIONS**

**HARRIS REALTY APPRAISAL**  
5100 Birch Street, Suite 200  
Newport Beach, CA 92660  
(949) 851-1227

**QUALIFICATIONS  
OF  
JAMES B. HARRIS, MAI**

**PROFESSIONAL BACKGROUND**

Actively engaged as a real estate analyst and consulting appraiser since 1971. President and Principal of **Harris Realty Appraisal**, with offices at:

5100 Birch Street, Suite 200  
Newport Beach, California 92660

Before forming Harris Realty Appraisal, in 1982, was employed with Real Estate Analysts of Newport, Inc. (REAN) as a Principal and Vice President. Prior to employment with REAN was employed with the Bank of America as the Assistant Urban Appraisal Supervisor. Previously, was employed by the Verne Cox Company as a real estate appraiser.

**PROFESSIONAL ORGANIZATIONS**

Member of the Appraisal Institute, with MAI designation No. 6508  
Director, Southern California Chapter – 1998, 1999  
Chair, Orange County Branch, Southern California Chapter -1997  
Vice-Chair, Orange County Branch, Southern California Chapter - 1996  
Member, Region VII Regional Governing Committee - 1991 to 1995, 1997, 1998  
Member, Southern California Chapter Executive Committee - 1990, 1997 to 1999  
Chairman, Southern California Chapter Seminar Committee - 1991  
Chairman, Southern California Chapter Workshop Committee - 1990  
Member, Southern California Chapter Admissions Committee - 1983 to 1989  
Member, Regional Standards of Professional Practice Committee -1985 - 1997

Member of the International Right-of-Way Association, Orange County Chapter 67.

California State Certified Appraiser, Number AG001846

**EDUCATIONAL ACTIVITIES**

B.S., California State Polytechnic University, Pomona, 1972.

Successfully completed the following courses sponsored by the Appraisal Institute and the Right-of-Way Association:

Course I-A	Principles of Real Estate Appraisal
Course I-B	Capitalization Theory
Course II	Urban Properties
Course IV	Litigation Valuation
Course VI	Investment Analysis
Course VIII	Single-Family Residential Appraisal
Course SPP	Standards of Professional Practice
Course 401	Appraisal of Partial Acquisitions

Has attended numerous seminars sponsored by the Appraisal Institute and the International Right-of-Way Association.

#### TEACHING AND LECTURING ACTIVITIES

Seminars and lectures presented to the Appraisal Institute, the University of California-Irvine, UCLA, California Debt and Investment Advisory Commission, Stone & Youngberg and the National Federation of Municipal Analysts.

#### MISCELLANEOUS

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

#### LEGAL EXPERIENCE

Testified as an expert witness in the Superior Court of the County of Los Angeles and the County of San Bernardino and in the Federal Bankruptcy Courts five times concerning the issues of Eminent Domain, Bankruptcy, and Specific Performance. He has been deposed numerous times concerning these and other issues. This legal experience has been for both Plaintiff and Respondent clients. He has prepared numerous appraisals for submission to the IRS, without having values overturned. He has worked closely with numerous Bond Counsel in the completion of 100 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**

Bank of America  
Bank One  
Commerce Bank  
Downey S&L Assoc.  
Fremont Investment and Loan  
Institutional Housing Partners

NationsBank  
Preferred Bank  
Santa Monica Bank  
Tokai Bank  
Union Bank  
Wells Fargo Bank

**Public Agencies**

Army Corps of Engineers  
California State University  
Caltrans  
City of Aliso Viejo  
City of Beaumont  
City of Corona  
City of Costa Mesa  
City of Encinitas  
City of Fontana  
City of Fullerton  
City of Hesperia  
City of Honolulu  
City of Huntington Beach  
City of Indian Wells  
City of Irvine  
City of Lake Elsinore  
City of Loma Linda  
City of Los Angeles  
City of Moreno Valley  
City of Newport Beach  
City of Oceanside

City of Palm Springs  
City of Perris  
City of Riverside  
City of San Marcos  
City of Tustin  
City of Victorville  
County of Orange  
County of Riverside  
County of San Bernardino  
Eastern Municipal Water District  
Orange County Sheriff's Department  
Ramona Municipal Water District  
Rancho Santa Fe Comm. Services District  
Capistrano Unified School District  
Hemet Unified School District  
Hesperia Unified School District  
Romoland School District  
Saddleback Valley Unified School District  
Santa Ana Unified School District  
Val Verde Unified School District  
Yucaipa-Calimesa Unified School District

**Developers and Landowners**

DMB - Ladera  
Foothill Ranch Company  
Hon Development Co.  
Irvine Apartment Communities  
The Irvine Company.

Lennar Homes  
Rancho Mission Viejo  
Santa Margarita Company  
Shapel Industries  
Sterling Development

**Law Firms**

Arter & Hadden  
Bronson, Bronson & McKinnon  
Bryan, Cave, McPheeters & McRoberts  
Richard Clements  
Cox, Castle, Nicholson  
Gibson, Dunn & Crutcher  
Hill, Farrer & Burrill

McClintock, Weston, Benshoof,  
Rocheffort & MacCuish  
Palmiri, Tyler, Wiener, Wilhelm, & Waldron  
Sonnenschein Nath & Rosenthal  
Strauss & Troy  
Wyman, Bautzer, Rothman, Kuchel & Silbert

EASTERN MUNICIPAL WATER DISTRICT  
 CFD 2003-26  
 BOND SIZING  
 3/7/2006

**Bond Assumptions**

Average Coupon	6.50%
Bond Term	29
Cost of Issuance	6.50%
Reserve Fund	7.75%
12 mo.Capitalized Interest	6.50%

**Conclusions**

	<b>Assigned Special Tax</b>	<b>Backup Special Tax</b>
<b>Total Max Tax Generated</b>	894,849	887,869
Administrative Charge	25,000	25,000
Coverage	79,077	78,443
Amount Available for Debt Service	790,772	784,426
Total Bond Issue	10,206,879	10,124,972
COI/Reserve/Incidentals	2,117,621	2,100,628
<b>Amount Available for Construction</b>	<b>8,089,258</b>	<b>8,024,344</b>
<b>Construction Amount Needed</b>	<b>9,789,393</b>	<b>9,789,393</b>
<b>Surplus/Deficit</b>	<b>(1,700,135)</b>	<b>(1,765,049)</b>

Prepared by: Albert A. Webb Associates

1 of 1

DRAFT #1

ALBERT A. WEBB ASSOCIATES DISTRICT STUDY (PORTION)



EMPIRE ECONOMICS STUDY (PORTION)

EASTERN MUNICIPAL WATER DISTRICT  
CFD 2004-22  
MAXIMUM SPECIAL TAX RATES, TOTAL TAX REVENUE  
3/7/2006

CFD 2004-22 (French Valley - Phase 2)

Land Use Classes	Home Prices*	2.00%	Tax Rate 1.07255%	NPDRS	CSA152	Valley Wide Maintenance	MWD Standby	EMV/C Standby	V. White IMD 86-1	2001-1 Special Tax	2004-22 Special Tax	Effective Rate	Assigned # Homes ± AC	Update 03/06 Projected Revenue
>2,901	\$395,000	\$7,900	\$4,237.82	4	75	484	7	10	6	\$1,640.00	\$1,433.00	2.00%	488	\$713,634.00
2701-2900	\$382,500	\$7,650	\$4,103.80	4	75	484	7	10	5	\$1,568.00	\$1,389.00	2.00%	46	\$69,894.00
2501-2700	\$375,000	\$7,500	\$4,023.34	4	75	484	7	10	6	\$1,457.00	\$1,330.00	1.93%	52	\$69,628.00
<2500	\$365,000	\$7,300	\$3,916.05	4	75	484	7	10	6	\$1,398.00	\$1,289.00	1.97%	37	\$47,853.00
Apartment Non-residential													633	
Backup/Vacant	\$6,648.21													\$894,049.00
Backup Approved Rate	\$6,666.35	\$897,868.71												
Difference	-\$18.14													

FOOTNOTES:  
\* As provided by the Developer as of 4/7/04

**ESTIMATED ABSORPTION SCHEDULES  
EASTERN MUNICIPAL WATER DISTRICT CFD NO. 2003-22 (BROOKFIELD)**

. JUNE 19, 2006; SUBJECT TO REVISION .

Project >>>	Veranda	Ironwood	Acacia	Annually	Cumulatively
<b>Product Types</b>	Single-Family Detached	Single-Family Detached	Single-Family Detached		
<b>Lot Size</b>	7200	7200	7200		
<b>Builder</b>	Brookfield Homes	Brookfield Homes	Brookfield Homes		
<b>Number of Homes</b>	126	262	185	553	
Occupied: May 2006	12	0	0	12	
Future Occupancies: June 2006+	174	262	185	621	
<b>Number of Units - Estimated</b>					
Plan # 1	37	52	37		
Plan # 2	46	51	46		
Plan # 3	43	52	58		
Plan # 4	56	53	56		
Plan # 5		51			
<b>Totals</b>	<b>186</b>	<b>262</b>	<b>185</b>	<b>633</b>	
<b>Living Areas</b>					
Plan # 1	2,472	2,623	3,182		
Plan # 2	2,801	3,114	3,462		
Plan # 3	2,546	3,238	3,761		
Plan # 4	3,108	3,334	4,178		
Plan # 5		3,676			
<b>Averages</b>	<b>2,831</b>	<b>3,212</b>	<b>3,646</b>	<b>3,227</b>	
<b>Prices</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimated</b>		
Plan # 1	\$436,000	\$453,000	\$500,000		
Plan # 2	\$456,000	\$489,000	\$510,000		
Plan # 3	\$462,000	\$490,000	\$520,000		
Plan # 4	\$466,000	\$505,000	\$530,000		
Plan # 5		\$515,000			
<b>Averages</b>	<b>\$466,500</b>	<b>\$489,000</b>	<b>\$515,000</b>	<b>\$485,286</b>	
<b>Value Ratio: Price/Living Area</b>	<b>\$159</b>	<b>\$152</b>	<b>\$141</b>	<b>\$150</b>	
<b>Homeowners Commence Occupancies</b>	Acute	Start: November 2006	Start: Spring 2007		
<b>Absorption/Occupancies - Future</b>					
2006 June+	25	20	0	40	40
2007	40	36	28	104	151
2008	40	36	28	104	257
2009	45	42	23	120	377
2010	20	42	23	93	472
2011	6	42	33	75	547
2012	0	24	30	74	621
<b>Totals</b>	<b>174</b>	<b>262</b>	<b>185</b>	<b>621</b>	

**SITE DEVELOPMENT COST SUMMARY**

B-56

**BROOKFIELD - FRENCH VALLEY  
COST BUDGET and PAID TO DATE**

	Backbone		Product A		Product B		Product C	
	Current Budget	Paid to Date	Current Budget	Paid to Date	Current Budget	Paid to Date	Current Budget	Paid to Date
Land Permits, Fees & Levies	\$ 2,197,107	\$ 2,157,861	\$ 7,453,053	\$ 2,476,369	\$ 10,660,212	\$ 1,280,707	\$ 8,438,707	\$ 875,299
Land Architecture & Eng	4,654,647	4,199,283	302,236	234,539	407,507	259,689	291,027	55,975
Land Devel't - Internal	28,320,427	25,917,601	2,762,861	2,535,711	5,926,669	3,686,968	5,066,400	1,330,932
<b>Total</b>	<b>\$ 35,172,081</b>	<b>\$ 32,274,925</b>	<b>\$ 10,518,150</b>	<b>\$ 5,246,620</b>	<b>\$ 16,994,388</b>	<b>\$ 5,227,364</b>	<b>\$ 13,796,134</b>	<b>\$ 2,262,205</b>

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**BROOKFIELD - FRENCH VALLEY  
COST ALLOCATION ANALYSIS  
5/31/2006**

Product	Total Units	Total Allocable Offsite Cost Budget (1)	Less: Allocable Offsite Cost Budget Paid to Date (2)	Less: CFD Proceeds Available (3)	Total Intract Cost to Finished Lot Budget (4)	Less: Intract Cost to Finished Lot Paid to Date (5)	Total Cost to Complete (1)-(2)-(3)+(4)-(5)
Product A	185	\$ 10,279,360	\$ 9,432,640	\$ -	\$ 10,518,150	\$ 5,246,620	\$ 6,118,250
Product B	262	14,557,797	13,358,658	-	16,994,388	5,227,364	12,966,163
Product C	186	10,334,924	9,483,627	-	13,796,134	2,262,205	12,385,226
<b>Total</b>	<b>633</b>	<b>\$ 35,172,081</b>	<b>\$ 32,274,925</b>	<b>\$ -</b>	<b>\$ 41,308,672</b>	<b>\$ 12,736,189</b>	<b>\$ 31,469,639</b>

LAND PERMITS, FEES & FEES:	Brookfield			Product A			Product B			Product C		
	Current Budget	% Complete	Paid to Date	Current Budget	% Complete	Paid to Date	Current Budget	% Complete	Paid to Date	Current Budget	% Complete	Paid to Date
Plan Check Fees - Land	\$ 2,176,659	93%	\$ 2,157,661	\$ 61,266	90%	\$ 55,135	\$ 37,951	80%	\$ 30,293	\$ 265,362	5%	\$ 10,289
Permits and Fees Contingency	12,448	0%	-	190,469	0%	-	186,735	0%	-	113,447	0%	-
Sanitary District Fees - Land	-	0%	-	714,758	25%	309,143	1,006,866	4%	40,415	710,963	0%	-
Water District Fees - Land	-	0%	-	550,372	23%	124,104	773,885	8%	60,499	517,424	0%	-
School Fees - Land	-	0%	-	4,218,521	27%	1,160,550	6,208,813	14%	881,834	5,263,712	15%	756,557
Government Fees - Land	-	0%	-	1,897,837	29%	596,138	2,357,622	0%	232,204	1,757,886	9%	126,474
<b>TOTAL:</b>	<b>\$ 2,189,107</b>		<b>\$ 2,157,661</b>	<b>\$ 7,459,983</b>		<b>\$ 2,016,368</b>	<b>\$ 18,940,212</b>		<b>\$ 6,260,207</b>	<b>\$ 8,438,767</b>		<b>\$ 879,293</b>

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LAND ARCHITECTURE & ENGINEERING:	Brookfield			Product A			Product B			Product C		
	Current Budget	% Complete	Paid to Date	Current Budget	% Complete	Paid to Date	Current Budget	% Complete	Paid to Date	Current Budget	% Complete	Paid to Date
Eng Environment Impact	\$ 91,350	95%	\$ 86,345	\$ 9,400	100%	\$ 9,400	\$ 10,720	100%	\$ 10,720	\$ -	0%	\$ -
Eng Joint Trench & Light Land	213,715	100%	213,715	-	0%	-	-	0%	-	-	0%	-
Eng Civil - Land	1,837,427	100%	1,837,427	-	0%	-	-	0%	-	-	0%	-
Eng Const/Sharing Land	1,079,843	80%	928,066	181,682	80%	129,344	276,369	60%	165,821	150,850	20%	32,172
Eng Soil & Geology-Land	607,537	90%	526,783	82,417	90%	74,175	55,710	75%	44,283	61,074	20%	16,335
Archit Landscapes	297,150	100%	297,150	-	0%	-	-	0%	-	-	0%	-
Environmental	147,860	100%	147,860	4,700	100%	4,700	6,449	100%	6,449	4,862	100%	4,862
Reproductions Land	177,250	0%	-	28,260	80%	16,920	20,893	60%	12,416	28,057	10%	2,805
Budget Land Arch & Eng	5,415	0%	-	15,059	0%	-	7,566	0%	-	10,774	0%	-
<b>TOTAL:</b>	<b>\$ 4,654,547</b>		<b>\$ 4,198,263</b>	<b>\$ 302,238</b>		<b>\$ 236,513</b>	<b>\$ 467,927</b>		<b>\$ 259,836</b>	<b>\$ 291,027</b>		<b>\$ 55,712</b>

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LAND DEVELOPMENT INTERNAL	Budget			Product A			Product B			Product C		
	Current Budget	% Complete	Paid to Date	Current Budget	% Complete	Paid to Date	Current Budget	% Complete	Paid to Date	Current Budget	% Complete	Paid to Date
Grading - Internal	\$ 12,854,643	100%	\$ 12,854,643	\$ 44,400	50%	\$ 37,740	\$ 233,338	50%	\$ 110,159	\$ 233,101	10%	\$ 23,218
Sops & Erosion Control - Int	600,000	96%	576,000	-	0%	-	-	0%	-	-	0%	-
Retaining Walls - Int	75,000	0%	-	-	0%	-	-	0%	-	-	0%	-
Storm Sewer - Int	4,859,613	85%	4,129,362	-	0%	-	-	0%	-	-	0%	-
Waste Water Facility - Int	-	0%	-	-	0%	-	-	0%	-	-	0%	-
Sanitary Sewer - Int	50,750	100%	50,750	402,840	90%	369,913	819,832	55%	788,435	830,130	80%	661,678
Water Distribution - Int	1,553,860	75%	1,165,245	463,226	90%	458,696	478,927	93%	480,231	706,374	78%	520,011
Street Lighting - Int	64,656	100%	64,656	37,736	100%	37,736	97,180	50%	48,551	199,990	0%	-
Sanitary Conduit - Int	826,399	100%	826,392	220,204	100%	220,204	515,174	100%	515,174	375,286	0%	-
Sanitary Conduit - Reimb	(748,200)	0%	-	(295,070)	0%	-	(403,084)	0%	-	(320,819)	0%	-
Utility Trenching - Int	947,846	70%	663,324	284,548	100%	284,548	831,858	65%	540,764	515,272	42%	230,969
Pavement - Int	3,822,722	80%	3,058,588	851,460	72%	623,292	1,239,600	55%	731,869	1,842,451	10%	194,245
Street Improvements	348,379	100%	348,379	-	0%	-	-	0%	-	-	0%	-
Curb & Gutter	524,269	80%	419,485	584,576	80%	472,420	818,118	20%	163,725	820,524	10%	82,553
Paving & Grind	2,537,810	50%	1,268,905	136,608	75%	102,456	879,157	6%	52,741	627,431	0%	-
Contingency - Int	94,815	0%	-	67,855	0%	-	288,281	0%	-	556,880	0%	-
Fencing Perimeter	1,524,387	60%	914,632	-	0%	-	-	0%	-	-	0%	-
Landscaping Retention	-	0%	-	-	0%	-	-	0%	-	-	0%	-
Mobile Road Financing	(1,510,000)	0%	-	-	0%	-	625,000	0%	-	(160,000)	0%	-
<b>TOTAL</b>	<b>\$ 28,120,427</b>		<b>\$ 25,917,891</b>	<b>\$ 2,763,861</b>		<b>\$ 2,535,711</b>	<b>\$ 5,326,869</b>		<b>\$ 1,458,261</b>	<b>\$ 6,682,480</b>		<b>\$ 1,310,917</b>

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SALES JOURNAL  
 BROOKFIELD HOMES SD/RY  
 AS OF MAY 31, 2008

CLOSE DATE	BUYER	PH	LOT	PLAN	1		2		3		4		5	
					CONTRACT SALES PRICE	MORTGAGE #/CLOSING TO 3RD PARTY	OPTION FORWARDED	MODEL RECOVERY	NET SALES PRICE	BASE PRICE	LOT PREMIUM			
VERANDA														
5/17/08	Hugh	101	1017	3	478,800.00	(7,380.00)	(10,917.00)	0.00	460,503.00	(42,000.00)	(11,000.00)			
5/14/08	Wahala	101	1019	4	468,128.00	(19,561.00)	(11,005.00)	0.00	437,562.00	(42,000.00)	(11,000.00)			
5/20/08	Sherman	101	1021	3	441,651.00	0.00	(12,551.00)	0.00	429,100.00	(42,000.00)	(11,000.00)			
5/17/08	Rudolph	101	1023	4	495,465.00	(14,861.00)	(12,510.00)	0.00	468,094.00	(42,000.00)	(11,000.00)			
5/17/08	Carlin	101	1025	2	520,139.00	(50,000.00)	(11,139.00)	0.00	459,000.00	(42,000.00)	(11,000.00)			
5/19/08	Dippena	101	1026	4	501,255.00	(24,350.00)	(11,880.00)	0.00	465,025.00	(42,000.00)	(11,000.00)			
5/12/08	Benson	104	1020	4	470,800.00	0.00	(11,580.00)	0.00	459,220.00	(42,000.00)	(11,000.00)			
5/12/08	Dan	101	1029	2	506,178.00	(24,600.00)	(12,977.00)	0.00	468,501.00	(42,000.00)	(11,000.00)			
5/01/08	Beauch	101	1028	2	462,151.00	0.00	(12,131.00)	0.00	450,020.00	(42,000.00)	(11,000.00)			
5/02/08	LaFour	101	1024	1	448,800.00	(110.00)	(11,185.00)	0.00	437,505.00	(42,000.00)	(11,000.00)			
4/28/08	Sch	101	1022	2	486,381.00	0.00	(10,361.00)	0.00	476,020.00	(42,000.00)	(11,000.00)			
4/14/08	Shoan	101	1024	2	471,800.00	0.00	(7,687.00)	0.00	464,113.00	(42,000.00)	(11,000.00)			
TOTAL VERANDA					55,801,813.00	(8,175,428.00)	(537,740.00)	0.00	46,088,645.00	(4,420,000.00)	(1,100,000.00)			

INDIVIDUAL HOMEOWNERS

**APPENDIX C**

**FORM OF APPROVING LEGAL OPINION**

[Closing Date]

Honorable Board of Directors  
Eastern Municipal Water District  
Perris, California

Re: *\$13,445,000 Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District Improvement Area A 2006 Special Tax Bonds*

Ladies and Gentlemen:

We have examined the Constitution and laws of the State of California, a certified record of the proceedings of the Eastern Municipal Water District (the "Water District") taken in connection with the formation of Community Facilities District No. 2001-01 of the Eastern Municipal Water District (French Valley) (the "District") and the authorization and issuance of the District's Improvement Area A 2006 Special Tax Bonds in the aggregate principal amount of \$13,445,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the Water District, the initial purchaser of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311 et seq. of the Government Code of the State of California, Resolution No. 3590 adopted by the Board of Directors of the Water District, acting in its capacity as the legislative body of the District, on May 1, 2002, a Supplement to Resolution No. 3590, dated as of June 1, 2002, Resolution No. 4545 adopted by the Board of Directors of the Water District, acting in its capacity as the legislative body of the District, on August 16, 2006, and Supplement to Resolution No. 4545 and Second Supplement to Resolution No. 3590 dated as of September 1, 2006 (the Supplement to Resolution No. 3590 and the Supplement to Resolution No. 4545 and Second Supplement to Resolution No. 3590 are collectively referred to herein as the "Supplement to Resolution" and together with Resolution No. 3590 and Resolution No. 4545, the "Resolution of Issuance.") All capitalized terms not defined herein shall have the meanings set forth in the Resolution of Issuance.

The Bonds are dated as of the date of hereof and mature on the dates and in the amounts set forth in the Resolution. The Bonds bear interest payable semiannually on each March 1 and September 1, commencing on March 1, 2007, at the rates per annum set forth in the Resolution. The Bonds are registered Bonds in the form set forth in the Resolution of Issuance redeemable in the amounts, at the times and in the manner provided for in the Resolution of Issuance.

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 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 Resolution of Issuance, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Resolution of Issuance to levy Special Taxes for the payment of Administrative Expenses. The Bonds are limited obligations of the District but are not a debt of the Water District, the County of Riverside, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the District, the Water District, the County of Riverside, the State of California, or any other political subdivision is pledged for the payment thereof.

(2) The Resolution of Issuance has been duly adopted by the District. The Resolution of Issuance creates a valid pledge of, and the Bonds are secured by, the Net Taxes and the amounts on deposit in certain funds and accounts established under the Resolution of Issuance, as and to the extent provided in the Resolution of Issuance, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion.

(3) Under existing statutes, regulations, rulings and judicial decisions, 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; however, it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(4) Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

(5) The difference between the issue price of a Bond (the first price at which a substantial amount of the 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 to 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 and corporations (as described in paragraph 3 above), and is exempt from State of California personal income tax.

The opinions expressed in paragraphs (3) and (5) above as to the exclusion from gross income for federal income tax purposes of interest and original issue discount on the Bonds are subject to the condition that the District and the Water District comply with all requirements of the



Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (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 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District and the Water District have covenanted to comply with all such requirements. Except as set forth in paragraphs (3), (4) and (5) above, we express no opinion as to any tax consequences related to the Bonds.

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). The Resolution of Issuance and the Tax Certificate executed by the District with respect to the Bonds as of the date hereof permit certain actions to be taken or omitted if a favorable opinion of Bond Counsel is provided with respect thereto. We express no opinion as to the exclusion from gross income of interest and original issue discount on the Bonds for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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## APPENDIX D

### RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR COMMUNITY FACILITIES DISTRICT NO. 2001-01 (FRENCH VALLEY) EASTERN MUNICIPAL WATER DISTRICT

A Special Tax, shall be applicable to each Parcel of Taxable Property located within the boundaries of Community Facilities District No. 2001-01 (“CFD”). The amount of Special Tax to be levied in each Improvement Area in each Fiscal Year, commencing in Fiscal Year 2002-2003 on a Parcel shall be determined by the Board of the Eastern Municipal Water District, acting in its capacity as the legislative body of the CFD by applying the appropriate Special Tax for “Developed Property”, “Approved Property”, and “Undeveloped Property” as set forth in Sections B, C, and D below. All of the real property within the CFD, unless exempted by law or by the provisions hereof in Section E., shall be taxed for the purposes, to the extent and in the manner herein provided.

#### A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

“**Acre or Acreage**” means the acreage of a Parcel as indicated on the most recent Assessor’s Parcel Map, or if the land area is not shown on the Assessor’s Parcel Map, the land area shown on the applicable Final Map, parcel map, condominium plan, or other recorded County parcel map.

“**Act**” means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1 of Division 2 of Title 5 of the California Government Code of the State of California.

“**Administrative Expenses**” means all actual or reasonably estimated costs and expenses of the District that are chargeable or allocable to the applicable Improvement Area to carry out its duties as the administrator of the CFD as allowed by the Act, which shall include without limitation, all costs and expenses arising out of or resulting from the annual levy and collection of the Special Tax, trustee fees, rebate compliance calculation fees, any litigation involving the CFD, continuing disclosure undertakings of the District as imposed by applicable laws and regulations, communication with bondholders and normal administrative expenses.

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

“**Approved Property**” means all Parcels of Taxable Property: (i) that are included in a Final Map that was recorded prior to the January 1st preceding the Fiscal Year in which the Special Tax is being levied, and (ii) that have not been issued a building permit prior to the April 1<sup>st</sup> preceding the Fiscal Year in which the Special Tax is being levied.

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

“**Assigned Special Tax**” means the Special Tax for each Land Use Category of Developed Property, as determined in accordance with Section C.1.a. below.

“**Backup Special Tax**” means the Special Tax amount set forth in Section C.1.b. below.

**“Board”** means the board of the Eastern Municipal Water District.

**“Bonds”** means any bonds or other indebtedness (as defined in the Act) issued by an Improvement Area of the CFD and secured by the levy of Special Taxes within such Improvement Area.

**“CFD”** means Community Facilities District No. 2001-01 (French Valley) of the District established pursuant to the Act.

**“Developed Property”** means all Parcels of Taxable Property, not classified as Approved Property, Undeveloped Property, Public Property and/or Property Owner’s Association Property that are not Exempt Property pursuant to the provisions of Section E. below: (i) that are included in a Final Map that was recorded prior to January 1 preceding the Fiscal Year in which the Special Tax is being levied and (ii) a building permit for new construction has been issued prior to April 1<sup>st</sup> preceding the Fiscal Year in which the Special Tax is being levied.

**“District”** means the Eastern Municipal Water District.

**“Exempt Property”** means any Parcel or portion of a Parcel, which is exempt from Special Taxes pursuant to Section E. below.

**“Final Map”** means a subdivision of property by recordation of a final map, parcel map, or lot line adjustment, pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) or recordation of a condominium plan pursuant to California Civil Code 1352 that creates individual lots for which building permits may be issued without further subdivision.

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

**“Improvement Area(s)”** means Improvement Area A or Improvement Area B as geographically identified on the boundary map of the CFD.

**“Improvement Area A”** means the specific area identified on the boundary map as Improvement Area A of the CFD.

**“Improvement Area B”** means the specific area identified on the boundary map as Improvement Area B of the CFD.

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

**“Land Use Category”** means any of the categories listed in Tables 1 and 2.

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

**“Non-Residential Property”** means all Parcels of Developed Property for which a building permit was issued for any type of non-residential use.

**“Parcel(s)”** means a lot or parcel shown on an Assessor’s Parcel Map with an assigned parcel number as of January 1 preceding the Fiscal Year for which the Special Tax is being levied.

**“Property Owner’s Association Property”** means any property within the boundary of the CFD which, as of January 1 of the preceding Fiscal Year for which the Special Tax is being levied has been conveyed, dedicated to, or irrevocably dedicated to a property owner association, including any master or sub-association.

**“Proportionately”** means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax or Backup Special Tax is the same for all Parcels of Developed Property and for Undeveloped Property, Public Property and/or Property Owners Association Property that is not Exempt Property pursuant to Section E., that the ratio of the actual Special Tax levy per acre to the Maximum Special Tax per acre is the same for all such Parcels.

**“Public Property”** means any Parcel within the boundary of the CFD which, as of January 1 of the preceding Fiscal Year for which the Special Tax is being levied is used for rights-of-way or any other purpose and is owned by, dedicated to, or irrevocably offered for dedication to the federal government, the State of California, the county, city or any other local jurisdiction, provided, however, that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified according to its use.

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

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

**“Special Tax(es)”** means the special tax to be levied in each Fiscal Year on each Parcel of Taxable Property.

**“Special Tax Requirement for Improvement Area A”** means that amount required in any Fiscal Year within Improvement Area A of the CFD to pay: (i) annual debt service on all outstanding Bonds due in the calendar year which commences in such Fiscal Year; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) an amount equal to any anticipated shortfall due to Special Tax delinquencies in the prior Fiscal Year; and (v) any amounts required to establish or replenish any reserve funds for the outstanding Bonds; less (vi) a credit for funds available to reduce the annual Special Tax levy as determined pursuant to the Indenture.

**“Special Tax Requirement for Improvement Area B”** means that amount required in any Fiscal Year within Improvement Area B of the CFD to pay: (i) annual debt service on all outstanding Bonds due in the calendar year which commences in such Fiscal Year; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) an amount equal to any anticipated shortfall due to Special Tax delinquencies in the prior Fiscal Year; and (v) any amounts required to establish or replenish any reserve funds for the outstanding Bonds; less (vi) a credit for funds available to reduce the annual Special Tax levy as determined pursuant to the Indenture.

**“Taxable Property”** means all Parcels in the CFD which have not prepaid pursuant to Section H or, which are not exempt from the Special Tax pursuant to law or Section E below.

**“Undeveloped Property”** means all Taxable Property not classified as Developed Property, Approved Property, Public Property and/or Property Owner’s Association Property that is not Exempt Property pursuant to the provisions of Section E.

**B. ASSIGNMENT TO LAND USE CATEGORY**

Each Fiscal Year, commencing with the 2002-2003 Fiscal Year, all Parcels of Taxable Property within the CFD shall be categorized into the applicable Improvement Area and classified as either Developed Property, Approved Property, Undeveloped Property, Public Property and/or Property Owner’s Association Property that is not Exempt Property pursuant to the provisions in Section E., and shall be subject to the levy of Special Taxes in accordance with this Rate and Method of Apportionment as determined pursuant to Sections C. and D. below.

Parcels of Developed Property shall further be classified as Residential Property or Non-Residential Property. A Parcel of Residential Property shall further be classified to its appropriate Land Use Classification based on the Residential Floor Area of such Parcel.

**C. MAXIMUM SPECIAL TAX RATE**

**1. Developed Property**

The Maximum Special Tax for each Parcel of Residential Property within its applicable Improvement Area that is classified as Developed Property shall be the greater of (i) the applicable Assigned Special Tax described in Tables 1 or 2 or (ii) the amount derived by application of the Backup Special Tax.

The Maximum Special Tax for each Parcel of Non-Residential Property within its applicable Improvement Area shall be the Assigned Special Tax described in Tables 1 or 2.

a. Assigned Special Tax

The Assigned Special Tax for each Parcel of Developed Property within its applicable Improvement Area are shown in Tables 1 or 2 below.

**TABLE 1**

Assigned Special Taxes for Developed Property within  
Improvement Area A

Land Use Category	Taxable Unit	Residential Floor Area	Assigned Special Tax Per Taxable Unit
1 – Residential Property	D/U	2,901 sq. ft. or greater.	\$1,640
2 - Residential Property	D/U	2,701 sq. ft. to 2,900 sq. ft.	\$1,568
3 - Residential Property	D/U	2,501 sq. ft. to 2,700 sq. ft.	\$1,497
4 - Residential Property	D/U	2,301 sq. ft. to 2,500 sq. ft.	\$1,399
5 - Residential Property	D/U	2,101 sq. ft. to 2,300 sq. ft.	\$1,281
6 - Residential Property	D/U	1,901 sq. ft. to 2,100 sq. ft.	\$1,182
7 - Residential Property	D/U	1,900 sq. ft. or less	\$1,092
8 - Non - Residential Property	Acre	N/A	\$8,489

**TABLE 2**

Assigned Special Taxes for Developed Property within  
Improvement Area B

Land Use Category	Taxable Unit	Residential Floor Area	Assigned Special Tax Per Taxable Unit
1 – Residential Property	D/U	2,901 sq. ft. or greater	\$1,783
2 – Residential Property	D/U	2,501 sq. ft. to 2,900 sq. ft.	\$1,685
3 – Residential Property	D/U	2,301 sq. ft. to 2,500 sq. ft.	\$1,516
4 – Residential Property	D/U	2,101 sq. ft. to 2,300 sq. ft.	\$1,418
5 – Residential Property	D/U	1,901 sq. ft. to 2,100 sq. ft.	\$1,337
6 – Residential Property	D/U	1,900 sq. ft. or less	\$1,213
7 – Non - Residential Property	Acre	N/A	\$8,829

b. Backup Special Tax

When a Final Map is recorded within the applicable Improvement Area, the Backup Special Tax for the Parcels of Residential Property within such Final Map area shall be determined.

For Parcels of Residential Property within a Final Map that lie within Improvement Area A, the Backup Special Tax shall be determined by multiplying \$8,489 by the total Acreage of Taxable Property excluding the Acreage associated with Public Property and/or Property Owner’s Association Property that is not Exempt Property pursuant to Section E. in such Final Map and dividing such amount by the number of Parcels (i.e., the number of residential lots) within such Final Map.

For Parcels of Residential Property within a Final Map that lie within Improvement Area B, the Backup Special Tax shall be determined by multiplying \$8,829 by the total Acreage of Taxable Property excluding the Acreage associated with Public Property and/or Property Owner’s Association Property that is not Exempt Property pursuant to

Section E. in such Final Map and dividing such amount by the number of Parcels (i.e., the number of residential lots) within such Final Map.

If a Final Map within the applicable Improvement Area includes Parcels for which building permits for residential construction may be issued and non-residential construction that is issued, then the Backup Special Tax for each Parcel of Residential Property within the CFD shall be computed exclusive of the allocable portion of total Acreage attributable to Parcels for which building permits for non- residential construction are issued.

Notwithstanding the foregoing, if Parcels of Residential Property are subsequently changed or modified by recordation of a lot line adjustment or similar instrument, then the Backup Special Tax shall be recalculated to equal the amount of Backup Special Tax that would have been generated if such change did not take place.

## **2. Approved Property**

The Maximum Special Tax for each Parcel of Approved Property within the applicable Improvement Area shall be the Backup Special Tax computed pursuant to Section C.1.b.

## **3. Undeveloped Property**

The Maximum Special Tax for each Parcel of Undeveloped Property within Improvement Area A shall be \$8,489 per Acre and the Maximum Special Tax for each Parcel of Undeveloped Property within Improvement Area B shall be \$8,829 per Acre.

## **4. Public Property and/or Property Owners Association Property that is not Exempt Property pursuant to the provisions of Section E.**

The Maximum Special Tax for each Parcel of Public Property and/or Property Owners Association Property that is not Exempt Property pursuant to the provisions of Section E., within Improvement Area A shall be \$8,489 per Acre and the Maximum Special Tax for each Parcel of Public Property and/or Property Owners Association Property that is not Exempt Property pursuant to the provisions of Section E., within Improvement Area B shall be \$8,829 per Acre.

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

## **1. Improvement Area A**

Commencing with Fiscal Year 2002-2003 and for each following Fiscal Year, the Board shall levy the Special Tax on all Taxable Property in Improvement Area A until the amount of Special Taxes equals the Special Tax Requirement for Improvement Area A in accordance with the following steps:

First: The Special Tax shall be levied Proportionately on each Parcel of Developed Property within Improvement Area A at up to 100% of the applicable Assigned Special Tax rate in Table 1 as needed to satisfy the Special Tax Requirement for Improvement Area A;



Second: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area A after the first step has been completed, the Special Tax shall be levied Proportionately on each Parcel of Approved Property within Improvement Area A at up to 100% of the Maximum Special Tax for Approved Property;

Third: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area A after the first two steps have been completed, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property within Improvement Area A at up to 100% of the Maximum Special Tax for Undeveloped Property;

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area A after the first three steps have been completed, the Special Tax to be levied on each Parcel of Developed Property within Improvement Area A whose Maximum Special Tax is derived by the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Parcel;

Fifth: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area A after the first four steps have been completed, the Special Tax shall be levied Proportionately on each Parcel of Public Property and/or Property Owner's Association Property within Improvement Area A that is not Exempt Property pursuant to the provisions of Section E. at up to 100% of the Maximum Special Tax.

## 2. Improvement Area B

Commencing with Fiscal Year 2002-2003 and for each following Fiscal Year, the Board shall levy the Special Tax on all Taxable Property in Improvement Area B until the amount of Special Taxes equals the Special Tax Requirement for Improvement Area B in accordance with the following steps:

First: The Special Tax shall be levied Proportionately on each Parcel of Developed Property within Improvement Area B at up to 100% of the applicable Assigned Special Tax rate in Table 2 as needed to satisfy the Special Tax Requirement for Improvement Area B;

Second: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area B after the first step has been completed, the Special Tax shall be levied Proportionately on each Parcel of Approved Property within Improvement Area B at up to 100% of the Maximum Special Tax for Approved Property;

Third: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area B after the first two steps have been completed, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property within Improvement Area B at up to 100% of the Maximum Special Tax for Undeveloped Property;

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area B after the first three steps have been completed, the Special Tax to be levied on each Parcel of Developed Property within Improvement Area B whose Maximum Special Tax is derived by the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Parcel;

Fifth: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area B after the first four steps have been completed, the Special Tax shall be levied

Proportionately on each Parcel of Public Property and/or Property Owner's Association Property within Improvement Area B that is not Exempt Property pursuant to the provisions of Section E. at up to 100% of the Maximum Special Tax.

Notwithstanding the above, under no circumstances will the Special Taxes levied against any Parcel of Residential Property within an Improvement Area be increased by more than ten percent (10%) per Fiscal year as a consequence of delinquency or default by the owner of any other Parcel within an Improvement Area of the CFD.

**E. EXEMPTIONS**

1. Improvement Area A

The Board shall not levy Special Taxes on up to 202 Acres of Public Property and Property Owner's Association Property within Improvement Area A of the CFD. Exempt Property status will be assigned by the Administrator in the chronological order in which property becomes Public Property and Property Owner's Association Property.

After the limit of 202 Acres within Improvement Area A of the CFD has been reached, the Maximum Special Tax obligation for any additional Public Property and/or Property Owner's Association Property shall be prepaid in full pursuant to Section H. prior to the transfer or dedication of such property. Until the Maximum Special Tax obligation is prepaid as provided for in the preceding sentence, the Public Property and/or Property Owner's Association Property within the CFD shall be subject to the levy of the Special Tax as provided for in the fifth step in Section D.1.

2. Improvement Area B

The Board shall not levy Special Taxes on up to 31.73 Acres of Public Property and Property Owner's Association Property within Improvement Area B of the CFD. Exempt Property status will be assigned by the Administrator in the chronological order in which property becomes Public Property and Property Owner's Association Property.

After the limit of 31.73 Acres within Improvement Area B of the CFD has been reached, the Maximum Special Tax obligation for any additional Public Property and/or Property Owner's Association Property shall be prepaid in full pursuant to Section H. prior to the transfer or dedication of such property. Until the Maximum Special Tax obligation is prepaid as provided for in the preceding sentence, the Public Property and/or Property Owner's Association Property within the CFD shall be subject to the levy of the Special Tax as provided for in the fifth step in Section D.2.

**F. MANNER OF COLLECTION**

The Special Tax shall be collected in the same manner and at the same time as ordinary *Ad valorem* property taxes and shall be subject to the same penalties, the same procedure, sale and lien priority in the case of delinquency; provided, however, that the District may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on

Parcels having delinquent Special Taxes as permitted by the Act if necessary to meet the financial obligations of the CFD.

#### **G. APPEALS**

The Board shall establish as part of the proceedings and administration of CFD a Special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax levied on their Parcel is in error may file a notice with the Review/Appeal Committee appealing the amount of Special Tax levied on such Parcel. The Review/Appeal Committee shall interpret this Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident who appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding on all persons.

#### **H. PREPAYMENT OF SPECIAL TAX**

The following definitions apply to this Section H:

**“CFD Public Facilities”** means \$17,198,000 for Improvement Area A and \$2,587,000 for Improvement Area B expressed in 2001 dollars, which shall increase by the Construction Inflation Index on July 1, 2002, and on each July 1 thereafter, or such lower number as (i) shall be determined by the Administrator as sufficient to provide the public facilities under the authorized bonding program for Improvement Area A or Improvement Area B of the CFD, or (ii) shall be determined by the Board concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes within Improvement Area A or Improvement Area B as levied under this Rate and Method of Apportionment.

**“Construction Fund”** means an account specifically identified in the Indenture or functionally equivalent for Improvement Area A or Improvement Area B to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

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

**“Future Facilities Costs”** means for Improvement Area A or Improvement Area B the CFD Public Facilities minus public facility costs available to be funded through existing construction or escrow accounts or funded by the Outstanding Bonds, and minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment.

**“Outstanding Bonds”** means all previously issued bonds issued by an Improvement Area and secured by the levy of Special Taxes within such Improvement Area, which will remain outstanding after the first interest and/or principal payment date following the current Fiscal Year, excluding bonds to be redeemed at a later date with the proceeds of prior prepayments of Maximum Special Taxes.

**1. Prepayment in Full**

The Maximum Special Tax obligation within any Improvement Area may only be prepaid and permanently satisfied by a Parcel of Developed Property, Approved Property for which a building permit has been issued, and Public Property and/or Property Owner’s Association Property that is not Exempt Property pursuant to Section E. The Maximum Special Tax obligation applicable to such Parcel may be fully prepaid and the obligation of the Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such the Parcel at the time of prepayment. An owner of Parcel intending to prepay the Maximum Special Tax obligation shall provide the Administrator with written notice of intent to prepay, and within 5 days of receipt of such notice, the Administrator shall notify such owner of the amount of the non-refundable deposit determined to cover the cost to be incurred by the CFD in calculating the proper amount of a prepayment. Within 15 days of receipt of such non-refundable deposit, the Administrator shall notify such owner of the prepayment amount of such Parcel. Prepayment must be made not less than 60 days prior to any redemption date for any Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

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

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

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

**Paragraph No.:**

1. For Parcels of Developed Property, compute the Maximum Special Tax for the Parcel to be prepaid. For Parcels of Approved Property to be prepaid, compute the Maximum Special Tax for that Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Parcel. For Parcels of Public Property and/or Property Owner’s Association Property to be prepaid, compute the Maximum Special Tax for that Parcel.
2. Divide the Maximum Special Tax computed pursuant to paragraph 1 by the total estimated Maximum Special Taxes within the applicable Improvement Area based on the Developed Property Special Tax which could be charged, less any Parcels which have been prepaid.
3. Multiply the quotient computed pursuant to paragraph 2 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the “*Bond Redemption Amount*”).
4. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the “*Redemption Premium*”).

5. Compute the Future Facilities Costs.
6. Multiply the quotient computed pursuant to paragraph 2 by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid (the "*Future Facilities Amount*").
7. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
8. Confirm that no Special Tax delinquencies apply to such Parcel.
9. Determine the Special Taxes levied on the Parcel in the current Fiscal Year which have not yet been paid.
10. Compute the amount the Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10 (the "*Defeasance Amount*").
12. Verify the administrative fees and expenses, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming the Outstanding Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "*Administrative Fees and Expenses*").
13. The reserve fund credit (the "*Reserve Fund Credit*") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
14. The Maximum Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 11 and 12, less the amount computed pursuant to paragraph 13 (the "*Prepayment Amount*").
15. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 11, and 13 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 6 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by the CFD.

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

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the Administrator shall remove the current Fiscal Year's Special Tax levy for such Parcel from the County tax rolls. With respect to any Parcel that is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to indicate the

prepayment of Special Taxes and the release of the Special Tax lien on such Parcel, and the obligation of such Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Maximum Special Taxes that may be levied on Taxable Property within the applicable Improvement Area both prior to and after the proposed prepayment is at least 1.10 times the maximum annual debt service on all Outstanding Bonds.

## **2. Prepayment in Part**

The Maximum Special Tax on a Parcel of Developed Property or a Parcel of Approved Property for which a building permit has been issued may be partially prepaid in increments of \$2,000. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F$$

These terms have the following meaning:

PP = the partial prepayment

$P_E$  = the Prepayment Amount calculated according to Section H.1

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

The owner of a Parcel who desires to partially prepay the Maximum Special Tax shall notify the Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax, (ii) the amount of partial prepayment expressed in increments of \$2,000, and (iii) the company or agency that will be acting as the escrow agent, if applicable, and within 5 days of receipt of such notice, the Administrator shall notify such owner of the amount of the non-refundable deposit determined to cover the cost to be incurred by the CFD in calculating the proper amount of a partial prepayment. Within 15 days of receipt of such non-refundable deposit, the Administrator shall notify such owner of the partial prepayment amount of such Parcel. Partial prepayment must be made not less than 60 days prior to any redemption date for any Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

With respect to any Parcel that is partially prepaid, the Administrator shall (i) distribute the funds remitted to it according to Paragraph 15 of Section H.1, and (ii) indicate in the records of the Improvement Area of the CFD that there has been a partial prepayment of the Maximum Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage (1.00-F) of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Parcel pursuant to Section D.

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

For each year that any Bonds are outstanding the Special Tax shall be levied on all Parcels subject to the Special Tax. If any delinquent Special Taxes remain uncollected prior to or after all Bonds are retired, the Special Tax may be levied to the extent necessary to reimburse the CFD for uncollected Special Taxes associated with the levy of such Special Taxes, but not later than the 2040-41 Fiscal Year.

## APPENDIX E

### INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Community Facilities District believes to be reliable, but the Community Facilities District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, 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 ("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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Community Facilities 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Community Facilities District or the Fiscal Agent, on the 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 Community Facilities District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Community Facilities District or the 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 services as depository with respect to the Bonds at any time by giving reasonable notice to the Community Facilities District or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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



## APPENDIX F

### FORMS OF CONTINUING DISCLOSURE AGREEMENTS

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#### FORM OF DISTRICT CONTINUING DISCLOSURE AGREEMENT

#### COMMUNITY FACILITIES DISTRICT NO. 2001-01 (FRENCH VALLEY) OF THE EASTERN MUNICIPAL WATER DISTRICT IMPROVEMENT AREA A 2006 SPECIAL TAX BONDS

**THIS CONTINUING DISCLOSURE AGREEMENT** (this “Disclosure Agreement”) is made and entered into as of September 1, 2006, by Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District (the “Issuer”) and U.S. Bank National Association (the “Dissemination Agent”), in connection with the issuance by the Issuer of its 2006 Special Tax Bonds (the “Bonds”). The Bonds are being issued pursuant to the Board’s Resolution No. 4545, a Supplement to Resolution No. 4545 and a Second Supplement to Resolution No. 3590 (the Supplement to Resolution and the Second Supplement to Resolution are collectively referred to herein as the “Supplement to Resolution” and, together with Resolution No. 4545, the “Resolution”).

The Issuer and the Dissemination Agent hereby agree as follows:

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

**SECTION 2. Definitions.** In addition to the definitions set forth in the Resolution of Issuance and the Rate and Method of Apportionment, 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 Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*Beneficial Owner*” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including a person holding Bond through a nominee, depository or other intermediary), or (b) is treated as the owner of any Bond for federal income purposes.

“*Central Post Office*” means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Agreement.

“*Disclosure Representative*” shall mean the General Manager, the Director of Finance or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” shall mean U.S. Bank, N.A. or any successor Dissemination Agent designed in writing by the Issuer.

“*Improvement Area A*” shall mean Improvement Area A of the Issuer, as established pursuant to the Resolution of Formation.

“*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 purpose of the Rule. The Nationally Recognized Municipal Securities Information Repository for purposes of the Rule are identified in the Securities and Exchange Commission website located at [www.sec.gov/consumer/nrmsir.htm](http://www.sec.gov/consumer/nrmsir.htm).

“*Official Statement*” shall mean the Issuer’s official statement with respect to the Bonds.

“*Participating Underwriter*” shall mean Stone & Youngberg LLC.

“*Repository*” shall mean each National Repository and each State Repository.

“*Rate and Method of Apportionment*” means that certain Rate and Method of Apportionment of Special Tax approved pursuant to the Resolution of Formation, as amended in accordance with the Act and the Resolution of issuance.

“*Resolution of Formation*” means Resolution No. 3534 adopted by the Board of Directors of Eastern Municipal Water District on September 19, 2001, pursuant to which Eastern Municipal Water District formed the Issuer.

“*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.

“*Tax-exempt*” shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

### SECTION 3. Provision of Annual Reports.

(a) Not later than six months after the end of the Issuer’s fiscal year (which currently ends on June 30), commencing with the fiscal year ending June 30, 2006, the Issuer shall, or shall cause the Dissemination Agent to, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 15 business days prior to the date referred to in the prior sentence hereof, the Issuer shall provide the Annual Report (in a form suitable for filing with the Repositories) 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. The Issuer 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 Issuer and shall have no duty or obligation to review such Annual Report.

(b) If by the date required in subsection (a) the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories and the Participating Underwriter by the date required in subsection (a), the Dissemination Agent shall send a notice in substantially the form attached as Exhibit A to the Municipal Securities Rulemaking Board (“MSRB”) and each State Repository.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and 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 and the Participating Underwriter, as provided herein; and

(iii) if it has provided the Annual Report pursuant to (ii) above, file a report with the Issuer 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.

(e) Notwithstanding any other provision of this Disclosure Agreement, any of the required filings hereunder may be made through a Central Post Office.

SECTION 4. Content of Annual Reports. The Issuer’s Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Resolution of Issuance as of the September 2 preceding the filing of the Annual Report;

- (iii) the assessed valuation of the Taxable Property within Improvement Area A;
- (iv) any changes to the Rates and Method of Apportionment of the Special Tax approved or submitted to the qualified electors for approval prior to the filing of the Annual Report;
- (v) a table setting forth the annual Special Tax delinquency rate within the Improvement Area A at June 30 for each fiscal year on which a delinquency exists, listing for each fiscal year the total Special Tax levy, the amount delinquent and the percent delinquent;
- (vi) the status of any foreclosure actions being pursued by the Issuer with respect to delinquent Special Taxes;
- (vii) the number of parcels (x) which are included in a Final Map that was recorded prior to January 1 preceding the Fiscal Year in which the Annual Report is being filed and (ii) with respect to which a building permit for new construction has been issued prior to April 1st preceding the Fiscal Year in which the Annual Report is being filed, provided that such information need not be included for any year in which a property owner is required to supply it pursuant to an undertaking by the property owner to supply financial and operating data and provided further that this information need not be included for any period subsequent to the date on which building permits have been issued for the all of the residences expected to be constructed on such property (as shown in the Official Statement or as otherwise determined by the Issuer); and
- (viii) the status of the construction of the public improvements to be acquired or constructed with proceeds of the Bonds and any changes in the types of public facilities to be constructed or acquired from those described in the Official Statement.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer 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 MSRB. The Issuer shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies,
- (2) non-payment related defaults,
- (3) unscheduled draws on the Reserve Fund reflecting financial difficulties,
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties,

- (5) substitution of credit or liquidity providers, or their failure to perform,
- (6) adverse tax opinions or events adversely affecting the Tax-Exempt status of the Bonds,
- (7) modifications to the rights of Bond Owners,
- (8) unscheduled redemption of any Bond,
- (9) defeasances,
- (10) any release, substitution, or sale of property or letters of credit securing repayment of the Bonds, and
- (11) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Issuer has determined that the Listed Event would be material under applicable federal securities laws, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB and each State Repository and the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution of Issuance.

(e) In the event that the Issuer's fiscal year changes, the Issuer shall give notice of such change to the Dissemination Agent and shall instruct the Dissemination Agent to report such change in the same manner and to the same parties as a material Listed Event would be reported pursuant to this Section.

(f) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer, and the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section comply with the requirements of the Rule.

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

**SECTION 7. Dissemination Agent.** The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination

Agent. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Amendment may be amended, by written agreement of the parties, without the consent of the Owners, and any provision of this Dissemination Agreement may be waived, if all of the following conditions are satisfied: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) the undertakings in this Disclosure Agreement as so amended or waived would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (3) the amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Resolution of Issuance for amendments to the Resolution of Issuance with the consent of Owners or (ii) does not, in the determination of the Issuer, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

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

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

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer 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 Issuer 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 Issuer shall have no obligation under this 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 Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution of Issuance, and the sole

remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent shall be paid (i) compensation by the Issuer for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Issuer pursuant to this Disclosure Agreement. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

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

SECTION 13. 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 14. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

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

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

COMMUNITY FACILITIES DISTRICT NO. 2001-01  
(FRENCH VALLEY) OF THE EASTERN  
MUNICIPAL WATER DISTRICT

By: \_\_\_\_\_  
Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, as  
Dissemination Agent

By: \_\_\_\_\_  
Its: Authorized Officer



**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District

Name of Bond Issue: Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District, Improvement Area A 2006 Special Tax Bonds

Date of Issuance: September 7, 2006

NOTICE IS HEREBY GIVEN that Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District (the "Issuer") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the District Continuing Disclosure Agreement, dated as of September 1, 2006. [The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, as  
Dissemination Agent

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cc: Issuer

**FORM OF DEVELOPER CONTINUING DISCLOSURE AGREEMENT**  
**COMMUNITY FACILITIES DISTRICT NO. 2001-01 (FRENCH VALLEY)**  
**OF THE EASTERN MUNICIPAL WATER DISTRICT**  
**IMPROVEMENT AREA A**  
**2006 SPECIAL TAX BONDS**

This Developer Continuing Disclosure Agreement, dated as of September 1, 2006 (the “Disclosure Agreement”), is made and entered into by and between Brookfield W633 LLC, a Delaware limited liability company (the “Developer”), and U.S. Bank National Association, as dissemination agent (the “Dissemination Agent”) in connection with the issuance by Community Facilities District No. 2001-01 (French Valley) (the “Issuer”) of the Eastern Municipal Water District of its Improvement Area A 2006 Special Tax Bonds (the “Bonds”). The Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the “Act”), a Resolution of Issuance adopted by the Board of Directors of the Issuer on May 1, 2002, a Supplement to the Resolution of Issuance, and a Second Supplement to the Resolution of Issuance (collectively, the “Resolution of Issuance”).

The Developer and the Dissemination Agent covenant and agree as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the parties hereto for the benefit of the Bond Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

“*Affiliate*” of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, 25% or more of the outstanding voting securities of such other Person, (b) any Person 25% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

“*Assumption Agreement*” means an agreement between a Major Developer, or an Affiliate thereof, and the Dissemination Agent containing terms substantially similar to this Disclosure Agreement, whereby such Major Developer or Affiliate thereof agrees to provide Semi-Annual Reports and notices of Listed Events with respect to the portion of the Property owned by such Major Developer and its Affiliates.

“*Bond Counsel*” means an attorney or a firm of attorneys whose experience in matters relating to the issuance of obligations by the states and their political subdivisions and the tax-exempt status of the interest thereon is recognized nationally.

“*Central Post Office*” means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Agreement.

“*Community Facilities District*” means Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District.

“*Development Plan*” means, with respect to a Major Developer, the specific improvements such Major Developer intends to make, or cause to be made, to the portion of the Property owned by such Major Developer in order for such portion of the Property to reach the Planned Development Stage, the time frame in which such improvements are intended to be made and the estimated costs of such improvements. As of the date hereof, the Development Plan for the Property owned by the Developer and its Affiliates is described in the Official Statement under the caption “PROPERTY OWNERSHIP AND DEVELOPMENT.”

“*Dissemination Agent*” means U.S. Bank National Association, acting in its capacity as the Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Developer and which has filed with the Issuer a written acceptance of such designation.

“*Event of Bankruptcy*” means, with respect to a Person, that such Person files a petition or institutes a proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby such Person asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of such Person’s debts or obligations, or offers to such Person’s creditors to effect a composition or extension of time to pay such Person’s debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of such Person’s debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character is filed or instituted or taken against such Person and the same shall remain undismissed for a period of sixty days, or if a receiver of the business or of the property or assets of such Person is appointed by any court, or if such Person makes a general assignment for the benefit of such Person’s creditors.

“*Financing Plan*” means, with respect to a Major Developer, the method by which such Major Developer intends to finance its Development Plan, including specific sources of funding for such Development Plan. As of the date hereof, the Financing Plan for the Developer and its Affiliates is described in the Official Statement under the caption “PROPERTY OWNERSHIP AND DEVELOPMENT.”

“*Financial Statements*” means, with respect to a Major Developer, the full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position of each entity, enterprise, fund, account or other Person (other than a financial institution acting as a lender in the ordinary course of business) identified in such Major Developer’s Development Plan or its Financing Plan as a source of future funding for such Major Developer’s Development Plan, which statements shall be prepared in accordance with generally accepted accounting principles, as in effect from time to time, and which statements may be audited or unaudited; provided that, if such financial statements or reports are otherwise prepared as audited financial statements or reports, then “Financial Statements” means such audited financial statements or reports.

*“Improvement Area A”* means Improvement Area A of the Community Facilities District.

*“Independent Financial Consultant”* means a financial consultant or special tax consultant or firm of such consultants generally recognized to be well qualified in the financial consulting or special tax consulting field, appointed and paid by the Developer, who is not controlled by either the Issuer or Developer, does not have any substantial interest (direct or indirect) in the Issuer or Developer and is not a member, officer or employee of the Issuer or Developer, but who may be regularly retained to make annual or other reports to the Issuer or Developer.

*“Listed Event”* means any of the events listed in Section 5(a) of this Disclosure Agreement.

*“Major Developer”* means, as of any date, any Property Owner, including the Developer, which owns a portion of the Property which has not reached the Planned Development Stage and the sum of the Maximum Special Tax then applicable to which, plus the Maximum Special Tax then applicable to all portions of the Property that have not reached the Planned Development Stage and that are owned by Affiliates of such Property Owner, is equal to or greater than 20% of the total Maximum Special Tax then applicable to all of the Property.

*“National Repository”* means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The Nationally Recognized Municipal Securities Information Repository for purposes of the Rule are identified in the Securities and Exchange Commission website located at [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm)

*“Official Statement”* means the Official Statement, dated August 25, 2006, relating to the Bonds.

*“Participating Underwriter”* means Stone & Youngberg, LLC.

*“Person”* means an individual, a corporation, a partnership, an association, a joint stock company, a trust, a limited liability company, any unincorporated organization or a government or political subdivision thereof.

*“Planned Development Stage”* means the stage of development of the land in Improvement Area A owned by the Developer and its Affiliates that the Developer intends to achieve with respect thereto. As of the date hereof, the Planned Development stage of the Developer is the construction of homes on the lots in Improvement Area A on which homes have not yet been completed.

*“Property”* means the parcels within the boundaries of Improvement Area A subject to Special Taxes.

*“Property Owner”* means any Person that owns a fee interest in any portion of the Property that was, as of the date of this Disclosure Agreement, owned by the Developer.

*“Repository”* means each National Repository and each State Repository.

*“Rule”* means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

*“Semi-Annual Report”* means any Semi-Annual Report provided pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*Semi-Annual Report Date*” means each March 31 and September 30, commencing March 31, 2007.

“*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) Not later than five (5) business days prior to each Semi-Annual Report Date, the Developer shall provide to the Dissemination Agent a Semi-Annual Report which is consistent the requirements of Section 4 hereof and which is in a form suitable for filing with the Repositories. The Semi-Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Agreement. Not later than five (5) business days after its receipt of the foregoing material from the Developer, the Dissemination Agent shall provide a copy thereof to each Repository and the Participating Underwriter. The Developer shall provide a written certification with each Semi-Annual Report furnished to the Dissemination Agent to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Developer and shall have no duty or obligation to review such Semi-Annual Report.

(b) If the Dissemination Agent has not received a copy of the Semi-Annual Report by the date required in Subsection (a), the Dissemination Agent shall notify the Developer of such failure to receive the applicable report. If the Dissemination Agent is unable to verify that a Semi-Annual Report has been provided to the Repositories and the Participating Underwriter by the date required in Subsection (a), the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board (“MSRB”) and to the State Repository, if any, in substantially the form attached as Exhibit “A”.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Semi-Annual Report, the name and address of each National Repository and each State Repository, if any;

(ii) provide any Semi-Annual Report received by it to each Repository and to the Participating Underwriter, as provided herein; and

(iii) if it has provided the applicable report pursuant to (ii) above, file a report with the Issuer and the Developer certifying that it provided the Semi-Annual Report pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(e) Notwithstanding any other provision of this Disclosure Agreement, any of the required filings hereunder may be made through a Central Post Office in lieu of filing with the Repositories.

SECTION 4. Content of Semi-Annual Reports.

(a) The Developer's Semi-Annual Reports shall contain or incorporate by reference the information set forth in Exhibit B.

(b) In addition to any of the information expressly required to be provided under Subsection (a) of this Section, the Developer shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Major Developers that are Affiliates of each other may file either separate Semi-Annual Reports or combined Semi-Annual Reports covering all such entities. Any or all of the items listed above may be included by specific reference to other documents which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Developer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Listed Events. (a) The following events are Listed Events for purposes of this Agreement:

(i) Any conveyance by a Major Developer of any portion of the Property owned by such Major Developer to an entity that is not an Affiliate of such Major Developer, the result of which conveyance is to cause the transferee to become a Major Developer;

(ii) Any failure of a Major Developer, or any Affiliate of such Major Developer, to pay prior to delinquency taxes or Special Taxes with respect to any portion of the Property owned by such Major Developer or Affiliate;

(iii) Any refusal to provide funds pursuant to or any termination of, or any event of default under, any line of credit, loan or other arrangement to provide funds to a Major Developer or its Affiliate or any other loss of a source of funds that could have a material adverse affect on such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer, to pay installments of Special Taxes when due;

(iv) The occurrence of an Event of Bankruptcy with respect to a Major Developer or any Affiliate of such Major Developer that owns any portion of the Property;

(v) Any significant amendments to land use entitlements for such Major Developer's Property, if material to such Major Developer's most recently disclosed Development Plan;

(vi) The filing of any lawsuit against a Major Developer which, in the reasonable judgment of such Major Developer, will adversely affect the completion of the development of Property owned by such Major Developer, or litigation which if decided against the Major Developer, in the reasonable judgment of the Major Developer, would materially adversely affect the financial condition of the Major Developer; and

(vii) The assumption of any obligations by a Major Developer pursuant to Section 6 hereof.

(b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall promptly (i) determine whether such event would be material under applicable federal securities laws and (ii) if the Developer determines that such event would be material under applicable federal securities laws, notify the Dissemination Agent and the Issuer in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to Subsection (c) and shall be in a format suitable for reporting to the MSRB and the State Repository, if any.

(c) If the Dissemination Agent has been instructed by the Developer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB, the State Repository and the Participating Underwriter.

SECTION 6. Assumption of Obligations. If a portion of the Property owned by the Developer, or any Affiliate of the Developer, is conveyed to a Person that, upon such conveyance, will be a Major Developer, the obligations of the Developer hereunder with respect to the Property owned by such Major Developer and its Affiliates may be assumed by such Major Developer or by an Affiliate thereof. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement.

SECTION 7. Termination of Reporting Obligation. The Developer's obligations hereunder shall terminate (except as provided in Section 12) upon the earliest to occur of (a) the legal defeasance, prior redemption or payment in full of all the Bonds, (b) the date on which those portions of the Rule which require this written undertaking are held to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds, (c) the first date on which no Property Owner is a Major Developer, (d) the first date on which the Developer (i) is no longer a Major Developer and (ii) has no obligations hereunder with respect to any property because such obligations have been assumed by one or more Major Developers or Affiliates thereof pursuant to an Assumption Agreement or (e) the date as of which both of the following have occurred: (1) the Board of Directors of the Issuer has adopted a resolution to the effect that the Issuer does not intend to issue any additional bonds payable from Special Taxes applicable to property in Improvement Area A and (2) the Issuer has received a certificate from an Independent Financial Consultant to the effect that the aggregate amount of the Maximum Special Tax applicable to the Developed Property in Improvement Area A is not less than 1.1 times the Maximum Annual Debt Service on bonds payable from Special Taxes applicable to property in Improvement Area A then outstanding. The Developer's obligations under this Disclosure Agreement with respect to a Person that purchased Property from the Developer and that became a Major Developer as a result thereof shall terminate upon the earliest to occur of (w) date on which such Person is no longer a Major Developer, (x) the date on which the Developer's obligations with respect to such Person are assumed under an Assumption Agreement entered into pursuant to Section 6, (y) the date on which all Special Taxes applicable to the portion of the Property owned by such Major Developer and its Affiliates are prepaid in full and (z) the date described in clause (e) of the preceding sentence; provided however, until the occurrence of any of the events described in clauses (w) through (z), the Developer's obligations hereunder with respect to each other Major Developer, if any, shall remain in full force and effect. Upon the occurrence of any such termination prior to the final maturity of the Bonds, the Developer shall cause the Dissemination Agent to give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The Developer may, from time to time, discharge the Dissemination Agent with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days' written notice to the Developer and

the Issuer. If at any time there is no other designated Dissemination Agent, the Developer shall be the Dissemination Agent. If the Dissemination Agent is an entity other than the Developer, the Developer shall be responsible for paying the fees and expenses of such Dissemination Agent for its services provided hereunder.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Developer and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Developer, so long as such amendment does not adversely affect the rights or obligations of the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that (a) if the amendment or waiver relates to Sections 3(a), 4 or 5(a) hereof, such amendment or waiver is made in connection with a change in legal requirements, change in law or change in the identity, nature, or status of the Developer or the type of business conducted; (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of Bond Counsel approved by the Issuer and the Participating Underwriter, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment or waiver either (i) is approved by the Bond Owners in the same manner as provided in the Resolution of Issuance for amendments to the Resolution of Issuance with the consent of Bond Owners, or (ii) does not, in the opinion of the Issuer or Bond Counsel, materially impair the interests of the Bond Owners or Beneficial Owners of the Bonds.

SECTION 10. 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 11. Default. In the event of a failure of the Developer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the written request of the Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of Outstanding Bonds, and upon being indemnified to its reasonable satisfaction against the costs, expenses and liabilities to be incurred in compliance with such request, shall), or the Participating Underwriter or any Bond Owner or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Developer or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Resolution of Issuance, and the sole remedy under this Disclosure Agreement in the event of any failure of the Developer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall not have any responsibility for the content of any Semi-Annual Report or notice of a Listed Event. 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, including its officers, directors, employees and agents (each, an “Indemnified Party”), 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 claim of liability, but excluding losses, expenses and liabilities due to such Indemnified Party’s negligence or willful misconduct. The obligations of the Developer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

The Dissemination Agent will not, without the Developer’s prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Developer and its Affiliates from all liability arising out of any such claim, action or proceedings. A request by the Dissemination Agent for the Developer’s written consent shall be answered within a reasonable amount of time to allow the Dissemination Agent to act in a timely manner. If any claim, action or proceeding is settled with the consent of the Developer or if there is a judgment (other than a stipulated final judgment without the approval of the Developer) for the plaintiff in any such claim, action or proceeding, with or without the consent of the Developer, the Developer agrees to indemnify and hold harmless the Dissemination Agent to the extent described herein.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

Issuer: Community Facilities District No. 2001-01(French Valley) of  
the Eastern Municipal Water District  
2270 Trumble Road  
Perris, California 92570  
Attn: General Manager

Dissemination Agent: U.S. Bank National Association  
633 West Fifth Street, 24<sup>th</sup> Floor  
Los Angeles, California 90071  
Attn: Corporate Trust Department

Developer: Sandra Moore  
Brookfield W633 LLC  
12865 Pointe Del Mar, Suite 200  
Del Mar, CA 92014-3859  
Telephone: (858) 481-8500  
Fax: (858) 259-6975

Participating Underwriter: Stone & Youngberg LLC  
Municipal Research Department  
One Ferry Building  
San Francisco, CA 94111  
Telephone: (415) 445-2300  
Fax: (415) 445-2395  
Attn: Municipal Department Research

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Developer, the Participating Underwriter and Bond Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Assignability. The Developer shall not assign this Disclosure Agreement or any right or obligation hereunder except to the extent permitted to do so under the provisions of Section 6 hereof. The Dissemination Agent may, with prior written notice to the Developer and the Issuer, assign this Disclosure Agreement and the Dissemination Agent's rights and obligations hereunder to a successor Dissemination Agent.

SECTION 16. 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 17. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

SECTION 18. Governing Law. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

SECTION 19. 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.

BROOKFIELD W633 LLC, a Delaware limited liability company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, as Dissemination Agent

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO  
FILE ANNUAL REPORT**

Name of Obligated Person: Brookfield W633, LLC

Name of Bond Issue: Community Facilities District No. 2001-01 (French Valley) of the Eastern  
Municipal Water District Improvement Area A 2006 Special Tax Bonds

Date of Issuance: September 7, 2006

NOTICE IS HEREBY GIVEN that Brookfield W633, LLC has not provided [an Annual Report] [a Semi-Annual Report] with respect to the above-named Bonds as required by Section 3 of the Developer Continuing Disclosure Agreement, dated as of September 1, 2006. Brookfield W633, LLC anticipates that the required report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION,  
as Dissemination Agent

cc: Brookfield W633, LLC

**EXHIBIT B**

**SEMI-ANNUAL REPORT**

**COMMUNITY FACILITIES DISTRICT NO. 2001-01 (FRENCH VALLEY)  
OF THE EASTERN MUNICIPAL WATER DISTRICT  
IMPROVEMENT AREA A  
2006 SPECIAL TAX BONDS**

This Semi-Annual Report is hereby submitted under Section 3 and Section 4 of the Developer Disclosure Agreement (the "Disclosure Agreement") dated as of June 1, 2006, executed by the undersigned (the "Property Owner") in connection with the issuance of the above-captioned bonds by Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District Improvement Area A 2006 Special Tax Bonds (the "District"). Capitalized terms used in this Semi-Annual Report but not otherwise defined have the meanings given to them in the Disclosure Agreement.

**I. Property Ownership 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 currently owned by the Property Owner in the District (the "Property"):  
Development Name(s) \_\_\_\_\_

Total Lots and Planned Homes in Development	Homes Completed Since the Date of Issuance of the Bonds (September 7, 2006)	Property Sold Since the Date of Issuance of the Bonds (September 7, 2006)	Property Sold Since the Last Semi-Annual Report
Acres* _____	Acres * _____	Acres * _____	Acres* _____
Lots _____	_____	_____	_____
Homes _____	_____	_____	_____

\* For bulk land sales only (excluding sales of finished lots for completed homes.)

B. Status of land development or home construction activities with regard to the Property:

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C. Status of building permits and any significant amendments to land use or development entitlements with regard to the Property:

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D. Status of any land purchase contracts with regard to the Property, (other than individual homeowners).

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## **II. Legal and Financial Status of Property Owner**

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 Property Owner or the financial condition and financing plan of the Property Owner that would materially and adversely interfere with its ability to complete its development plan described in the Official Statement. If audited financial statements of the Property Owner 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. 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 *that are materially different from* the proposed development and financing plan described in the Official Statement.

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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 the Property Owner (including a statement as to whether any taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property owned by the Property Owner are delinquent).

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**V. Preconditions to Development**

Please describe any precondition to commencement or continuation of development on any portion of the Property owned by the Property Owner or its Affiliates imposed by a governmental entity after the date of issuance of the Bonds which has not been previously disclosed and which could have a material adverse affect, or any change in the status of any such precondition that was previously disclosed in the Official Statement or a Semi-Annual Report, which could have a material adverse affect, on the Property Owner’s most recently disclosed Financing Plan or Development Plan or on the ability of the Property Owner, or any Affiliate of the Property Owner, to pay installments of Special Taxes when due.

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**VI. Legislative, Administrative or Judicial Challenges**

Please describe any previously undisclosed legislative, administrative or judicial challenges to development on any portion of the Property owned by the Property Owner, or any material change in the status of any such challenge that was previously disclosed in the Official Statement or a Semi-Annual Report, that could have a material adverse affect on the Property Owner’s most recently disclosed Financing Plan or Development Plan or on the ability of the Property Owner, or any Affiliate of the Property Owner, to pay installments of Special Taxes when due.

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**VII. 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 Property Owner or the Property contained in the Official Statement under the headings “PROPERTY OWNERSHIP AND DEVELOPMENT” that would materially and adversely interfere with the Property Owner’s ability to develop and sell the Property as described in the Official Statement or pay its portion of the annual Special Taxes levied within the District.

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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 Property Owner hereby certifies that this Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by the Property Owner under the Disclosure Agreement.

ANY OTHER STATEMENTS REGARDING THE PROPERTY OWNER, THE DEVELOPMENT OF THE PROPERTY, THE PROPERTY OWNER'S FINANCING PLAN OR FINANCIAL CONDITION, OR THE BONDS, OTHER THAN STATEMENTS MADE BY THE PROPERTY OWNER 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 PROPERTY OWNER. THE PROPERTY OWNER IS NOT RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF ANY SUCH UNAUTHORIZED STATEMENTS.

THE PROPERTY OWNER HAS NO OBLIGATION TO UPDATE THIS SEMI-ANNUAL REPORT OTHER THAN AS EXPRESSLY PROVIDED IN THE DISCLOSURE AGREEMENT.

Dated: \_\_\_\_\_

BROOKFIELD W633 LLC, a Delaware limited liability company

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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## **APPENDIX G**

### **SUMMARY OF MARKET ABSORPTION STUDY**

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**MARKET ABSORPTION STUDY**

**COMMUNITY FACILITIES DISTRICT NO. 2001-01  
(FRENCH VALLEY)  
IMPROVEMENT AREA A**

**EASTERN MUNICIPAL WATER DISTRICT**

**RIVERSIDE COUNTY, CALIFORNIA**



**DEVELOPMENT ACTIVITY IN A PORTION OF THE CFD**

**BY EMPIRE ECONOMICS, INC.**

**JUNE 19, 2006**

**THE USE OF THIS MARKET ABSORPTION STUDY IS AUTHORIZED ONLY  
FOR THE EMWD CFD NO. 2001-01 IA-A'S BOND ISSUE**

# EMPIRE ECONOMICS, INC.

Economic-Real Estate Consultants

Joseph T. Janczyk, Ph.D.  
35505 Camino Capistrano, Suite 200  
Capistrano Beach, CA 92624

Phone: (949) 661-7012  
Fax: (949) 661-8763

June 19, 2006

Ms. Debra Haskell  
Special Funding Districts Coordinator  
Eastern Municipal Water District  
2270 Trumble Road  
P.O. Box 8300  
Perris, CA 92572-8300

**Re: Market Absorption Study for Community Facilities District No. 2001-01 (French Valley)  
Improvement Area A**

Dear Ms. Haskell:

Empire Economics (Empire) is pleased to provide you with the Market Absorption Study for Community Facilities District (CFD) No. 2001-01 Improvement Area A (French Valley), hereafter referred to as CFD No. 2001-01 IA-A, of the Eastern Municipal Water District (EMWD); accordingly, the primary conclusions are set forth below:

## **Product Mix Characteristics and Marketing Status**

CFD No. 2001-01 IA-A is located in French Valley, northeasterly of the City of Murrieta, in the southwestern portion of Riverside County, California. According to Brookfield Homes, LLC, the developer/builder, the CFD projects have the following characteristics:

- Three residential projects that, upon build-out, are expected to have some 633 single-family detached homes.
- Home prices of some \$485,286, on the average, with a range of some \$430,000 to \$530,000.
- Living areas of some 3,227 sq. ft., on the average, with a range of some 2,472 to 4,178 sq.ft.
- Thus far, as of June 2006, some 12 of the homes have closed escrow, and so there are another 621 homes remaining for future occupancies, June 2006+.

## **Review of Current Market Prices and Total Tax Burden**

The Market Study performed a Competitive Market Analysis of the residential projects in CFD No. 2001-01 IA-A, by comparing their prices and Special Taxes to the active comparable projects. This analysis revealed that the total tax burden for the CFD projects is below the EMWD policy maximum of 2.00%. Consequently, the Special Taxes as currently set forth in the Rate and Method of Apportionment are in conformance with the EMWD's total tax burden land-secured financing policies.

### **Potential Financial Risk Factors**

The housing market is expected to experience some significant adjustments during the foreseeable future, as the current price structure, which is based upon the extensive use of creative financing, is re-aligned with a sustainable price structure, which is based upon the use of more traditional financing structures:

- The majority of home purchasers in recent years have utilized creative financing structures, and this has enabled them to “afford” homes at current market prices; however, such structures are subject to resets that will cause their payments to rise substantially, and so they face the risk of becoming delinquent on their mortgage and tax payments.
- However, if these purchasers instead used traditional financing structures, then the majority of them would NOT be able to “afford” homes at current market prices, and so their inability to do so would have caused the rate of sales to slowdown, unless builders offered them substantial concessions, and eventually lower prices.

These market adjustments are expected to have a much more significant impact on newly developing residential CFDs than the broader market, as a whole, since CFDs represent the marketing of new homes to purchasers at current prices and they are also concentrated in particular geographical locations.

### **Estimated Absorption Schedules**

Empire Economics has estimated the expected absorption schedules for the remaining homes in CFD No. 2001-01 IA-A, through a comprehensive analysis of the following factors:

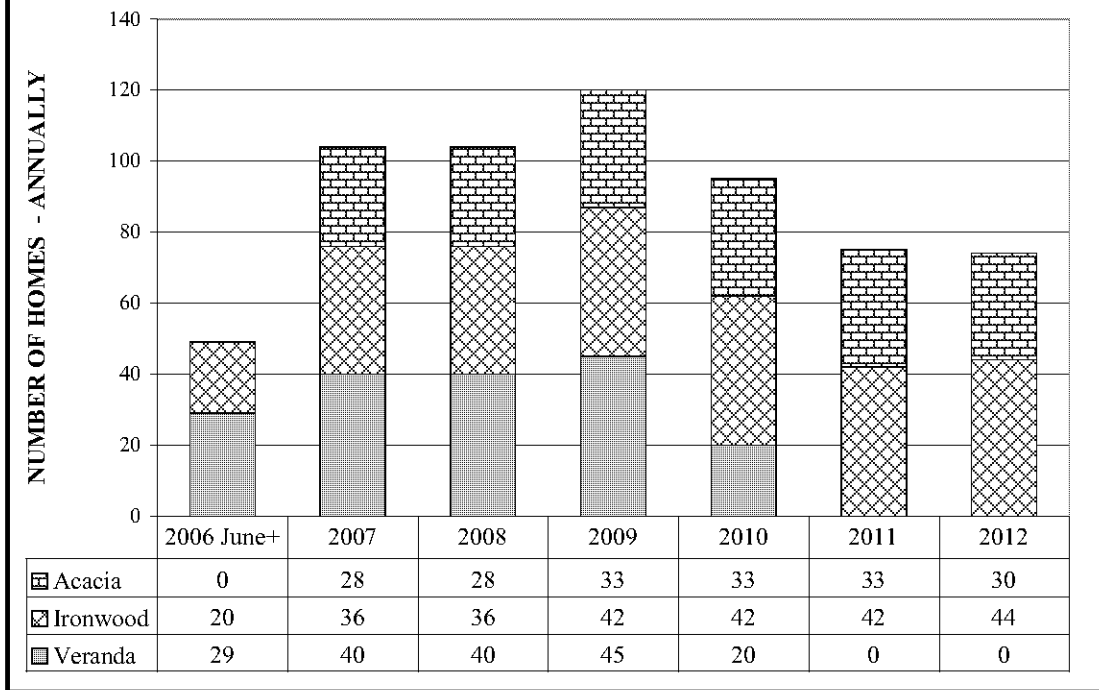
- the anticipated product characteristics for the remaining homes that have not yet closed escrow to homeowners, such as their prices and sizes of living areas.
- the competitive market analysis of the currently active comparable projects.
- the recent/expected economic and real estate factors, including a slowdown for the real estate market during the next several years that will result in slower sales rates.
- potential market risk factors, such as higher gas prices.

Furthermore, Empire also utilizes the experience in conducting Market Absorption Studies for more than four hundred CFDs, with regards to the time required to develop the properties (finish the lots and complete the construction of the homes) as well as their performance in the marketplace under various economic and real estate conditions.

Additionally, a special potential financial risk factor is that the housing market is expected to experience some significant adjustments during the foreseeable future, as the current price structure, which is based upon the extensive use of creative financing, is re-aligned with a sustainable price structure, which is based upon the use of more traditional financing structures.

Finally, the estimated absorption schedules, which represent escrow closing to homeowners, are subject to the Assumptions and Qualifications set-forth in the Study.

**CFD NO. 2001-01 IA-A (FRENCH VALLEY)  
ESTIMATED ABSORPTION SCHEDULES**



Therefore, the 621 remaining single-family detached homes in CFD No. 2001-01 IA-A are expected to be absorbed (escrows closed) during the June 2006 through 2012 time period, as follows:

- **June-December 2006:** 49 homes, including those homes that have already been sold but have not yet closed, as two projects commence escrow closings.
- **2007:** 104 homes, as the third project commences closings, also at the modified sales rates.
- **2008:** 104 homes, at the modified sales rates.
- **2009:** 120 homes, as sales rates return to normal levels.
- **2010:** 95 homes, as Veranda is closed-out.
- **2011:** 75 homes.
- **2012:** the remaining 74 homes, as Ironwood and Acacia are closed-out.

The relatively long time for absorption can also be attributed to CFD No. 2001-01 IA-A having one builder, as compared to multiple builders, with three projects that have relatively large number of homes from 185 to 262.

Please refer to the Market Absorption Study for a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors as well as the potential market and financial risk factors that are expected to influence the absorption of the homes in CFD No. 2001-01 IA-A, along with the assumptions and limiting conditions.

**ESTIMATED ABSORPTION SCHEDULES  
EASTERN MUNICIPAL WATER DISTRICT CFD NO. 2001-01 IA-A (FRENCH VALLEY)**

. JUNE 19, 2006; SUBJECT TO REVISION .

Projects >>>	Veranda	Ironwood	Acacia	Annually	Cumulatively
<b>Product Types</b>	Single-Family Detached	Single-Family Detached	Single-Family Detached		
<b>Lot Size</b>	7200	7200	7200		
<b>Builder</b>	Brookfield Homes	Brookfield Homes	Brookfield Homes		
<b>Number of Homes</b>	186	262	185	633	
Occupied: May 2006	12	0	0	12	
Future Occupancies: June 2006+	174	262	185	621	
<b>Number of Units - Estimated</b>					
Plan # 1	37	52	37		
Plan # 2	46	52	46		
Plan # 3	47	52	46		
Plan # 4	56	53	56		
Plan # 5		53			
<b>Totals</b>	<b>186</b>	<b>262</b>	<b>185</b>	<b>633</b>	
<b>Living Areas</b>					
Plan # 1	2,472	2,675	3,182		
Plan # 2	2,802	3,114	3,462		
Plan # 3	2,946	3,208	3,761		
Plan # 4	3,108	3,394	4,178		
Plan # 5		3,670			
<b>Averages</b>	<b>2,832</b>	<b>3,212</b>	<b>3,646</b>	<b>3,227</b>	
<b>Prices</b>	Actual	Actual	Estimated		
Plan # 1	\$430,000	\$455,000	\$500,000		
Plan # 2	\$450,000	\$480,000	\$510,000		
Plan # 3	\$462,000	\$490,000	\$520,000		
Plan # 4	\$460,000	\$505,000	\$530,000		
Plan # 5		\$515,000			
<b>Averages</b>	<b>\$450,500</b>	<b>\$489,000</b>	<b>\$515,000</b>	<b>\$485,286</b>	
<b>Value Ratio: Price/Living Area</b>	\$159	\$152	\$141	\$150	
<b>Homeowners Commence Occupancies</b>	Active	Start November 2006	Start: Spring 2007		
<b>Absorption/Occupancies - Future</b>					
2006 June+	29	20	0	49	49
2007	40	36	28	104	153
2008	40	36	28	104	257
2009	45	42	33	120	377
2010	20	42	33	95	472
2011	0	42	33	75	547
2012	0	44	30	74	621
<b>Totals</b>	174	262	185	621	

## CERTIFICATION OF INDEPENDENCE

### EMPIRE ECONOMICS PROVIDES CONSULTING SERVICES ONLY FOR PUBLIC ENTITIES

The Securities & Exchange Commission has taken action against firms that have utilized their research analysts to promote companies with whom they conduct business, citing this as a potential conflict of interest. Accordingly, Empire Economics (Empire), in order to ensure that its clients, including the Eastern Municipal Water District (EMWD), are not placed in a situation that could cause such conflicts of interest, provides a Certification of Independence. **This Certificate states that Empire performs consulting services only for public entities such as the EMWD, 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/builder, 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 CFD No. 2001-01 IA-A (French Valley) of the EMWD was performed in an independent professional manner, as represented by the following statements:

- Empire was retained to perform the Market Absorption Study by the EMWD, not the District's developer/builder, Brookfield Homes, LLC.
- Empire has not performed any consulting services for the District's property owner or the developer/builder during the past ten years.
- Empire will not perform any consulting services for the District's property owner or the developer/builder 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 CFD No. 2001-01 IA-A (French Valley) of the EMWD was performed in an independent professional manner.

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Empire Economics, Inc.  
Joseph T. Janczyk, President



# MARKET ABSORPTION STUDY

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**SOUTHERN CALIFORNIA’S FUTURE DEVELOPMENT POTENTIAL**

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- Supply Conditions: Employment Planning Projections
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**Part IV: Geographical Distribution of Employment/Housing Growth Among Southern California Market Areas**

- Characteristics and Development Potential of the Southern California Market Areas

## INTRODUCTION

### A. OVERVIEW OF THE BOND FINANCING PROGRAM

The Eastern Municipal Water District (EMWD) was petitioned by the property owner, Brookfield Homes, LLC, to form Community Facilities District (CFD) No. 2001-01 Improvement Area A (IA-A) for the Planned Community of Morningstar Ranch II as a means of funding a portion of the “public” infrastructure that is required to support the development of its residential projects.

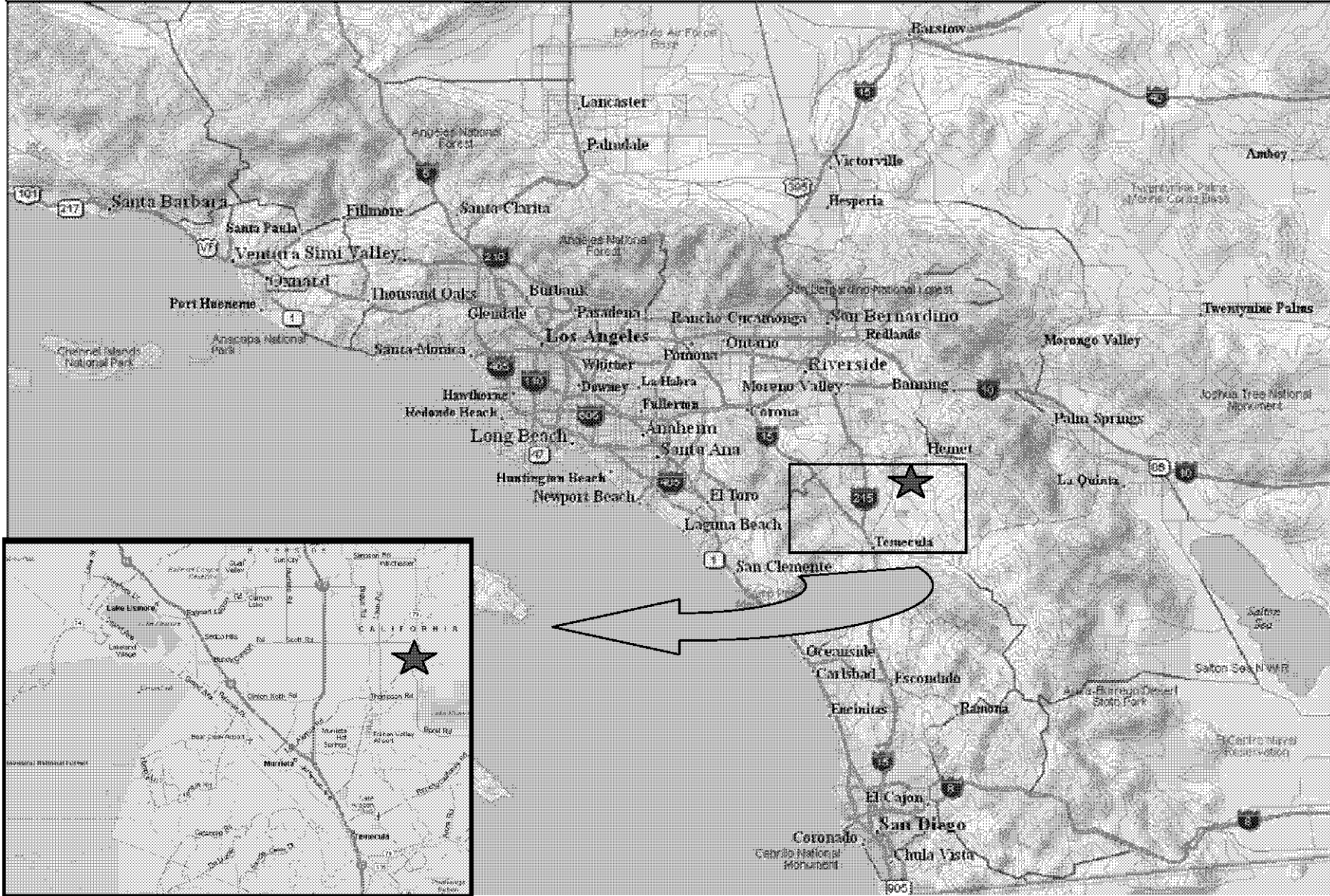
CFD No. 2001-01 IA-A is located in French Valley, northeasterly of the City of Murrieta, in the southwestern portion of Riverside County, California. According to Brookfield Homes, LLC, the developer/builder, CFD No. 2001-01 IA-A has the following characteristics:

- Three residential projects that, upon build-out, are expected to have some 633 single-family detached homes.
- Home prices of some \$485,286, on the average, with a range of some \$430,000 to \$530,000.
- Living areas of some 3,227 sq. ft., on the average, with a range of some 2,472 to 4,178 sq.ft.
- Thus far, as of June 2006, some 12 of the homes have closed escrow, and so there are another 621 homes remaining for future occupancies, June 2006+.

The EMWD has retained Empire Economics Inc., an economic and real estate consulting firm, to perform a Market Absorption Study for the homes that are yet to be occupied in CFD No. 2001-01 IA-A (French Valley). The purpose of the Market Absorption Study for CFD No. 2001-01 IA-A is to conduct a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors as well as the potential risk factors that are expected to influence the absorption of the homes in the CFD, in order to arrive at conclusions regarding the following:

- Confirmation that the total tax burden is in conformance with the EMWD’s policies: that the total tax burden for homeowners does not exceed 2.00% of the base price of the homes.
- Estimated absorption schedules for the homes not yet occupied, from market-entry to build-out on an annualized basis, for each of the projects.
- Discussion of potential risk factors that may adversely impact their marketability:
  - Market Risk Factors: Higher Gas Prices
  - Financial Risk Factors: Creative Financing and Higher Mortgage Rates

# SOUTHERN CALIFORNIA MARKET REGION LOCATION OF CFD NO. 2001-01 IA-A AND ITS MARKET AREA



G-10

# CFD NO. 2001-01 (FRENCH VALLEY) NEIGHBORHOOD



G-11

## **B. ROLES OF THE MARKET STUDY FOR THE BOND FINANCING**

The Market Absorption Study for CFD No. 2001-01 IA-A has a multiplicity of roles with regards to the Bond Financing; accordingly, these are set-forth below:

### **Marketing Prospects for the Residential Projects**

- \* Estimated Absorption Schedules:  
Escrow Closings of Homes to Future Homeowners,  
From Market-Entry to Build-Out
- \* Potential Risk Factors that may Adversely Impact  
the Marketability of the Homes

### **Relationship of the Market Study to the Special Tax Payments**

- \* Maximum Special Taxes  
for the Residential Projects/Products  
Conforming to the Issuer's Policies
- \* Aggregate Levels of  
Special Tax Revenues for Bond Sizing
- \* Share of Payments:  
Developer/Builder vs. Final-Users/Homeowners

### **Relationship of the Market Study to the Appraisal/Valuation**

- \* Appraisal of Property  
Discounted Cash Flow – Present Value  
  
(The Longer the Absorption Time, the Lower the Present Value)

The Issuing Agency, the EMWD, along with the Finance Team, can utilize the Market Absorption Study as well as the Special Tax Revenues and Appraised Value to structure the Bond Issue for CFD No. 2001-01 IA-A.

## **C. METHODOLOGY UNDERLYING THE MARKET ABSORPTION STUDY**

The Market Absorption Study performs a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors as well as the potential risk factors that are expected to influence the absorption of the homes in CFD No. 2001-01 IA-A.

### **I. Expected Product Mix Characteristics**

- \* Expected Number of Homes and their Prices/Features

### **II. Macroeconomic Analysis**

- \* Long-term Employment and Housing SCAG Projections for the CFD Market Area
- \* Recent/Expected Economic and Real Estate Conditions
- \* CFD Market Area Employment/Housing Forecasts Modified for Recent/Expected Economic Conditions

### **III. Microeconomic Components**

- \* Regional Development Trends/Patterns
- \* Socioeconomic Factors: Crime Levels and School Quality
  - \* Recent Housing Price Trends and Sales Levels
- \* Competitive Market Analysis of the Projects in the CFD

### **IV. Potential “Financial” Market Risk Factors**

- \*Potential “Financial” Risk Factors Underlying the Credit Quality and Bond Sizing of Land-Secured Financings in Southern California
- \* Purchasers Using Creative Financing Structures – Mortgage Resets
- \*Purchasers Using Traditional Financing Structures – Prices Too High

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- \*Expected Market Entry for the Projects
  - \* Escrow Closing to Homeowners
  - \* Estimated Capture Rates
  - \*Closing Remarks

### **VI. Assumptions and Limiting Conditions**

### **Appendix A**

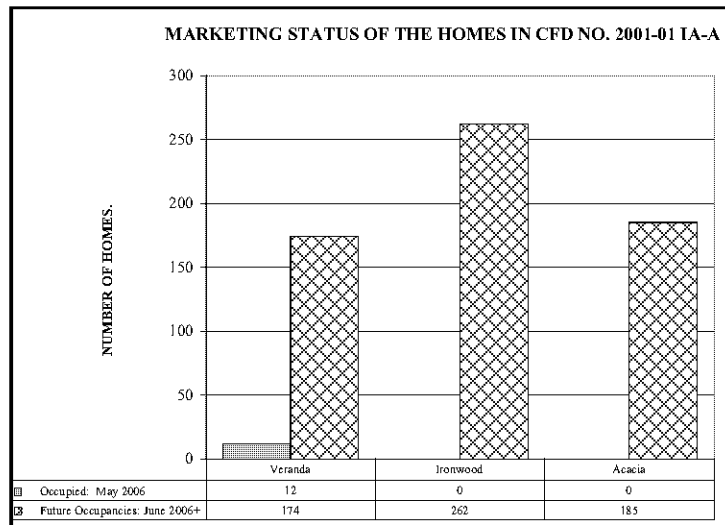
- \* Southern California’s Future Development Potential

## SECTION I: EXPECTED PRODUCT MIX CHARACTERISTICS

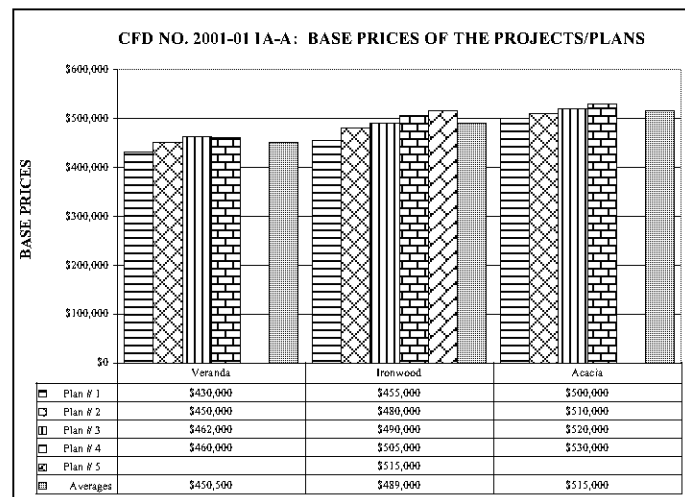
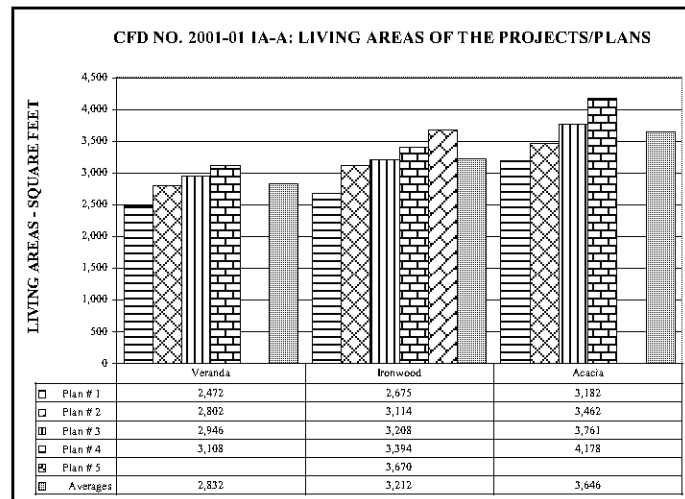
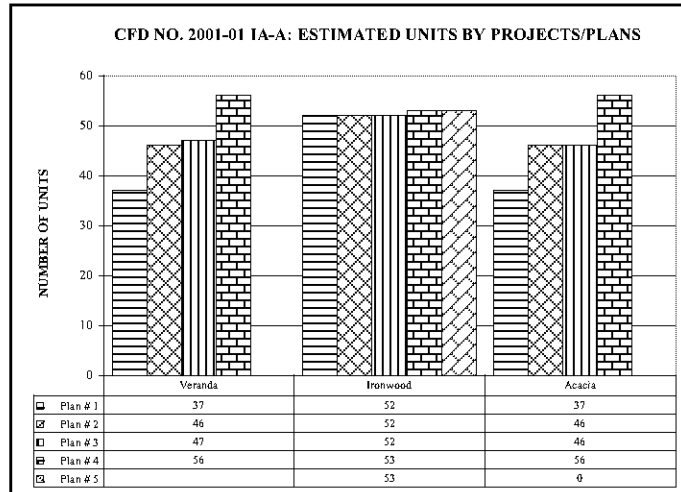
### A. CHARACTERISTICS OF THE EXPECTED PRODUCT MIX FOR CFD NO. 2001-01 IA-A (FRENCH VALLEY)

CFD No. 2001-01 IA-A (French Valley) is expected to have 633 single-family residential units in three different projects; the number of housing units and their marketing status as well as their characteristics, such as lot sizes, prices and sizes of living area, are as follows:

Projects >>>	Veranda	Ironwood	Acacia
Product Types	Single-Family Detached	Single-Family Detached	Single-Family Detached
Lot Size	7200	7200	7200
Builder	Brookfield Homes	Brookfield Homes	Brookfield Homes
Number of Homes	186	262	185
Occupied: May 2006	12	0	0
Future Occupancies: June 2006+	174	262	185
Number of Units - Estimated			
Plan # 1	37	52	37
Plan # 2	46	52	46
Plan # 3	47	52	46
Plan # 4	56	53	56
Plan # 5		53	
Totals	186	262	185
Living Areas			
Plan # 1	2,472	2,675	3,182
Plan # 2	2,802	3,114	3,462
Plan # 3	2,946	3,208	3,761
Plan # 4	3,108	3,394	4,178
Plan # 5		3,670	
Averages	2,832	3,212	3,646
Prices	Actual	Actual	Estimated
Plan # 1	\$430,000	\$455,000	\$500,000
Plan # 2	\$450,000	\$480,000	\$510,000
Plan # 3	\$462,000	\$490,000	\$520,000
Plan # 4	\$460,000	\$505,000	\$530,000
Plan # 5		\$515,000	
Averages	\$450,500	\$489,000	\$515,000
Value Ratio: Price/Living Area	\$159	\$152	\$141







Therefore, CFD No. 2001-01 IA-A has three projects with single-family detached homes that have a broad price range, from some \$430,900 to \$530,000 (an average of \$485,286) for some 2,472 to 4,178 (an average of 3,227) sq.ft. of living area, for a value ratio (price/living area) of some \$150, as an overall average.

**MODEL COMPLEX FOR A PROJECT IN CFD NO. 2001-01 IA-A**



## SECTION II: MACROECONOMIC ANALYSIS

### A. METHODOLOGY UNDERLYING THE MACROECONOMIC ANALYSIS FOR THE CFD NO. 2001-01 IA-A MARKET AREA

The macroeconomic section performs a comprehensive analysis of the planning projections, which represent the long-term development potential, and the recent/expected economic conditions, which determine the rate at which such development will actually occur, in order to arrive at the growth prospects for Southern California, as a whole, and the CFD No. 2001-01 IA-A Market Area (MA), the southwestern portion of Riverside County.

**Based upon Empire Economics' experience in conducting 400+ Market Studies, these macroeconomic factors are regarded as being the most significant determinants of the actual performance of Planned Communities and Business Parks in the marketplace, and, as such, they represent a critical component of the Market Absorption Study.**

**Long-Term Employment and Housing SCAG Projections  
for the CFD Market Area**

- \* Employment/Housing Projections for the CFD Market Area
- \* Employment vs. Residential Centers

**Recent/Expected Economic and Real Estate Conditions**

- \* United States: Gross Domestic Product, CPI, Productivity Trends, Mortgage Rates, Oil/Gas Prices and Homebuilder Stocks
- \* Riverside County: Employment and Housing Trends/Patterns

**CFD Market Area Employment and Housing Forecasts**

- \* Modifications to Projections based upon Recent/Expected Economic Conditions
- \* Employment/Housing Forecasts

Therefore, the analysis of these macroeconomic factors provides an understanding of the economic and real estate environment within which the developer/builder in CFD No. 2001-01 IA-A will be marketing the residential products.

For a comprehensive discussion of the long term employment/housing SCAG projections and the Consensus economic forecasts for Southern California, please refer to Appendix A.

**Appendix A**

**Southern California's Future Development Potential  
SCAG/SANDAG Planning Projections**

versus

Consensus Employment/Housing Economic Forecasts

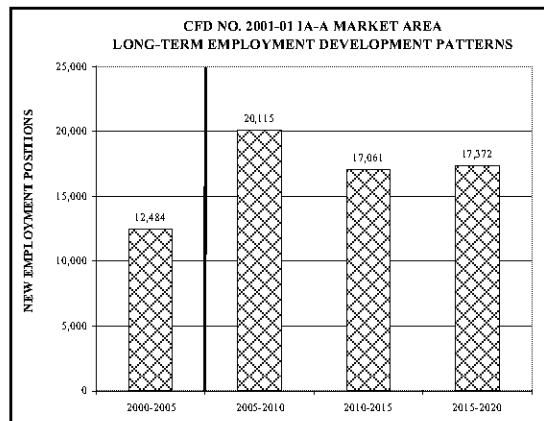
\* Reconciliation

Planning Projections>>> <<<Economic Forecasts

## B. LONG-TERM EMPLOYMENT AND HOUSING PROJECTIONS FOR THE CFD MARKET AREA

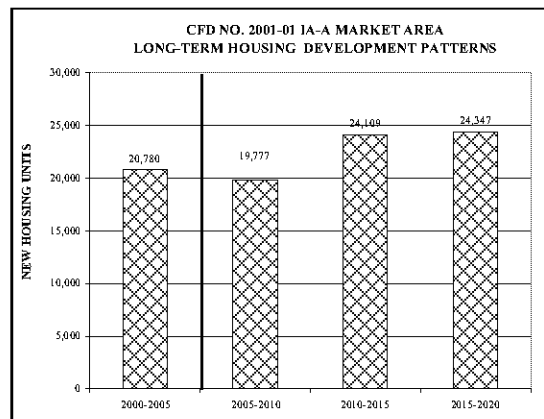
To arrive at long-term employment and housing planning projections for the CFD No. 2001-01 IA-A Market Area (MA), Empire Economics utilizes information from the Southern California Association of Governments (SCAG). These projections are considered to be reasonable estimates of the development potential for the forthcoming commercial-industrial and residential projects since they are based upon probable land-use policies of the governing planning jurisdictions.

**Projected employment growth** in the CFD MA is expected to amount to some 67,032 new positions during the 2000-2020 time period for a capture rate of some 3.18% of all the expected employment growth in Southern California.



*Note: Fiscal Years: For example, 2005 represents July 1, 2005 to June 30, 2006*

**Projected housing growth** in the CFD MA is expected to amount to some 89,013 new homes during the 2000-2020 time period, for a capture rate of some 5.24% of all the expected housing growth in Southern California; this can be attributed to the Market Area having a significant amount of developable property.



*Note: Fiscal Years: For example, 2005 represents July 1, 2005 to June 30, 2006*

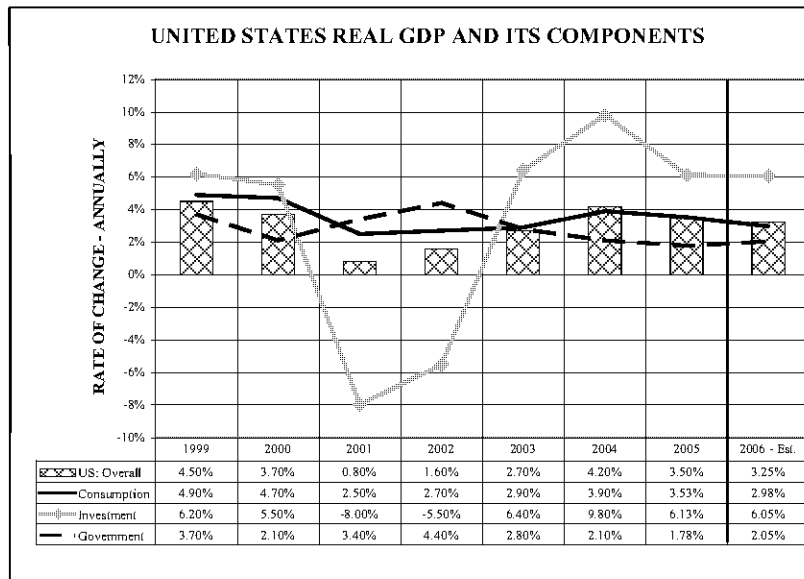
The capture rate for residential growth in the CFD Market Area is higher than the capture rate for employment growth, 5.24% vs. 3.18%, and so it is relatively stronger as a residential center as compared to an employment center; hence, some of the demand for housing will come from households employed elsewhere.

## C. RECENT/EXPECTED ECONOMIC AND REAL ESTATE CONDITIONS

The near-term economic and real estate conditions for the United States (US), California (CA), Southern California (SC) and Riverside County (RC) economies are now discussed. These are then utilized to modify the long-term employment and housing growth projections for the CFD No. 2001-01 IA-A Market Area (MA).

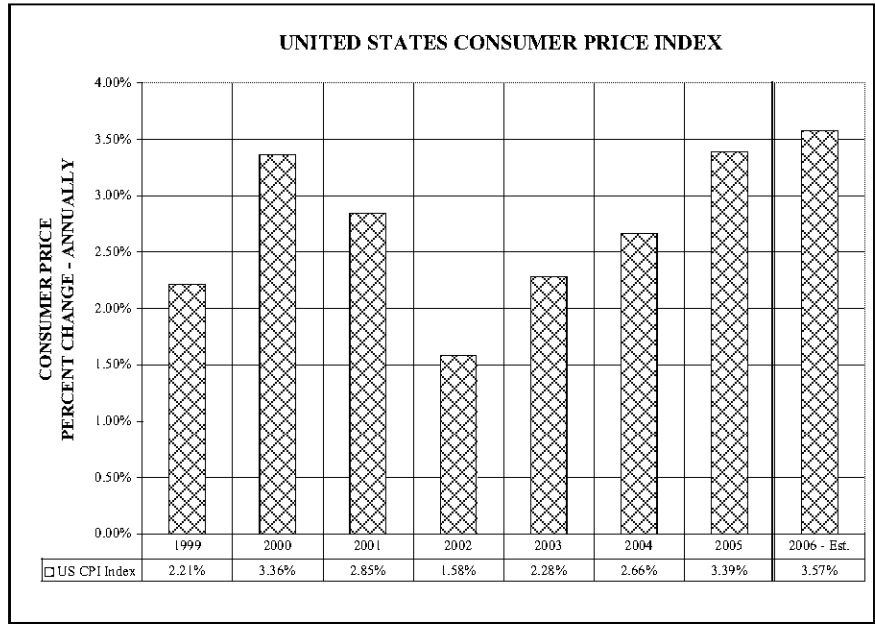
### 1. National/State Economic Trends/Patterns

\*Gross Domestic Product (GDP)  
 \*Consumer Price Index (CPI)  
 \*Productivity Trends  
 \*Mortgage Rates  
 \*United States Oil Prices  
 \*California Gas Prices  
 \*Homebuilder Stocks

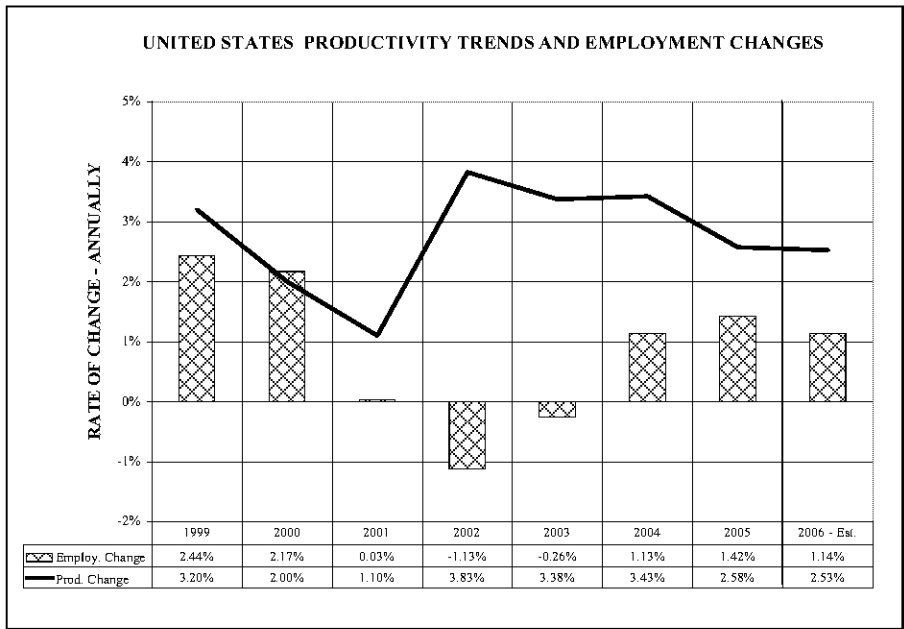


- **Overall U.S. Real GDP:** Growth moderated somewhat from a rate of 4.20% (year/year) in 2004 to a rate of 3.50% in 2005, and it is expected to moderate further in 2006, to a rate of some 3.25%.
  - **Consumption:** A growth rate of some 3.53% in 2005, but is expected to moderate somewhat to a growth rate of some 2.98% in 2006.
  - **Business Investment:** A growth rate of some 6.13% in 2005 but is expected to moderate slightly to a growth rate of some 6.05% in 2006.
  - **Government Purchases:** A growth rate of some 1.78% in 2005 and is expected to rise slightly, to a growth rate of 2.05% in 2006.

The overall rate of growth for GDP is expected to moderate somewhat; additionally, with regards to its composition, the rates of growth for consumption and investment are expected to moderate while the rate of growth for government spending is expected to increase slightly.

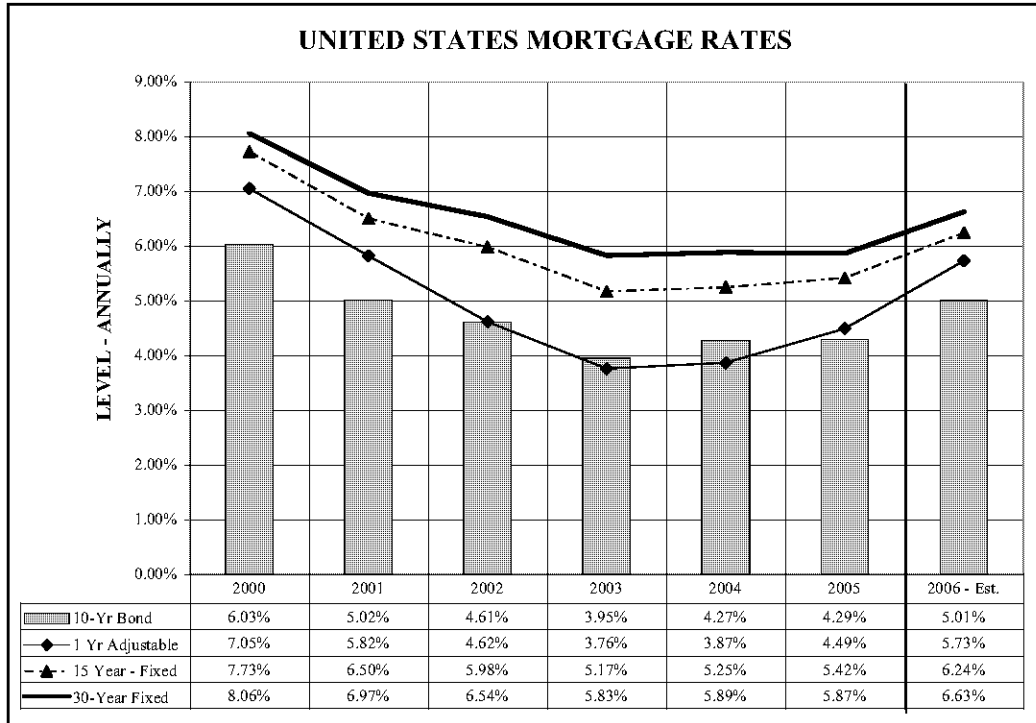


- **1999-2001:** A range of some 2.2% to 3.4% per year, relatively low levels by historical levels.
- **2002:** Rose by only 1.6%, due to the economic slowdown caused by the terrorist attacks.
- **2003-2005:** Rose by successively higher amounts, reaching some 3.4%, in 2005.
- **2006:** Expected to rise further to 3.6%, the fourth consecutive increase since 2002.

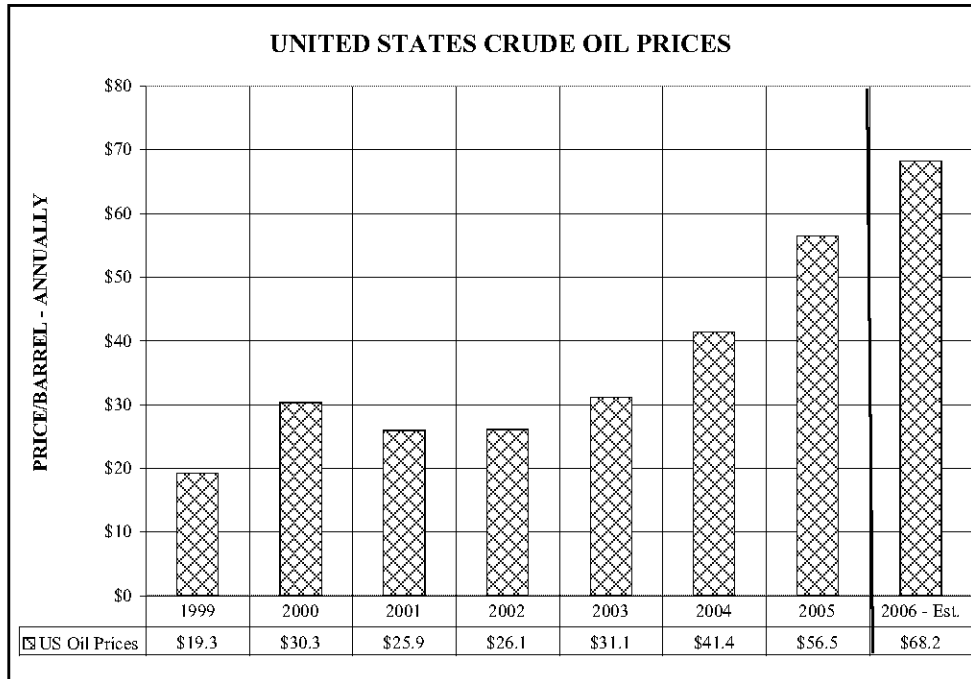


Although GDP growth has been strong in recent years, the rate of change in the CPI has been minimal; this relationship represents an aberration from historical standards. Specifically, this can be attributed primarily to high levels of productivity growth which have enabled firms to increase their levels of output without substantially hiring additional employees, and thereby keep their costs and prices relatively stable.

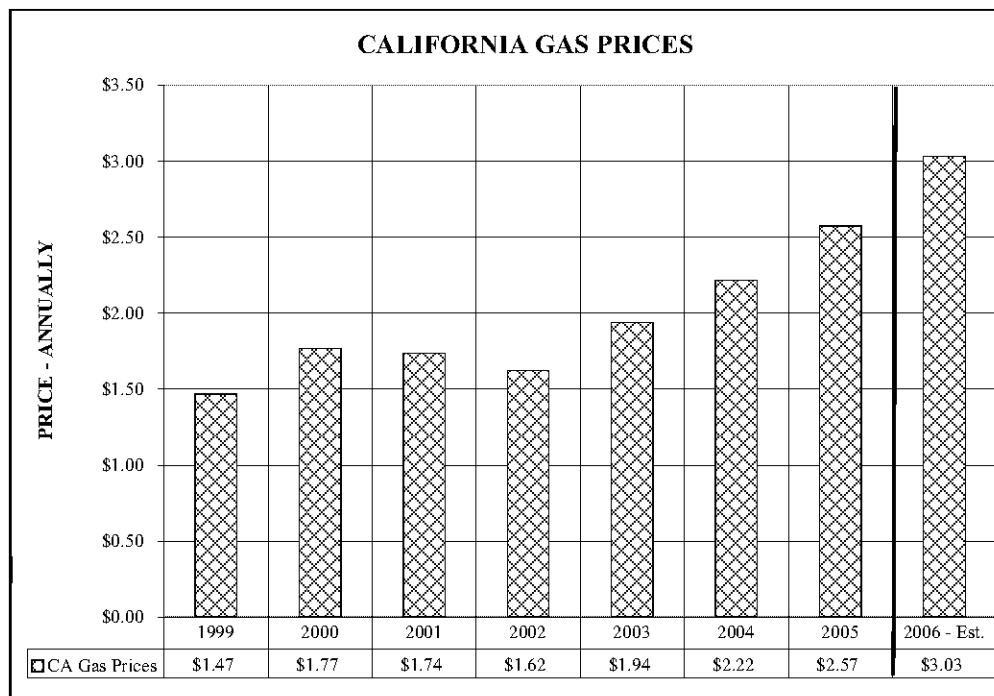
The relatively low levels of CPI changes during 2002 through 2004 have resulted in recent historic lows for both the 10-year Treasury Bond, which is the primary driving force behind fixed rate mortgages, and also the Federal Fund Rate, which is the primary driving force behind short-term rates, that also enhances the financial feasibility of creative financing mortgage structures.



- **2000 to 2003:** The rates on the 10-year Treasury Bond, the 15 year fixed mortgage, 30 year fixed mortgage, and the 1 year adjustable mortgage all declined.
- **2004 to 2005:** The rates started to rise during 2004 and 2005 as compared to 2003: the 10-year Treasury Bond rose to 4.29% by +0.34%, the 15 year fixed mortgage increased to 5.42% by +0.25%, the 30 year fixed rate rose to 5.87% by +0.04%, and the 1 year adjustable mortgage rose to 4.49% by +0.73%.
- **2006:** As compared to 2005, the financial rates are expected to rise further, the 10-year Treasury Bond is expected to climb to 5.01% by +0.72%, the 15 year mortgage to increase to 6.24% by +0.82%, the 30 year fixed rate to 6.63% by 0.76%, and the 1 year adjustable mortgage to rise to 5.73% by +1.24%.



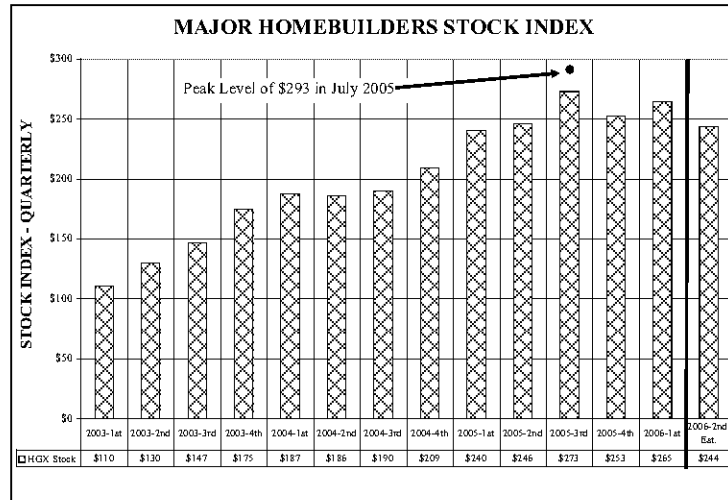
- **1999-2003:** Crude oil prices rose from \$19 a barrel in 1999 to \$31 a barrel in 2003.
- **2004-2005:** Prices rose significantly, to some \$56 a barrel.
- **2006:** Prices are expected to rise further, to some \$68 a barrel.



- **1999-2002:** California gas prices were relatively stable ranging from some \$1.47 to \$1.77.
- **2003-2005:** Prices rose dramatically from \$1.94 in 2003 to \$2.57 in 2005, as a result of the invasion of Iraq and uncertainty in the Middle East.
- **2006:** Gas prices are expected to rise to some \$3.03, an increase of some \$0.46 from 2005.

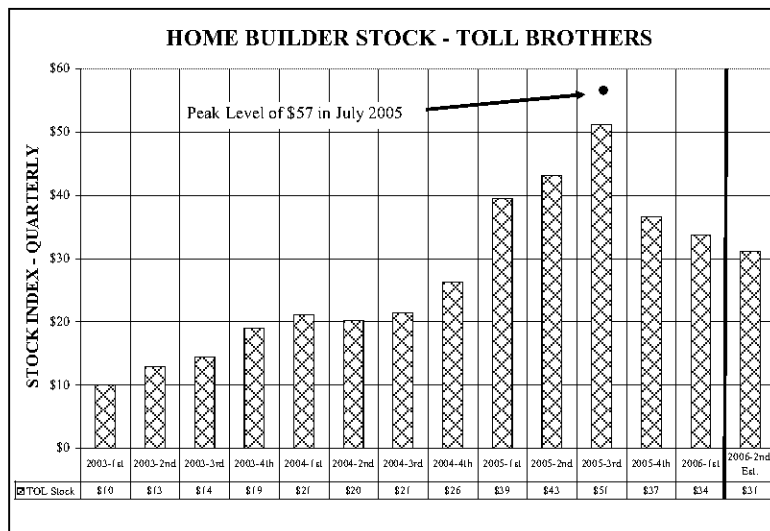


The recent trends in homebuilder stocks MAY provide a leading indicator of future housing market conditions, since the stock market factors reflects anticipated changes in the profitability of a firm.



The recent trends for the homebuilder stock price index, consisting of 19 major builders, referred to as HGX, have been as follows:

- **1<sup>st</sup>-2003 to 3<sup>rd</sup>-2005:** The homebuilder stock index rose dramatically from \$110 to \$273, an increase of some 154% (more than double); the peak level of \$293 occurred in July 2005.
- **3<sup>rd</sup>-2005 to 2<sup>nd</sup>-2006:** The index is expected to decline to \$244, some -11%, as a result of higher mortgage rates and lower demand for housing, thereby reducing the profit margins of homebuilders.



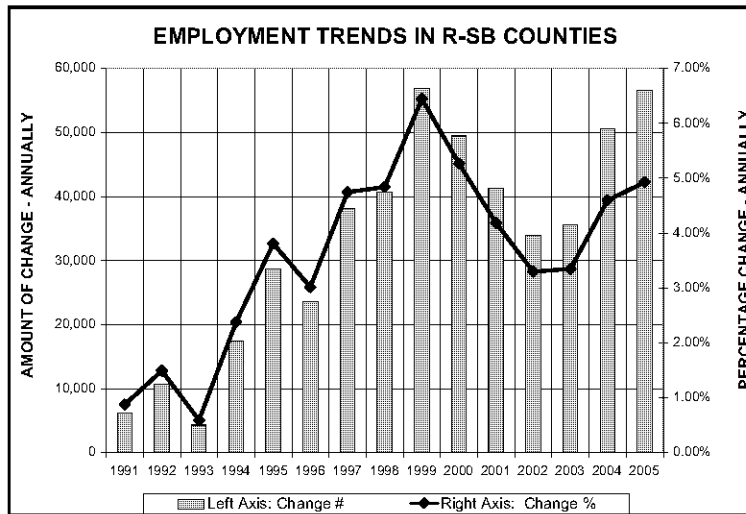
The recent stock value trends for Toll Brothers, a homebuilder primarily of luxury homes, have been as follows:

- **1<sup>st</sup>-2003 to the 3<sup>rd</sup>-2005:** The stock rose significantly from \$10 to \$51, an increase of some 400%+.
- **3<sup>rd</sup>-2005 to the 2<sup>nd</sup>-2006:** The index is expected to decline to \$31, a decrease of some -41%, as a result of higher mortgage rates and slower sales reducing the profit margins.

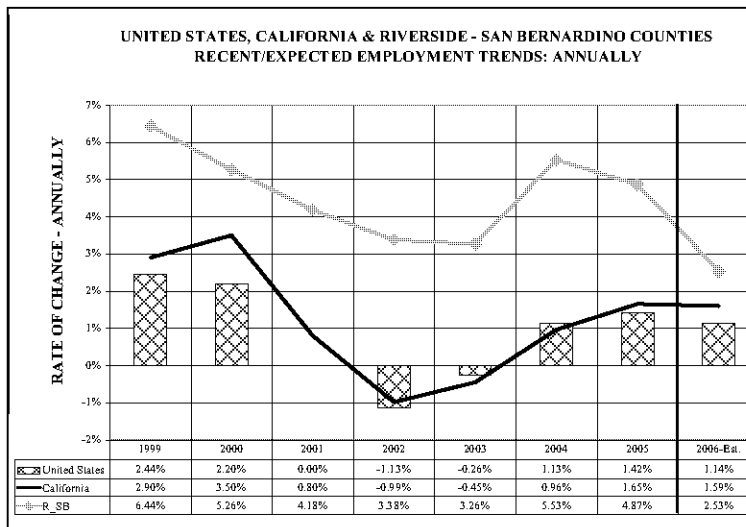
So, based upon the recent declines in homebuilder stocks, Wall Street is anticipating a slowdown in the housing market.

## 2. Employment Trends/Patterns

The purpose of this section is to discuss the recent/expected trends/patterns of employment activity for the United States (US), California (CA) and Riverside-San Bernardino (R-SB) counties.



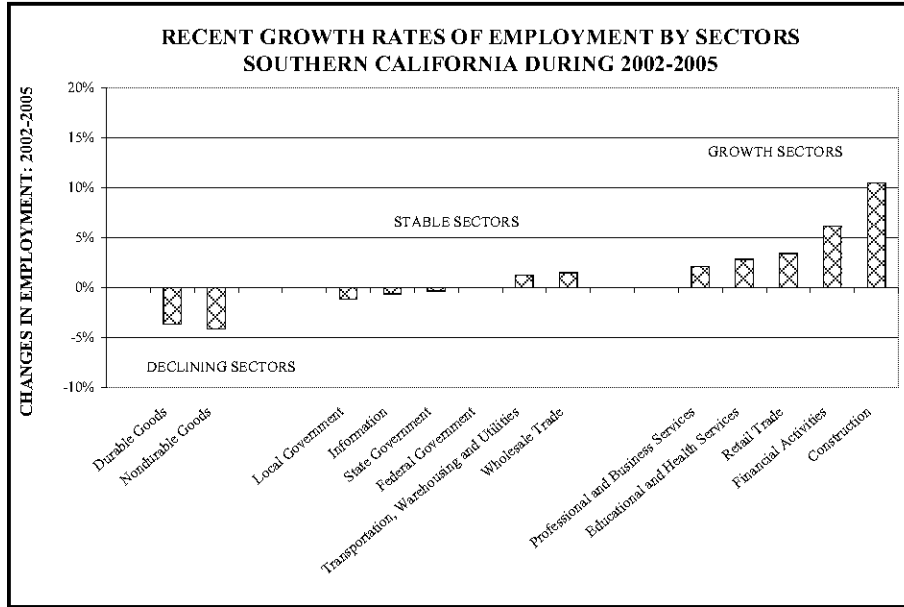
- **1991-1996:** Economic recovery, with growth rates of 15,117 or 2.02%/yr.
- **1997-2001:** Strong expansion, with growth rates of 45,260 or 5.09%/yr.
- **2002-2003:** Some moderation, growth rates of 34,750 or 3.32%/yr.
- **2004-2005:** Stronger growth rates of 53,546 or 4.76%/yr.



- **1999-2001:** The US, CA, and R-SB economies experienced moderate rates of growth during 1999 to 2000 but in 2001 their rates of growth diminished.
- **2002:** Their rates of employment growth all decreased from 2001, US experienced a decline of -1.13%, California declined by -0.99% and R-SB moderated to 3.38%.
- **2003 to 2005:** Their rates of employment growth all rose, the US to 1.42%, CA to 1.65% and R-SB to 4.87%.
- **2006:** Their rates of growth are expected to moderate, the US to 1.14%, CA to 1.59% and R-SB to 2.53%.

### Economic Engines Underlying Employment Growth

The total level of wage/salary employment as of 2005 for Southern California (SC) amounted to some 8,152,700 positions. During the 2002 to 2005 time period, the SC economy experienced cumulative employment growth of some 290,400 net positions, or some 1.81%. The performance of the various employment sectors were classified into three categories: strong, stable and declining:



#### Sectors with Relatively Slow (Declining) Growth Rates

- Non-Durable Goods (4.3% of all employment in SC) recently declined by some -4.2%.
- Durable Goods (7.4%) recently declined at a rate of some -3.6%.

#### Sectors with Relatively Stable (Average) Growth Rates

- Local Government (11.3% of all employment in SC) recently declined by some -1.1%.
- Information (3.7%) recently declined at a rate of some -0.6%.
- State Government (2.1%) recently declined at a rate of -0.3%.
- Federal Government (1.6%) was stable.
- Transportation/Warehousing (3.4%) recently grew at a rate of 1.2%.
- Wholesale Trade (4.9%) had a recent growth rate of 1.5%.

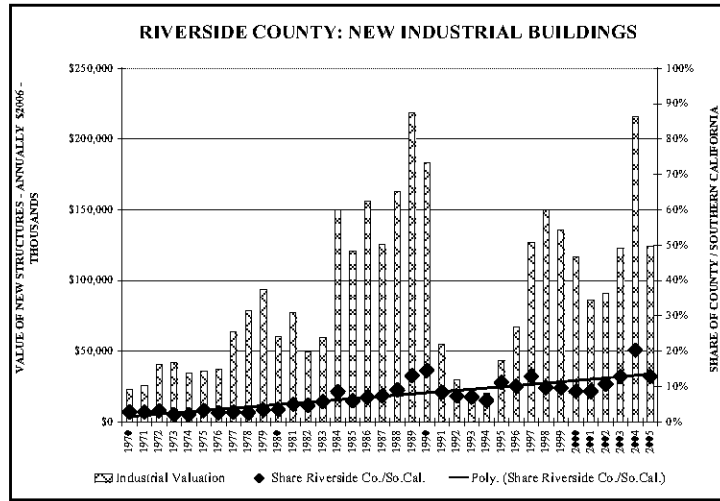
#### Sectors with Relatively Strong Growth Rates

- Professional and Business Services (14.6% of all employment in SC) recently grew at a rate of some 2.1%.
- Educational and Health Services (10.4%) recently grew at a rate of 2.8%.
- Retail Trade (10.9%) recently grew at a rate of 3.4%.
- Financial Activities (6.2%) recently grew at a rate of some 6.1%.
- Construction (5.4%), recently grew at a cumulative rate of 10.5%.

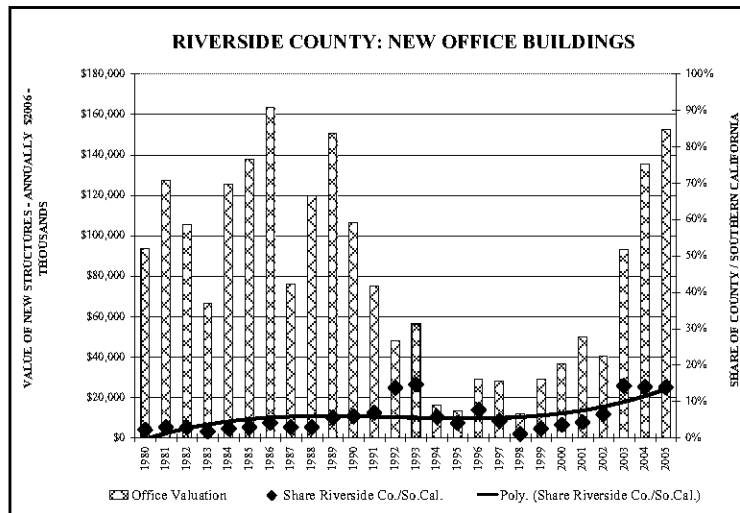
So, for Southern California, as a whole, the economic engines underlying the recent employment growth have been primarily construction and financial activities, due to the robust levels of real estate activity, as well as retail trade, education/health services and professional/business services sectors.

## Industrial and Office Construction Activity in Riverside County

Employment growth is the primary driving force underlying the levels of industrial and office construction activity.



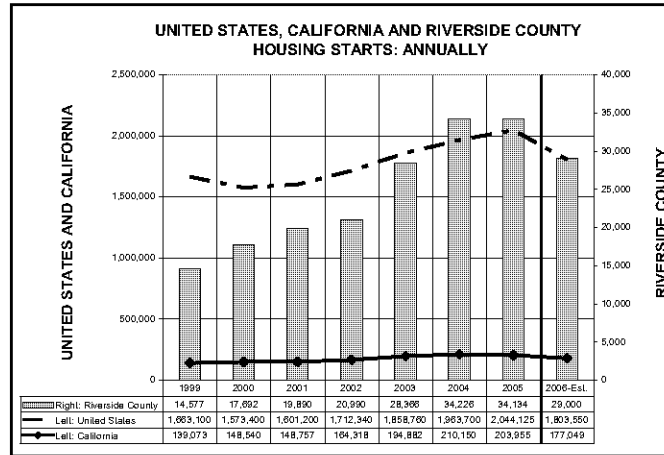
- **Major Cycles:** During 1970-2005, industrial construction activity in Riverside County has exhibited two major cycles, with peak levels of activity occurring in 1989 and 2004.
- **1970-2004:** The capture rate for Riverside County relative to Southern California, has increased, rising from some 3%-4% during the early 1970's to some 20% in 2004.
- **2005:** The amount of construction activity for 2005 declined significantly, as compared to 2004 and the capture rate for Riverside County is also decreased as well.



- **Major Cycles:** During the 1980-2005 time period, the level of office construction activity in Riverside County has exhibited two major cycles, with peak levels of activity occurring in 1986 and 2005.
- **1980-2002:** The capture rate for Riverside County, relative to Southern California, has demonstrated an increasing trend during early 1980's to 2002, from some 2% to 6%.
- **2003-2005:** The levels of office construction activity as well as the capture rates have recently increased during 2003-2005, to some \$126 million and some 14%, respectively.

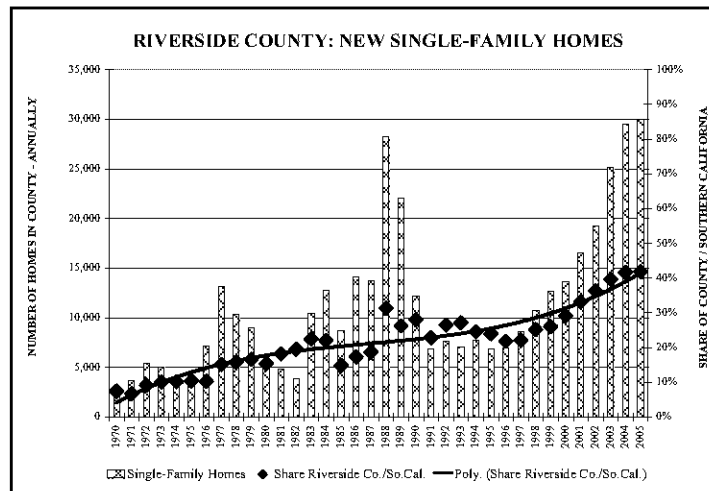
### 3. Housing Starts Trends/Patterns

The purpose of this section is to discuss the recent/expected trends/patterns for the levels of housing activity for the United States (US), California (CA) and Riverside County (RC).

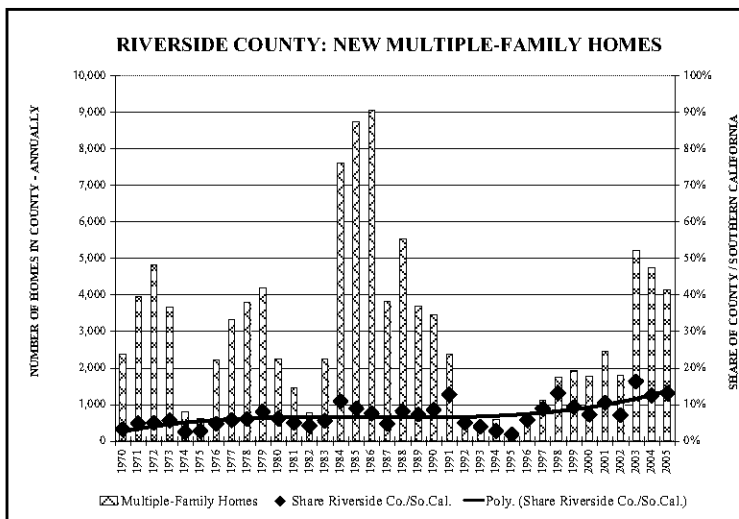


- **1999-2001:** The US residential market experienced relatively stable levels of activity while CA and RC markets experienced a trend of higher levels of activity.
- **2002-2004:** The US, CA and RC markets experienced significant increases in their levels of activity.
- **2005:** The US market experienced a somewhat higher level of activity while for CA and RC the level of activity declined somewhat.
- **2006:** The levels of residential activity for US, CA and RC are all expected to decline somewhat, due to higher mortgage rates as well as higher gas prices.

### Recent Residential Construction Activity in Riverside County



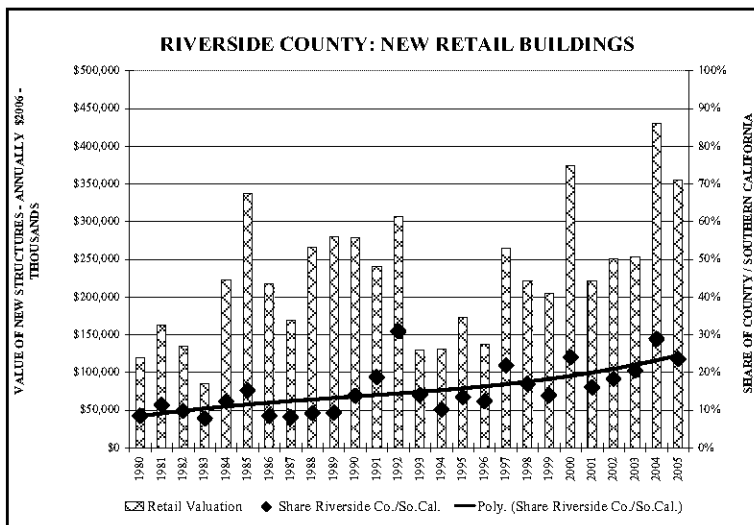
- **Major Cycles:** During the 1970-2005 time period, the number of new single-family homes in RC exhibited three major cycles, with peak levels of activity occurring in 1977, 1988 and 2005.
- **Capture Rates:** With regards to the capture rate for RC, relative to Southern California, it has demonstrated an increasing trend, from some 5% in the early 1970's to some 42% in 2005.



- **Major Cycles:** During the 1970-2005 time period, the number of new multiple-family homes in RC exhibited four major cycles, with peak levels of activity occurring in 1972, 1979, 1986 and 2003; of these, the highest annual levels occurred during 1984-86.
- **Capture Rates:** With regards to the capture rate for RC, relative to Southern California, it has demonstrated an increasing trend, from some 4% in the early 1970's to some 13% in 2004-2005.

### Retail Construction Activity in Riverside County

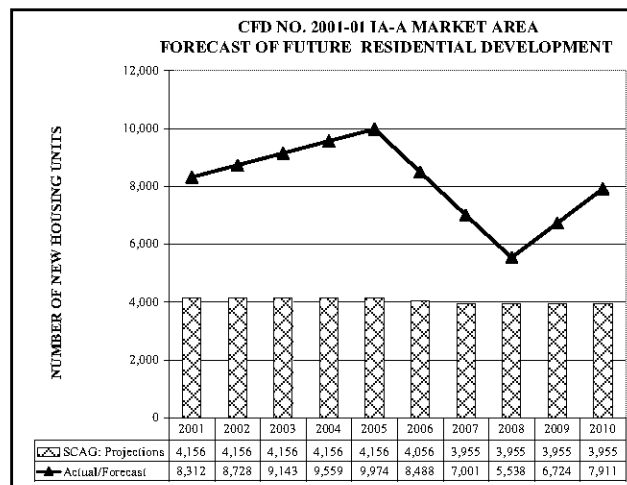
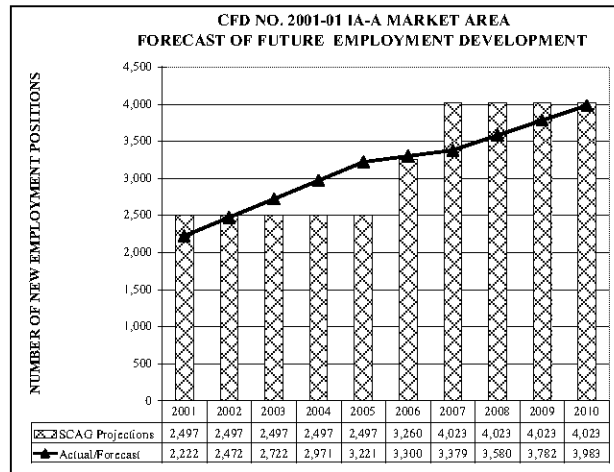
Retail construction activity is driven primarily by new residential growth, and so its trends/patterns generally reflect the residential construction activity.



- **Major Cycles:** During the 1980-2005 time period, the level of retail construction activity in RC exhibited four major cycles, with peak levels of activity occurring in 1985, 1992, 2000 and 2004.
- **Capture Rates:** With regards to the capture rate for RC relative to Southern California, it has demonstrated an increasing trend during the early 1980's to the early 1990's, from some 10% to 18%. Since the early 1990's the capture rate of retail construction activity stabilized at some 18% through 2002 but then attained higher levels of some 29% in 2004 and then 24% in 2005.

## D. CFD MARKET AREA EMPLOYMENT AND HOUSING FORECASTS MODIFIED FOR RECENT/EXPECTED ECONOMIC CONDITIONS

The employment and housing planning **SCAG projections** for the CFD No. 2001-01 IA-A Market Area (MA), which are considered to be reasonable estimates of the development potential for the projects, are now modified by taking into account the expected short-run economic conditions, along with the amount of growth that actually occurred during 2000-2005, in order to arrive at the most probable **forecasts** for employment and housing growth during 2006-2010.



Economic Forecasts		
Years	Employment	Housing
2006	3,300	8,488
2007	3,379	7,001
2008	3,580	5,538
2009	3,782	6,724
2010	3,983	7,911
<b>Totals</b>	<b>18,024</b>	<b>35,661</b>
<b>Averages</b>	<b>3,605</b>	<b>7,132</b>

Therefore, during the 2006-2010 time period, as a whole, the CFD No. 2001-01 IA-A MA is expected to have employment growth amounting to some 18,024 new positions (3,605 per year, on the average) and some 35,611 new housing units (7,132 per year, on the average).

## **SECTION III: MICROECONOMIC ANALYSIS**

### **A. METHODOLOGY UNDERLYING THE MICROECONOMIC ANALYSIS OF THE RESIDENTIAL PROJECTS IN CFD NO. 2001-01 IA-A**

The microeconomic analysis focuses upon the competitiveness of the residential projects in CFD No. 2001-01 IA-A with various regional development factors within Riverside County and also the comparable projects within the Competitive Market Area.

#### **Competitiveness from a Regional Perspective**

- \* Location of CFD No. 2001-01 IA-A  
Relative to Competing Planned Communities,  
Retail Centers and Business Parks
- \* Socioeconomic Characteristics: Crime Rates and School Quality
- \* Recent Housing Price Trends/Patterns:  
Southern California, Riverside County and the CFD Market Area

The existing/active/forthcoming Planned Communities, Retail Centers and Business Parks, in conjunction with the transportation system, determines the locations of the employment centers and residential areas along with retail centers; accordingly, these patterns can then be utilized to gauge the marketing potential of CFD No. 2001-01 IA-A from a regional perspective.

#### **Competitive Market Analysis of the Projects in the CFD**

- \* Identification of the Comparable Projects
- \* Competitive Market Analysis of the CFD Projects
  - Base Prices
  - Living Areas
  - Special Taxes

The Competitive Market Analysis evaluates the competitiveness of the residential projects in the CFD relative to the active projects in comparable Planned Communities as well as other stand-alone projects.



## **B. RESIDENTIAL DEVELOPMENT TRENDS/PATTERNS IN THE SOUTHWESTERN PORTION OF RIVERSIDE COUNTY**

From a regional perspective, the competitiveness of CFD No. 2001-01 IA-A's residential projects are influenced by the development patterns for employment and housing within the Southern California Market Region (MR) and their interrelationships with the CFD's Market Area.

Specifically, Business Parks generate industrial-office development while Planned Communities generate residential and commercial-retail development; additionally, the flow of traffic between them is facilitated by the freeways and highways.

### **Established and Emerging Employment Centers and Business Parks**

- The currently established major employment centers are situated in Orange, San Diego and Los Angeles (OC/SD/LA) counties.
- The emerging employment centers are located in the western portions of Riverside and San Bernardino (R-SB) counties.
- The newly developing Business Parks are situated primarily along Interstates 15 and 215, major north-south freeways that link the western portions of Riverside and San Bernardino counties.
- Furthermore, there has been some expansion from these into various Business Parks located in the CFD Market Area, the southwestern portion of Riverside County.

### **Commuting Patterns: Employment Centers to Residential Areas**

Some of the households employed in the OC/SD/LA counties and the western portion of R-SB counties employment centers reside in the CFD Market Area, since it offers moderately priced housing; these commuting patterns are based upon the freeways/highways that link the employment centers to the Market Area.

- There is strong spillover of housing demand from Orange County into western Riverside County along Interstates 15 and 215, major north-south freeways that link Riverside County to Orange County; furthermore, the Eastern Transportation Corridor which links Orange County with Riverside County facilitates the commute to the western portion of Riverside County.
- There is also strong spillover of housing demand from San Diego County into southwestern Riverside County along Interstates 15 and 215, major north-south freeways that link Riverside County to San Diego County.
- So, there has been a substantial amount of residential development for Planned Communities located in the CFD Market Area, the southwestern portion of Riverside County.

For additional information on the regional development patterns, please refer to the following exhibit.

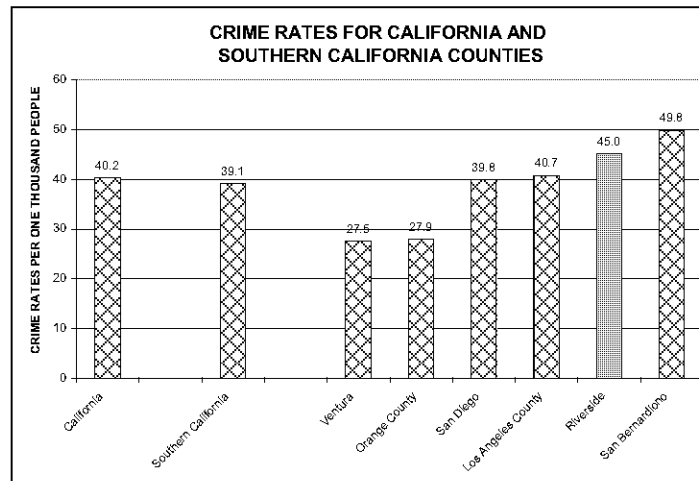


## C. SOCIOECONOMIC CHARACTERISTICS: CRIME LEVELS AND THE QUALITY OF SCHOOLS

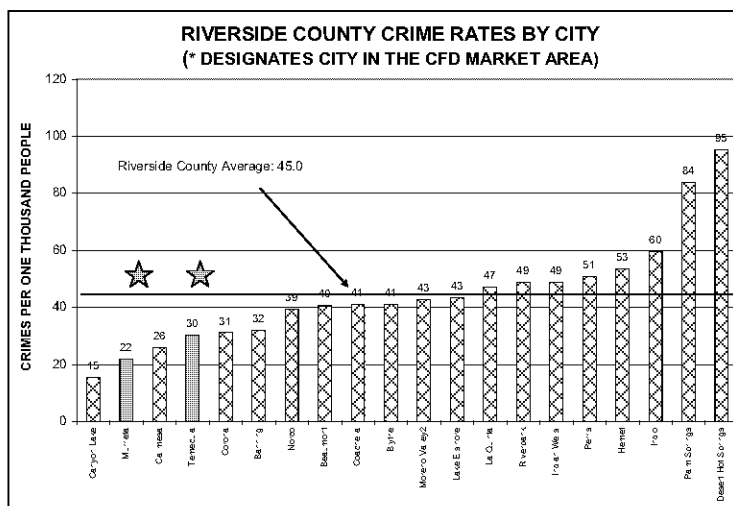
When households consider the purchase of a home, the primary factors are the location relative to their place of employment and also the price that they can afford; furthermore, secondary socioeconomic factors that are significant include the safety of the neighborhood as well as the quality of the schools.

### Crime Levels and Neighborhood Safety

To gauge the safety of Riverside County and the CFD No. 2001-01 IA-A Neighborhood Area, information on crime levels was obtained utilizing the most recent data available from the Federal Bureau of Investigation (FBI) Index.



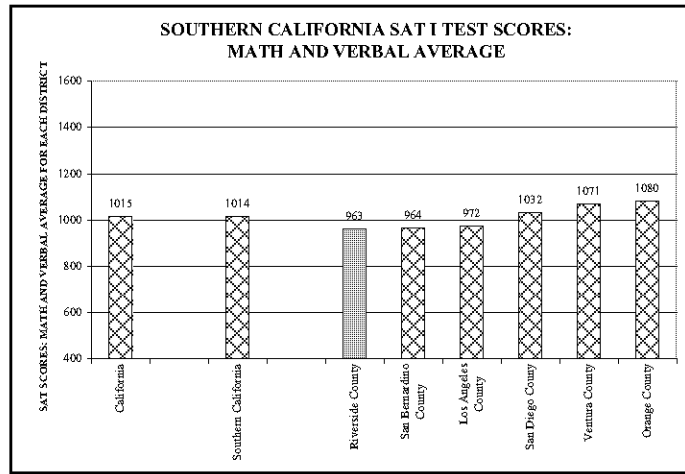
- **California:** The overall crime rate is approximately 40.2 per 1,000 people per year.
- **Southern California:** The crime rate is 39.1, slightly lower than the state.
- **Riverside County:** The crime rate is 45.0, somewhat higher crime rate than either California or Southern California.



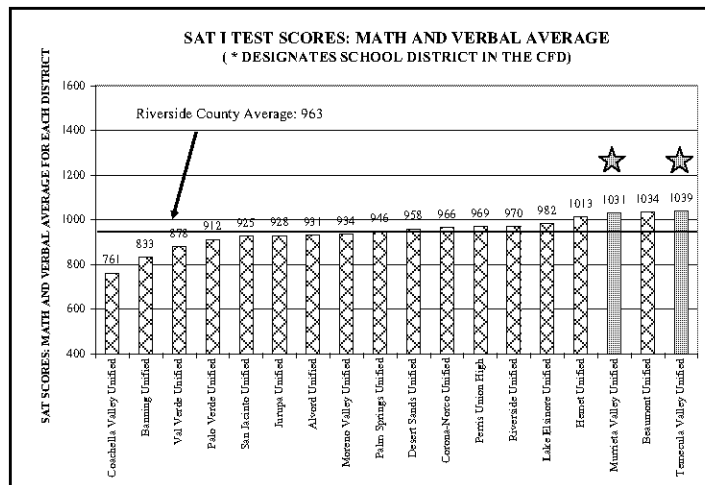
- **CFD Neighborhood Area:** This consists primarily of the cities of Murrieta and Temecula, and each of them have significantly lower crime rates, some 22 and 30, respectively.

## Quality of Schools and Education

To gauge the quality of schools in Riverside County and the CFD No. 2001-01 IA-A Neighborhood Area, information was compiled on educational achievement, specifically SAT I scores.



- **California:** The SAT I scores (with 1600 being the highest possible) amount to some 1015.
- **Southern California:** The SAT I scores amount to some 1014, similar to the state.
- **Riverside County:** The SAT I scores amount to 963, somewhat lower than for California and also Southern California.



- **CFD Neighborhood Area:** The school districts in the Murrieta and Temecula Unified School Districts have SAT I scores of 1031 and 1039 respectively, and this is significantly higher than Riverside County as a whole, as well as California and Southern California.

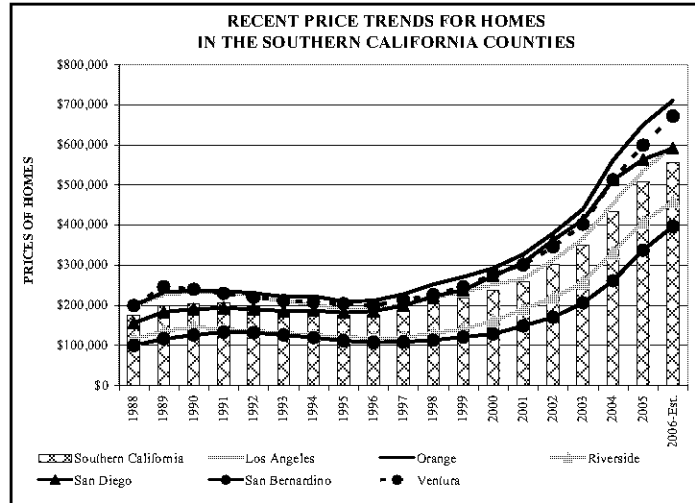
### Conclusions

From a socioeconomic perspective, Riverside County has a somewhat higher crime rate and a somewhat lower educational achievement level than California and also Southern California. By comparison, the CFD Neighborhood has a somewhat lower crime rate and the school districts have a somewhat higher educational achievement level than Riverside County, as a whole, and so the CFD projects are considered to be in a desirable socioeconomic area.

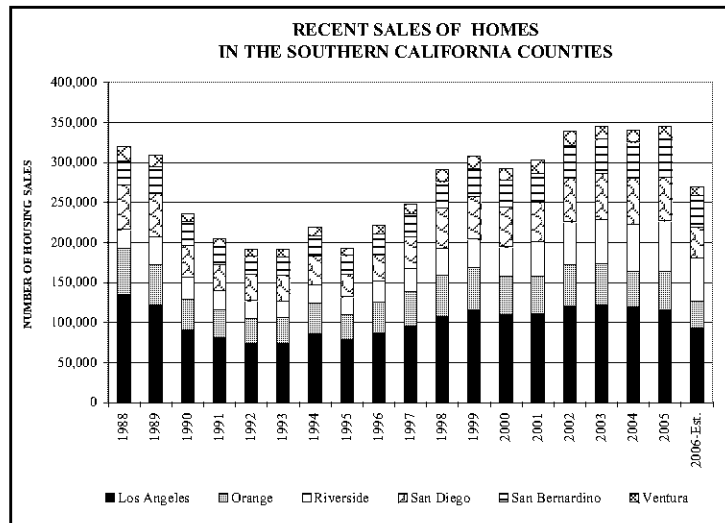
## D. RECENT HOUSING PRICE TRENDS AND SALES LEVELS

The recent price and sales trends for homes in Southern California, Riverside County and the CFD Market Area are now discussed, utilizing statistics acquired from Data Quick, which represent the median values of the homes sold. Although these prices are regarded as being reasonably accurate representations of housing market trends, they do not make adjustments for differences in the specific characteristics of the homes sold, such as location, lot sizes and living area.

### Southern California Counties



- **1988-1995:** The prices for homes in Southern California (SC) previously peaked in 1991, at some \$205,500 and then, due to the economic recession, declined during 1992-1995, falling to a trough in 1995, some \$174,500.
- **1996-2006:** With the economic recovery, prices began to rise, surpassing their prior peak level in 1999, and then since 2000, prices have risen to successive new peaks, attaining an estimated level of some \$555,900 in 2006.
- **Riverside County:** An estimated price of some \$458,775 for 2006, lower than SC by some -\$97,000.

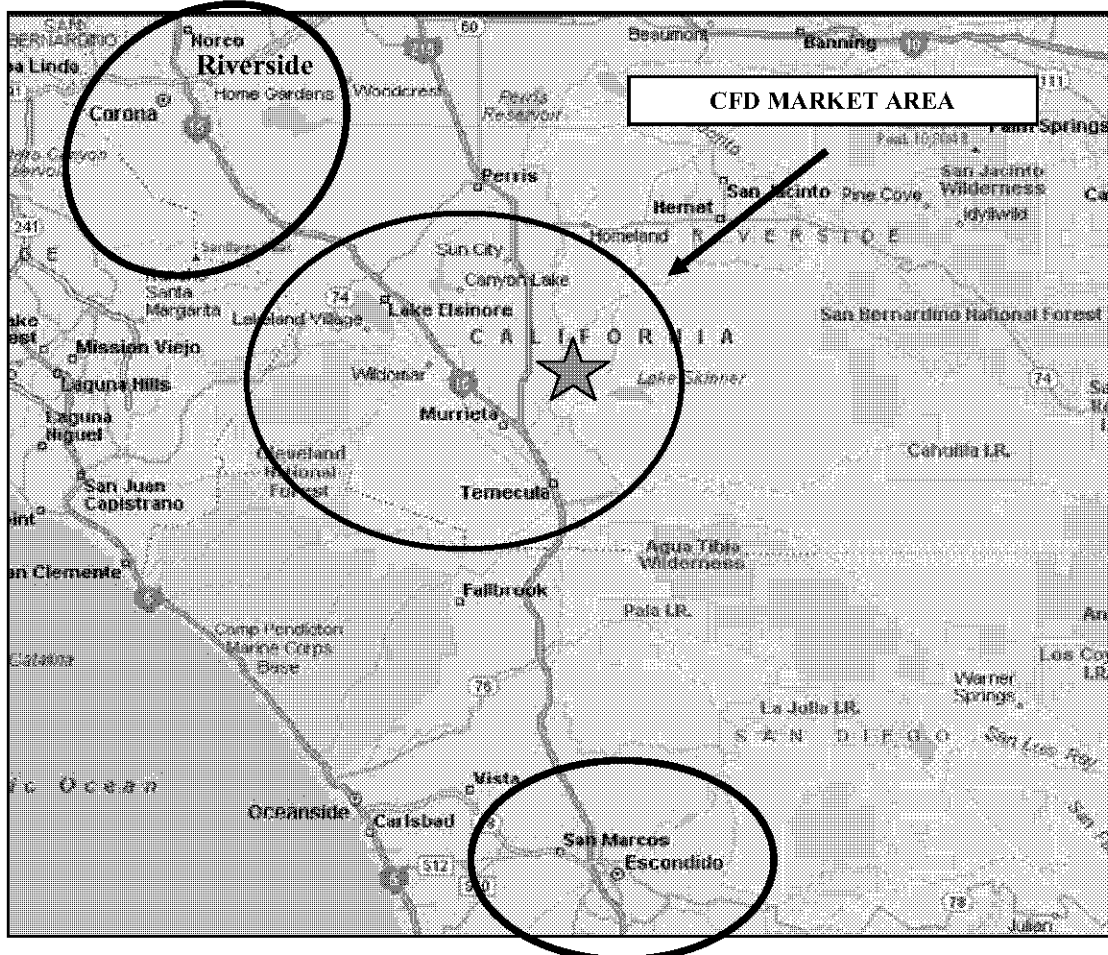


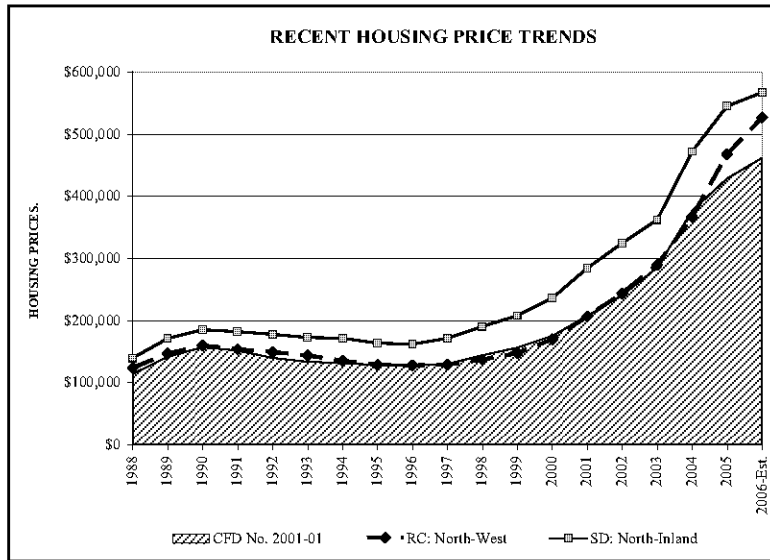
- **1988-1995:** The sales of homes in Southern California previously peaked in 1988, at some 320,000 units and then, due to the economic slowdown and subsequent recession, declined during 1989-1995, falling to a trough in 1992-1993, some 191,300 units.
- **1996-2001:** With the economic recovery starting in 1996, sales rose significantly, to levels of some 277,000.
- **2002-2005:** Sales rose to new record levels of some 340,000 to 346,000.
- **2006:** The level of sales is expected to decline to some 270,000, due to higher mortgage rates.
- **Shares of Sales:** With respect to the market shares of sales for 2005 various SC-Counties, they are relatively high for Los Angeles (34%) and Riverside (20%), moderate for San Bernardino (15%), San Diego (14%) as well as Orange (13%), and relatively low for Ventura (4%).

During 2002-2005, the Southern California Market Region experienced record levels of housing prices and strong levels of housing sales, and so the market conditions are regarded as being robust. However, for 2006, the appreciation rate for homes is expected to moderate while the sales level for homes is expected to decline.

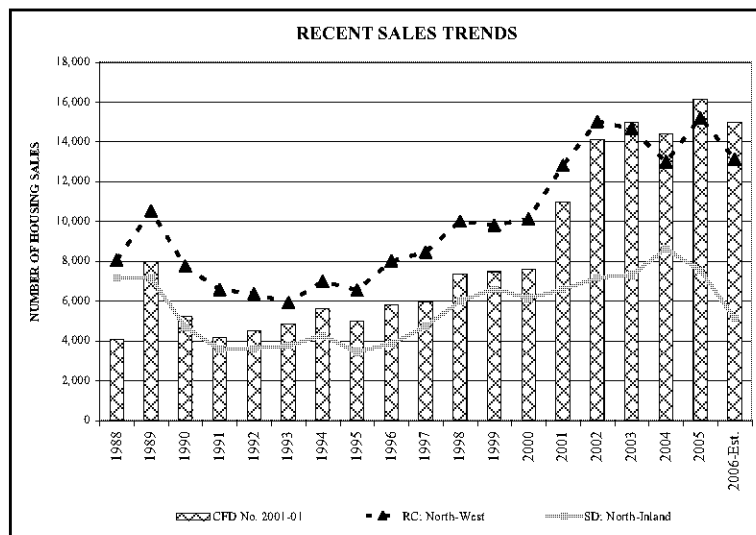
### CFD Market Area and Nearby Competing Areas

The competitiveness of the CFD MA, southwestern Riverside County, can be gauged by comparing the prices/sales of homes with those of the competing areas, Riverside County–North West (RC: North-West) and San Diego–North Inland (SD: North-Inland).





- **Price Trends:** The various market areas attained their prior peak levels in 1990, generally experienced price declines during 1991-1996, but then, during 1998 to 2000, surpassed their prior peaks and went on to attain new record levels through 2005, along with another expected record level for 2006.
- **Relative Price Levels:** The prices of homes in the SD North-Inland have typically been the highest, since they are in closer proximity to a major employment center.
- **Appreciation Rates:** Comparing the expected prices for homes in 2006 with their levels in 1990 reveals their cumulative rates of appreciation: CFD MA: + 194%, RC: North-West: 230% and SD: North-Inland: 207%, and so prices have generally tripled since 1990.



- **1989:** The various market areas attained their prior peak levels of sales activity.
- **1990-1995:** Due to the economic slowdown, the level of housing sales declined.
- **1996-2000:** Sales activity started to recover, although at a slow pace.
- **2001-2005:** The level of sales rose significantly, attaining new record levels of activity.
- **2006:** The level of sales activity for all of the various market areas are expected to moderate.

## E. COMPETITIVE MARKET ANALYSIS OF THE PROJECTS IN THE CFD

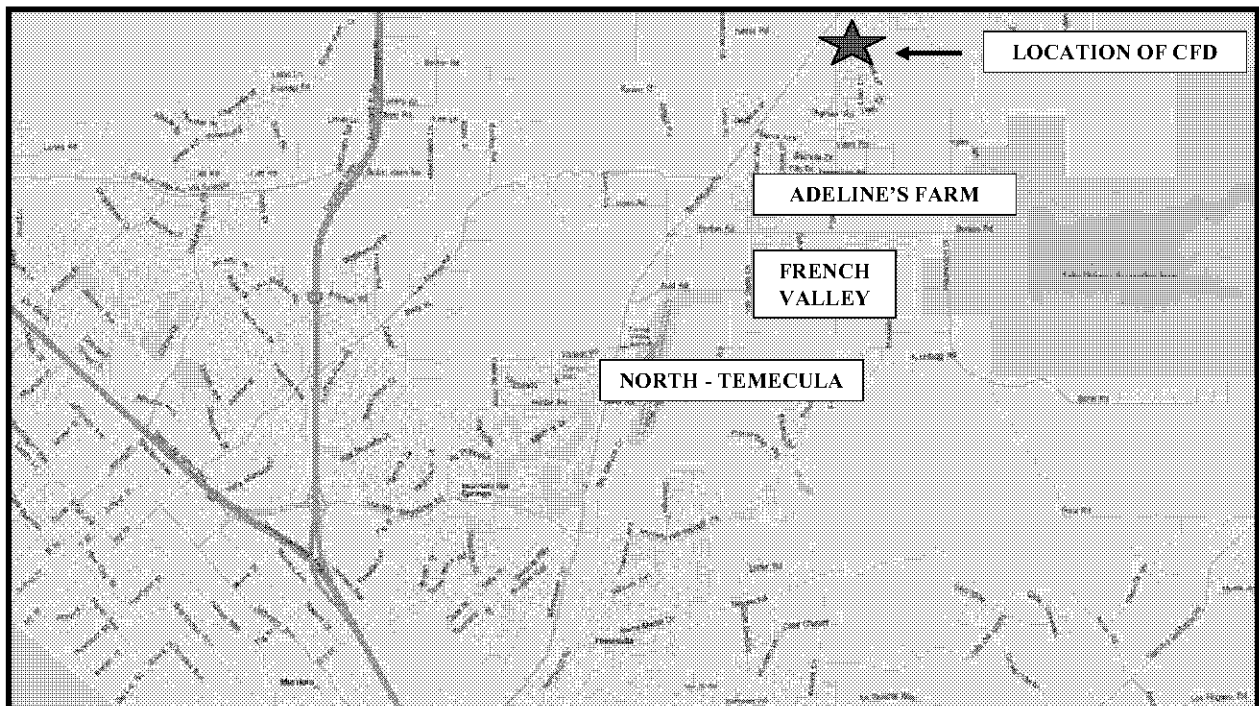
A Competitive Market Analysis of the projects in CFD No. 2001-01 IA-A is now performed, by comparing their characteristics with the active comparable projects in the Competitive Market Area.

### Selection of the Active Comparable Projects

Empire Economics, based upon its market surveys, identified the projects which are considered to be comparable to the projects in CFD No. 2001-01 IA-A, and these have been grouped into the following categories:

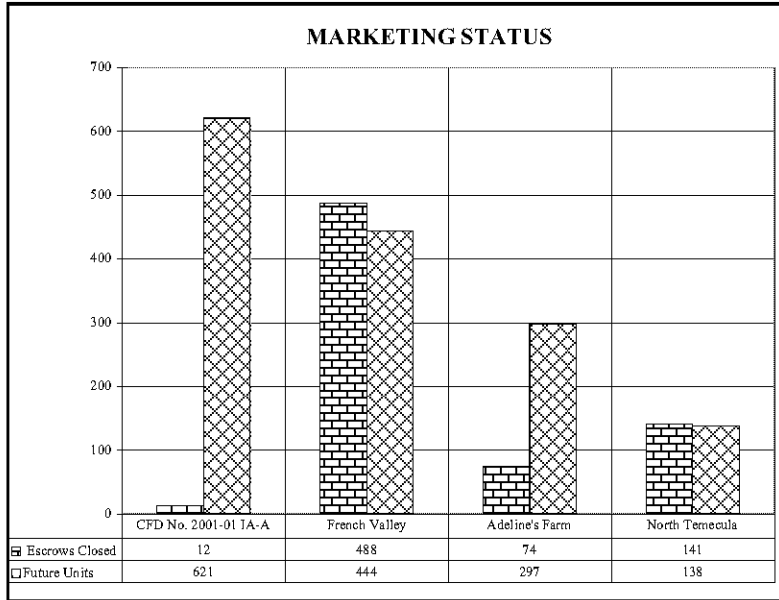
- **Planned Communities:**
  - Adeline's Farm with three projects.
- **Stand-Alone Projects:**
  - French Valley with six projects.
  - North Temecula with two projects.

### CURRENTLY ACTIVE PROJECTS IN THE COMPETITIVE MARKET AREA GENERAL LOCATIONS



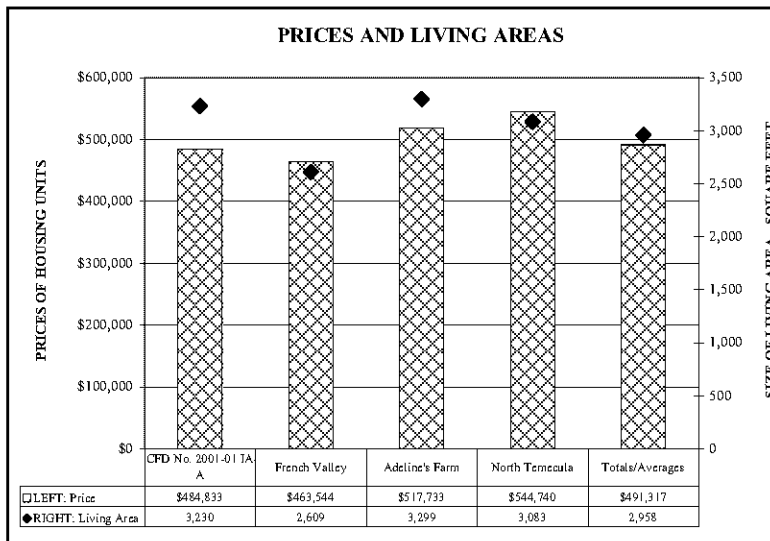


## Competitive Market Analysis of the Projects in the CFD



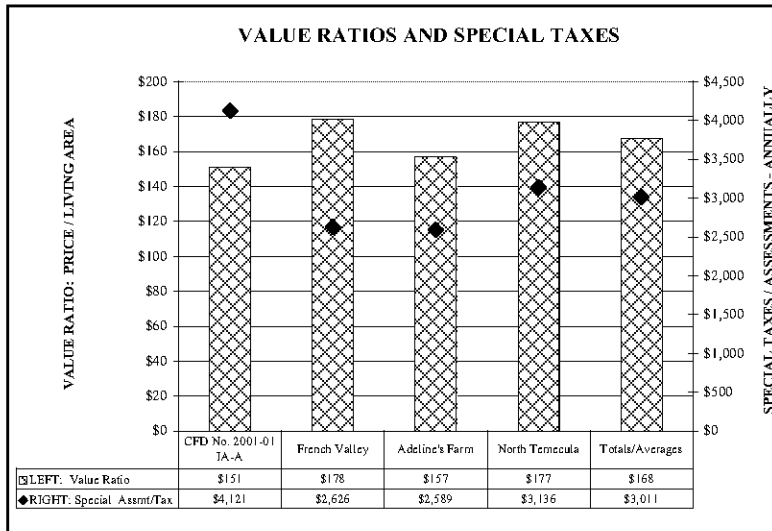
The 11 comparable projects as well as the 3 projects in CFD No. 2001-01 IA-A together have a total of some 2,215 housing units of which 715 have had their escrows closed and so they are considered to be occupied.

- **CFD No. 2001-01 IA-A:** 3 active projects with 633 homes of which 12 are occupied.
- **French Valley:** 6 active projects with 932 homes of which 488 are occupied.
- **Adeline's Farm:** 3 active projects with 371 homes of which 74 are occupied.
- **North Temecula:** 2 active projects with 279 homes of which 141 are occupied.



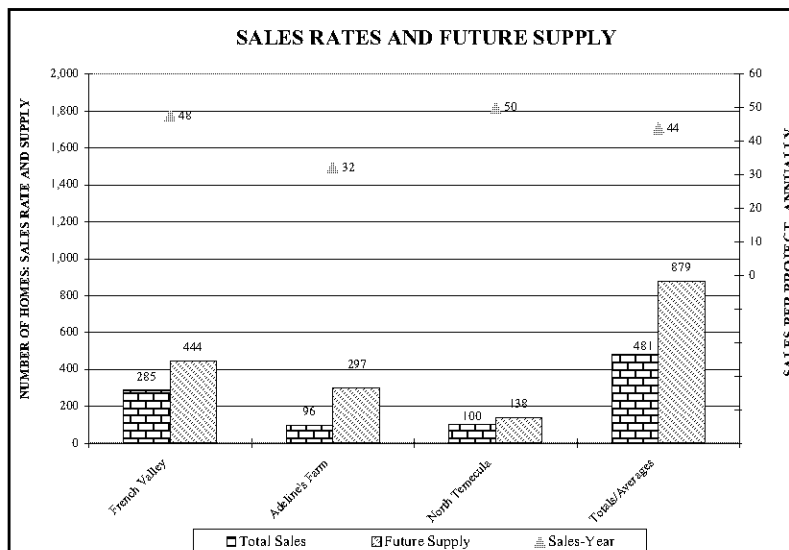
For the comparable projects as well as the projects in CFD No. 2001-01 IA-A, their prices amount to some \$491,317, as a whole, while their living areas are some 2,958 sq.ft., as a whole.

- **CFD No. 2001-01 IA-A:** Prices of \$484,833 for some 3,230 sq.ft. of living area.
- **French Valley:** Prices of \$463,544 for some 2,609 sq.ft. of living area.
- **Adeline's Farm:** Prices of \$517,733 for some 3,299 sq.ft. of living area.
- **North Temecula:** Prices of \$544,740 for some 3,083 sq.ft. of living area.



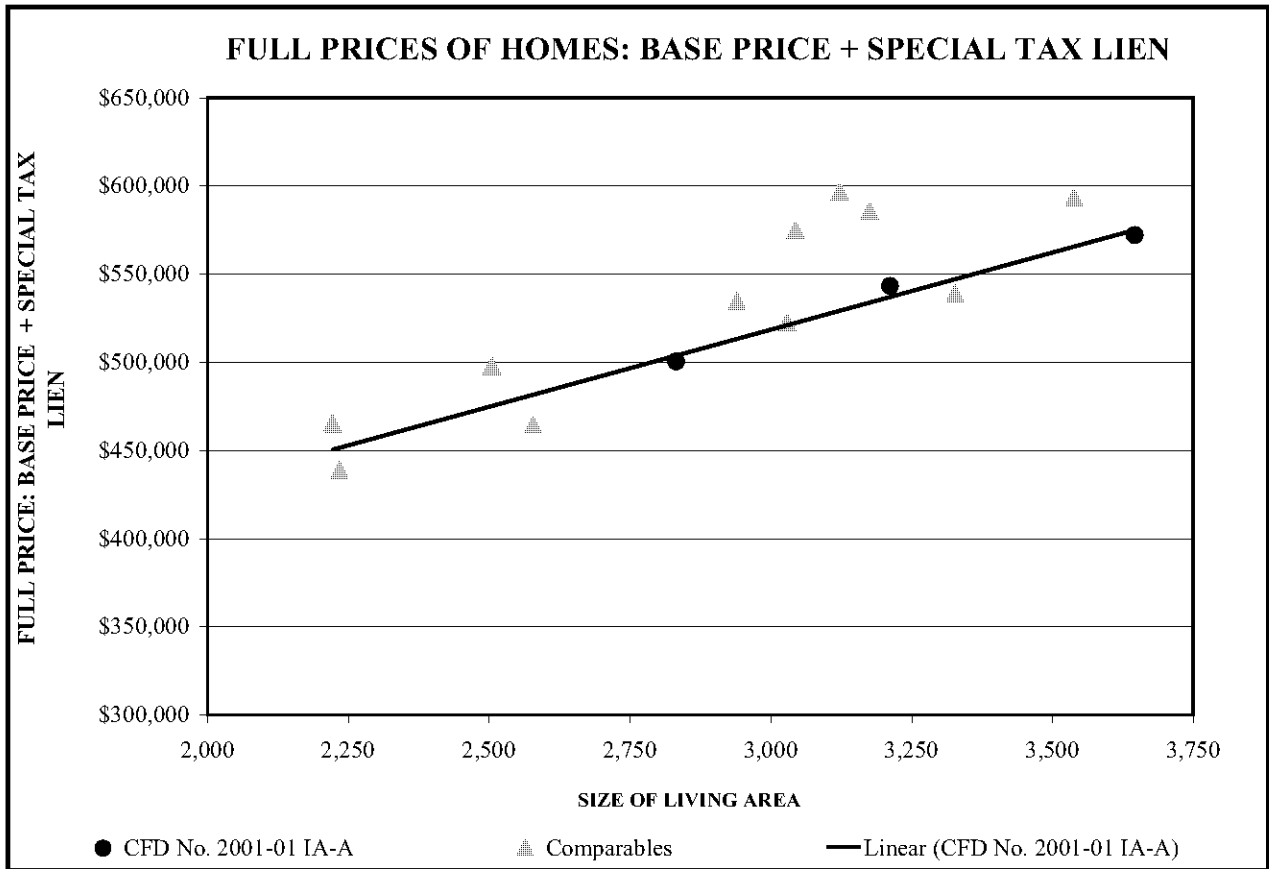
To compare the prices of the comparable projects as well as the projects in CFD No. 2001-01 IA-A their value ratios are utilized, the price per sq. ft. of living area, since this effectively makes adjustments for differences in their sizes of living areas. Accordingly, the value ratios amount to \$168 per sq. ft. of living area and their Special Taxes/Assessments amount to some \$3,011/yr. (0.62% as a ratio to the housing prices):

- **CFD No. 2001-01 IA-A:** Value Ratio of \$151 and Special Taxes of \$4,121/yr. (0.85%).
- **French Valley:** Value Ratio of \$178 and Special Taxes of \$2,626/yr. (0.58%).
- **Adeline's Farm:** Value Ratio of \$157 and Special Taxes of \$2,589/yr. (0.50%).
- **North Temecula:** Value Ratio of \$177 and Special Taxes of \$3,136/yr. (0.58%).



The eleven comparable active projects have an estimated sales rate of some 481 homes per year, for an average of some 44 units per project per year; additionally, they have a future supply of 879 homes which, at recent sales rates, would take some 1.8 years to close-out.

- **French Valley:** 6 projects sales of 285 homes annually, some 48/project (1.6 years).
- **Adeline's Farm:** 3 projects with sales of 96 homes annually, some 32/project (3.1 yrs).
- **North Temecula:** 2 projects with sales of 100 homes annually, some 50/project (1.4 years).



With respect to the “full prices” for homes, the base price plus the Special Tax lien, the projects in CFD No. 2001-01 IA-A have similar or slightly lower “full prices” as compared to the active projects. Consequently, the projects in the CFD are regarded as being competitively priced in the marketplace.

**CHARACTERISTICS OF THE \*COMPARABLE\* ACTIVE PROJECTS IN THE COMPETITIVE HOUSING MARKET AREA BY PLANNED COMMUNITIES**

Project Locations	Project	Builder	Lot Sizes	Project Size and Sales				Housing Prices.			Size of Living Area			Value Ratio	Special Assessments/Taxes	
				Total	Escrows Closed	Future	Sales Rate/Yr.	Lower	Average	Upper	Lower	Average	Upper		Amount/Year	Ratio/Price
CFD No. 2001-01 IA-A	Veranda	Brookfield Homes	7,200	186	12	174	N/A	\$430,000	\$450,500	\$460,000	2,472	2,832	3,108	\$159	\$3,829	0.85%
CFD No. 2001-01 IA-A	Ironwood	Brookfield Homes	7,200	262	0	262	N/A	\$455,000	\$489,000	\$515,000	2,675	3,212	3,670	\$152	\$4,157	0.85%
CFD No. 2001-01 IA-A	Acacia	Brookfield Homes	7,200	185	0	185	N/A	\$500,000	\$515,000	\$530,000	3,182	3,646	4,178	\$141	\$4,378	0.85%
French Valley	Brindisi	KB Home	6,000	149	98	51	55	\$376,990	\$406,990	\$436,990	1,597	2,235	2,873	\$182	\$2,442	0.60%
French Valley	Orchid Park	Ryland Homes	5,800	84	20	64	40	\$394,385	\$426,210	\$458,035	1,856	2,223	2,589	\$192	\$2,983	0.70%
French Valley	Vedado	Buie Communities	6,000	153	136	17	55	\$406,900	\$430,900	\$454,900	2,119	2,578	3,037	\$167	\$2,585	0.60%
French Valley	Jasmine Estates	Ryland Homes	6,800	131	17	114	30	\$421,990	\$455,990	\$489,990	2,079	2,505	2,931	\$182	\$3,192	0.70%
French Valley	Capistrano	Barratt	7,200	257	120	137	50	\$444,615	\$521,183	\$597,750	2,081	2,940	3,799	\$177	\$1,042	0.20%
French Valley	Vista Del Valle	Capital Pacific Homes	7,800	158	97	61	55	\$483,990	\$539,990	\$595,990	2,523	3,176	3,829	\$170	\$3,510	0.65%
Adeline's Farm	Watermill	Shea Homes	7,200	117	27	90	36	\$482,900	\$490,400	\$497,900	2,904	3,030	3,155	\$162	\$2,452	0.50%
Adeline's Farm	Northfield	Shea Homes	7,800	130	16	114	32	\$479,900	\$505,900	\$531,900	2,930	3,327	3,724	\$152	\$2,530	0.50%
Adeline's Farm	Key Gate	Shea Homes	8,500	124	31	93	28	\$531,900	\$556,900	\$581,900	3,058	3,539	4,020	\$157	\$2,785	0.50%
North Temecula	Concord Estates	Ryland Homes	7,200	128	22	106	35	\$512,990	\$539,490	\$565,990	2,459	3,044	3,628	\$177	\$2,697	0.50%
North Temecula	Parkside	Capital Pacific Homes	7,200	151	119	32	65	\$499,990	\$549,990	\$599,990	2,556	3,123	3,689	\$176	\$3,575	0.65%
<b>Statistical Summary</b>																
		<b>Sales / Year</b>														
CFD No. 2001-01 IA-A			3	633	12	621	N/A	\$461,667	\$484,833	\$501,667	2,776	3,230	3,652	\$151	\$4,121	0.85%
French Valley		48	6	932	488	444	285	\$421,478	\$463,544	\$505,609	2,043	2,609	3,176	\$178	\$2,626	0.58%
Adeline's Farm		32	3	371	74	297	96	\$498,233	\$517,733	\$537,233	2,964	3,299	3,633	\$157	\$2,589	0.50%
North Temecula		50	2	279	141	138	100	\$506,490	\$544,740	\$582,990	2,508	3,083	3,659	\$177	\$3,136	0.58%
<b>Totals/Averages</b>		<b>44</b>	<b>14</b>	<b>2,215</b>	<b>715</b>	<b>1,500</b>	<b>481</b>	<b>\$458,682</b>	<b>\$491,317</b>	<b>\$522,595</b>	<b>2,464</b>	<b>2,958</b>	<b>3,445</b>	<b>\$168</b>	<b>\$3,011</b>	<b>0.62%</b>

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**SECTION IV:  
POTENTIAL “FINANCIAL” RISK FACTORS UNDERLYING THE CREDIT  
QUALITY AND BOND SIZING FOR LAND SECURED FINANCINGS IN  
SOUTHERN CALIFORNIA**

*There has been a fundamental shift in the driving force underlying the recent rates of housing price appreciation, from the historical role of employment growth as the driving force to the recent role of adjustable rate and creative financing techniques as the driving force. Since January 2002, these financial factors have been the primary driving force underling the extraordinary rate of housing price appreciation in Southern California, more than 70%. However, the economic feasibility of creative financing has recently diminished, as both short-term and long-terms rates have risen. Consequently the current levels of housing prices and land values are subject to potentially substantial downward adjustments, due to mortgage rate resets (as mortgages are adjusted from teaser rates to market rates) as well as higher short-term rates (due to rate hikes by the Federal Reserve Board). These adjustments, in turn, may cause a softening in housing prices and land values that could adversely impact the credit quality underlying land-secured financings.*

**Financial Risk Factors: CFDs vs. Overall Market**

CFDs with newly developing residential projects have characteristics that make them more vulnerable to a housing market bubble than national or regional markets. Specifically, CFDs represent the marketing of new homes to purchasers at current prices that utilize creative financing structures and they are also concentrated in particular geographical locations.

CHARACTERISTICS	OVERALL MARKET	COMMUNITY FACILITIES DISTRICT
Geographical Location	Broad	CFD - Focused Area
Time of Purchase	Long Time Span: 10- 20 Years	Recently
Type of Financing Structure	Mostly > Fixed Rates > Amortization of Principal	Predominantly > Adjustable & Creative > Higher Loan Balances
Amount of Equity	Significant; Accumulated Over Time	Minimal > Recent Purchase > Negative Amortization
Timing of Loan Resets	Minimal & Spread Over Time	Most & Similar Time

**Definition of Creative Financing**

Creative financing, as utilized herein, refers to the use of loan structures other than fixed-rate or one-year adjustable loan structures that provide for amortization of principal; some examples of creative structures are as follows:

- Interest only payments.
- Payment option loans (with minimum payment options).
- Loans with initial teaser rates (below market rates that are offered only for a limited time period).

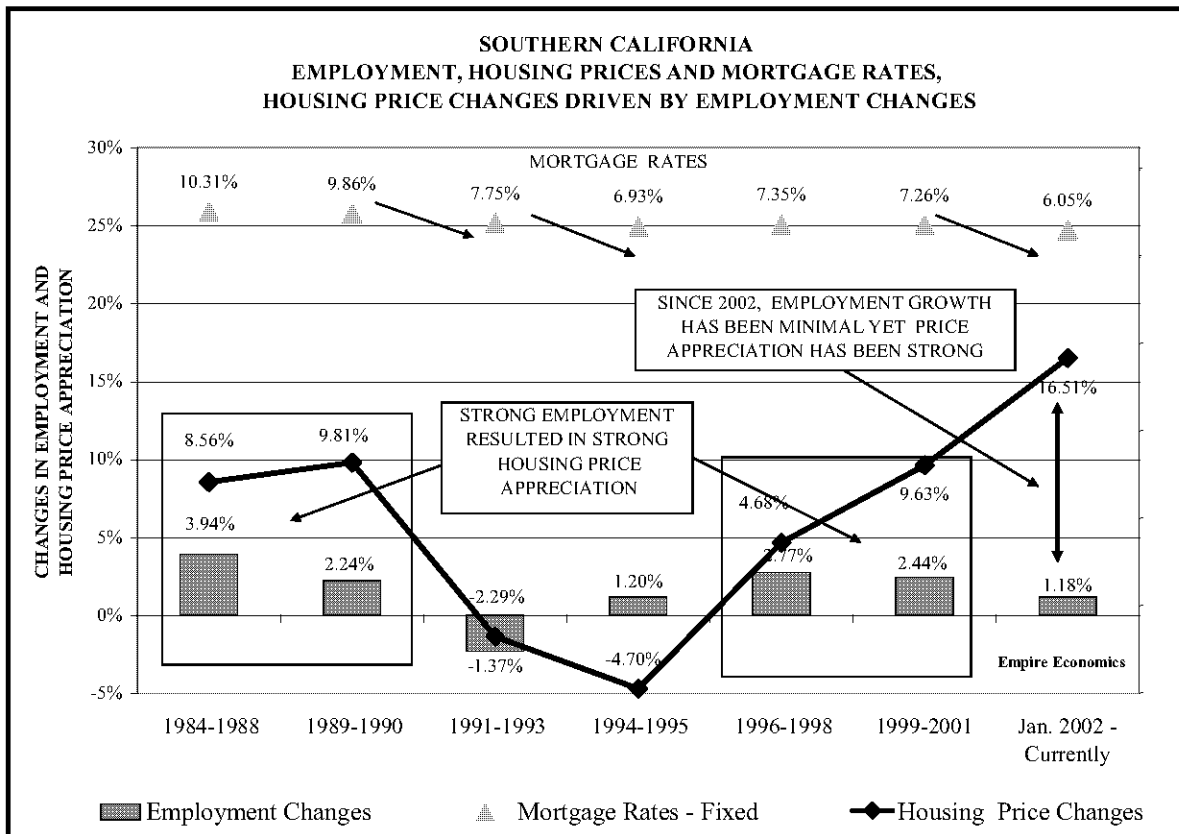
Additional factors related to creative loan structures include:

- Less stringent lending standards such as low/no documentation.
- Higher mortgage payment to income ratios.

**1. Structural Shift in the Primary Factors Underlying Housing Price Appreciation:  
From Employment Growth to Creative Financing**

The primary factors underlying housing price appreciation in Southern California since January 2002, declining mortgage rates as well as the extensive use of adjustable and creative financing, represent a fundamental shift from the traditional factor, employment growth.

- During 1984-2001 housing price appreciation was driven by employment growth, along with accommodating financial factors, such as stable or somewhat declining mortgage rates. During this time period financial factors played only a secondary role: for instance, over 1991-1993 when employment decreased, housing prices declined, even though mortgage rates fell by more than two percentage points from their 1989-1990 levels.
- However, since January 2002, as housing prices escalated at strong rates, the primary fundamental factor, employment growth, has experienced only minimal growth, some 1.18% per year, on the average. Instead, housing price appreciation has been driven primarily by financial factors, particularly the use of adjustable rate mortgages and creative financing techniques.



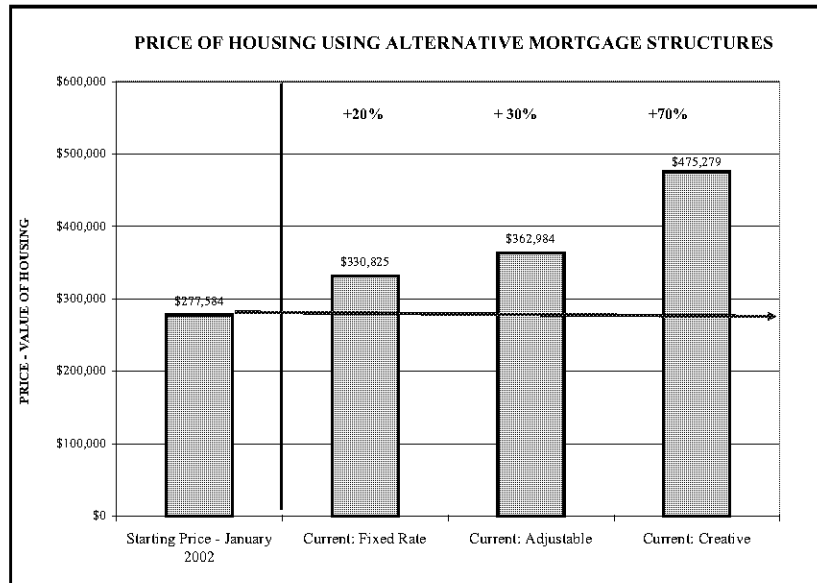
Sources: Empire Economics, Employment Development Department, Freddie Mac & Office of Federal Housing

## 2. Role of Financial Factors Underlying Recent Rates of Housing Price Appreciation

Since January 2002, the primary driving forces underlying housing price appreciation have been as follows:

- Households initially taking advantage of recent historically low fixed rates, through June 2003
- A shift to adjustable rate mortgages, through March 2004
- Since April 2004, the use of creative financing structures.

The impacts of creative mortgage financing structures on the price of housing can be gauged by estimating the prices that households could afford to pay utilizing the various structures; the starting price for housing, as of January 2002, was some \$278,000, and prices have recently increased to some \$475,000, a change of more than 70%.



- **Fixed Rates:** Based upon the recent historic low for fixed rates, which occurred in June 2003, the price amounted to some \$350,000, an increase of \$72,000; however, using current fixed rates, the most recent price amounts to some \$331,000, some -\$144,000 below current price levels.
- **Adjustable Rates:** Based upon the recent historic low for adjustable rates, which occurred in March 2004, the price amounted to some \$444,000, an increase of \$164,000; however, using current adjustable rates, the most recent price amounts to some \$363,000, some -\$112,300 below current price levels.
- **Creative Financing:** Based upon the rates for creative financing, the price currently amounts to some \$475,000, an increase of \$197,000 above the price for housing as of January 2002 of some \$278,000

### 3. Potential Risk Factors for Purchasers Utilizing Creative Financing Structures

The purchasers of homes that utilize creative financing structures are able to “afford” homes at current market prices; however, their rates are subject to resets that will cause their payments to rise substantially, and so they face the risk of potentially becoming delinquent on their mortgage and tax payments.

#### 3-A. Purchasers Using Creative Financing and Mortgage Loan Resets

Purchasers of homes that utilize creative financing are subject to resets, as their initial teaser rates are re-aligned to the market rates, and so their mortgage payments are likely to increase significantly.

The potential for mortgage reset is illustrated below, using a home with a price of \$500,000 that is fully financed, with no down payment, something that buyers often do using first and second mortgages:

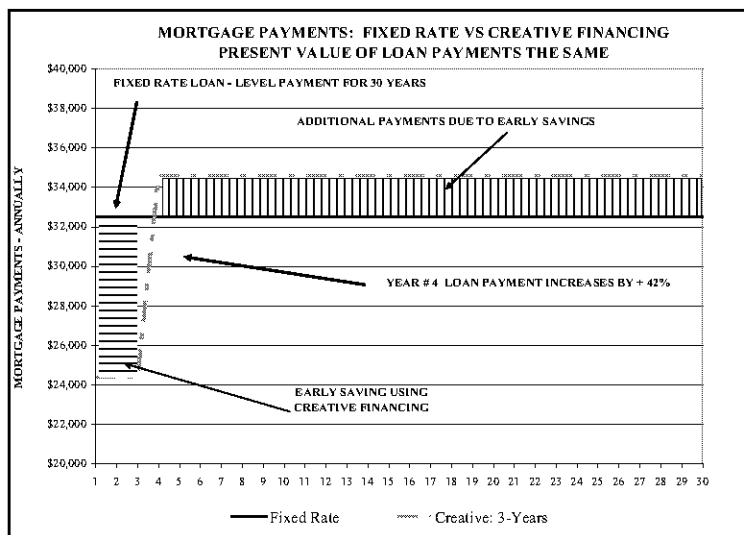
##### **Fixed Rate Loan Structure:**

- Mortgage payment of some \$32,500 per year.

##### **Creative Loan Structure:**

- First three years, \$24,375 per year, using a teaser rate interest only payment.
- Starting in the fourth year, when the loan payment is adjusted to the market rate and fully amortized to pay principal as well, the payment rises to some \$34,600 per year.

Therefore, the mortgage payment for the fourth year and thereafter is some 42% higher than for the first three years, an increase of some \$10,225 per year.



With regard to the amount of mortgages that are subject to such resets, based upon data for the United States mortgage market as a whole, these are expected to rise dramatically, from some \$0.83 billion in 2005 to more than \$1.0 trillion in 2007.

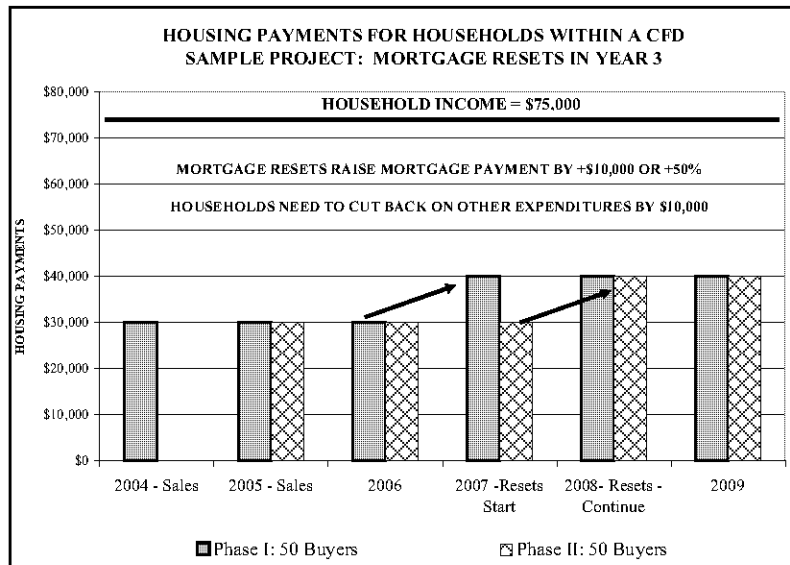
Furthermore, it is worthwhile to note that with regards to CFDs in particular, mortgage resets are expected to be significant, since most of the recent purchasers have utilized creative financing.



### 3 - B. Example of Purchasers of Homes in a Residential Project with Mortgage Resets

The following example provides a simulation of the potential impacts of mortgage resets for the recent purchasers of homes in a newly developing residential project:

- **Price of Homes:** \$500,000
- **Household Income:** \$75,000
- **Fully Mortgaged:** 100% First of 80% and second of 20%
- **Creative Structure:**
  - Interest only for first three years: \$20,000 per year
  - Interest and amortization: next 27 years: \$30,000 per year
- **Property and Special Taxes:** 2.0%, \$10,000 per year.



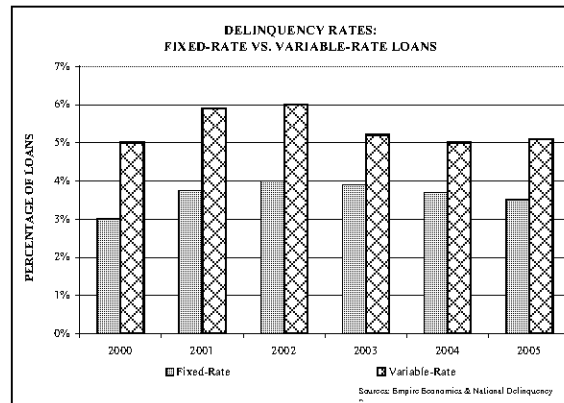
Accordingly, the application of these assumptions results in the following scenario:

- **Phase I:** 50 buyers in 2004 have payments of \$30,000 per year until 2007 when the reset cause the payment to escalate to \$40,000 per year. (mortgage payment rises by \$10,000)
- **Phase II:** 50 buyers in 2005 follows a similar pattern, with a year's delay.
- **2006:** The buyers in both phases have stable payments, and so the delinquency rate is expected to be normal.
- **2007:** The first 50 buyers have their payment rise by some \$10,000.
- **2008:** The buyers in Phase II which have their payments also rise.

The delinquency rates resulting from these mortgage payment increases will be determined by a multiplicity of factors, including the financial reserves of the households, their ability to reduce other expenditures, and so forth. Nevertheless, an increase in the mortgage payment by some \$10,000 may prove to be beyond the financial capabilities of some of the households. Furthermore, their motivation to re-allocate funds to the mortgage payment may be diminished by their low levels of equity (100% financing and negative amortization.)

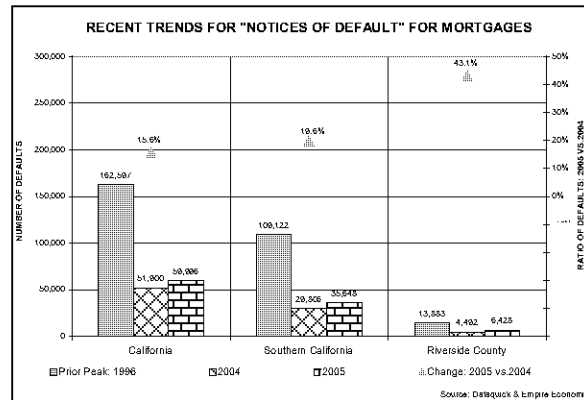
### 3 – C Delinquency Rates and Types of Loans

From an historical perspective, the mortgage delinquency levels for homeowners with adjustable mortgages have traditionally been significantly higher than for homeowners with fixed rate loans. During the 2000-2005 time period, the 5.4% delinquency rate for adjustable rate loans has been above the 3.6% delinquency rate for fixed rate loans by some 50% (5.4% vs. 3.6%). This is typically attributed to homeowners with adjustable rate loans having difficulty with higher mortgage payments as rates rise as well as such households having “low” equity levels (due to higher loan to price ratios as well as negative amortization), and hence less of an incentive to “hold-on” to the home.



However, the potential delinquency rates for households with creative financing does not have an historical track record, since such loan structures have just become the available recently, and so they have not yet been tested under adverse real estate and economic conditions. Considering that creative loans are subject to substantial increase in mortgage payments when they are reset, as compared to traditional adjustable loans which vary only due to interest rates fluctuations, their delinquency rates are likely to be substantially higher.

A “leading” indicator of higher Special Tax delinquency rates may be “notices of default” that are recorded against homes that are not making their mortgage payments on a timely basis.



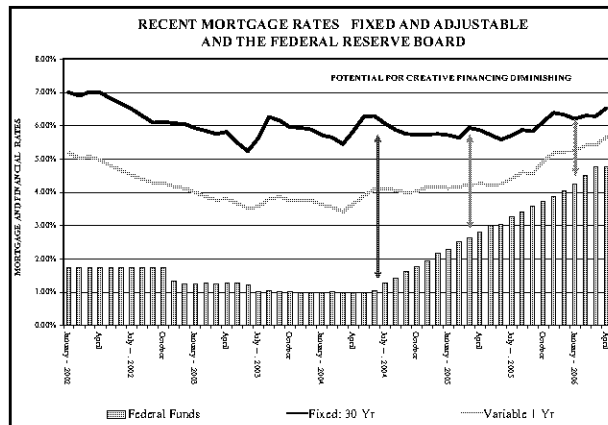
**Therefore, although a project may initially have low delinquency levels, when the resets start to occur several years after the original purchase, then the delinquency rates may rise dramatically, since most of the buyers in the project have similar financing structures. Furthermore, these delinquency rate increases may occur despite the higher value of the homes (but minimal equity) and favorable economic growth (not a recession).**

#### 4. Potential Challenges for Purchasers Utilizing Traditional Financing Structures

The purchasers of homes that are now utilizing traditional financing structures are NOT able to “afford” homes at current market prices, and so this may cause the rate of sales to slowdown unless builders offer them substantial concessions.

##### 4 –A. Diminishing Potential of Creative Financing

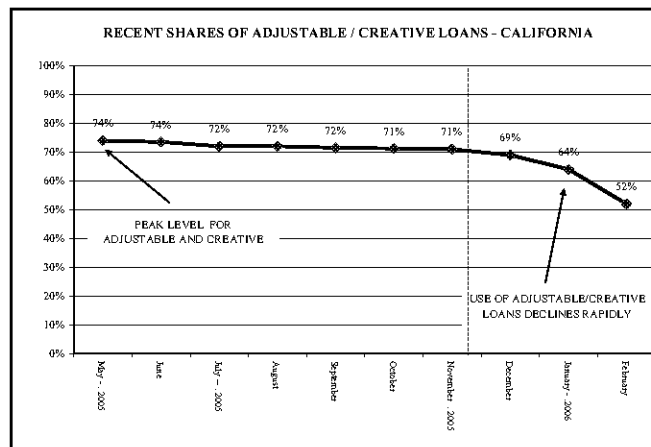
The potential for creative financing as a means of enhancing the purchasing power of prospective homebuyers has diminished recently, due primarily to the Federal Reserve Board raising the Federal Funds Rate. Specifically, the “spread” between conventional financing and teaser rates has been compressed as a result of the flattening of the yield curve (the vertical arrows diminish in size).



##### 4 –B. Recent Shift Towards Traditional Financing Structures

The purchasers of new homes now face higher mortgage rates, since the availability of creative financing has recently diminished, due to the flattening of the yield curve; additionally, the yields on the ten year bond which influences the 15-year and 30-year fixed rate mortgages have also increased as well.

In recent months, the proportion of buyers using creative financing has recently declined from some 71% in November 2005 to 64% in January 2006 and then further to 52% as of February 2006.



As the purchasers of new homes move back towards the more traditional financing structures, their purchasing power may not be able to support the recent prices which were bolstered by the use of creative structures which currently support a price of some \$475,000, an increase of \$197,000 above the January 2002 levels.

- **Fixed Rates:** Based upon current fixed rates, the supportable price amounts to some \$331,000, some -\$144,000 below the actual current price levels.
- **Adjustable Rates:** Based upon current adjustable rates, the supportable price amounts to some \$363,000, some -\$112,300 below the actual current price levels.

**Therefore, the purchasers of new homes that use the traditional financing structures will encounter challenges in paying the current prices, since their purchasing power with traditional loan structures is significantly below their purchasing power with creative structures. So, the real estate market is expected to encounter some significant adjustments, through a combination of lower prices, enhanced builder incentives, and slower sales rates.**

## **5. Conclusions**

The housing market is expected to experience some significant adjustments during the foreseeable future, as the current price structure, which is based upon the extensive use of creative financing, is realigned with a sustainable price structure, which is based upon the use of more traditional financing structures:

- The purchasers of homes that are utilizing creative financing structures are able to “afford” homes at current market prices; however, such structures are subject to resets that will cause their payments to rise substantially, and so they face the risk of becoming delinquent on their mortgage and tax payments.
- The purchasers of homes that are utilizing traditional financing structures are NOT able to “afford” homes at current market prices, and so their inability to do so may cause the rate of sales to slowdown, unless builders offer them substantial concessions, and eventually lower prices.

These market adjustments are expected to have a much more significant impact on newly developing residential CFDs than the broader market, as a whole, since CFDs represent the marketing of new homes to purchasers at current prices and they are also concentrated in particular geographical locations.

**SECTION V:  
ESTIMATED ABSORPTION SCHEDULES FOR THE  
PROJECTS IN CFD NO. 2001-01 IA-A**

The purpose of this section is to estimate the absorption schedules for the projects in CFD No. 2001-01 IA-A, based upon a consideration of the recent/expected market demand/supply conditions as well as the potential market and financial risk factors, along with the market-entry of the projects.

**Market Demand/Supply as well as the Market/Financial Risk Factors**

**Macroeconomic Components**

- \* Market Demand for Housing Based Upon SCAG Projections Modified for Recent/Expected Economics Conditions

**Microeconomic Components**

- \* Regional Development Trends/Patterns
- \* Socioeconomic Factors: School and Crime
- \* Housing Price Trends and Patterns
- \* Competitive Market Analysis

**Potential “Market” Risk Factors**

- \* Recent/Expected Increases in Mortgage Rates
- \* Recent/Expected Increases in Gas Prices
- \* Active Projects: Future Housing Supply

**Potential “Financial” Risk Factors**

- \* Purchasers Utilizing Creative Financing Subject to Mortgage Resets
- \* Purchasers Using Traditional Financing Structures: Difficult to Qualify at Current Prices

### Empire's Algorithm for Estimating Absorption Schedules

Empire Economics has estimated the expected absorption schedules for the remaining homes in CFD No. 2001-01 IA-A, through a comprehensive analysis of the following factors:

- the anticipated product characteristics for the remaining homes that have not yet closed escrow to homeowners, such as their prices and sizes of living areas.
- the competitive market analysis of the currently active comparable projects.
- the recent/expected economic and real estate factors, including a slowdown for the real estate market during the next several years that will result in slower sales rates.
- potential market risk factors, such as higher gas prices.

Furthermore, Empire also utilizes the experience in conducting Market Absorption Studies for more than four hundred CFDs, with regards to the time required to develop the properties (finish the lots and complete the construction of the homes) as well as their performance in the marketplace under various economic and real estate conditions.

Additionally, a special potential financial risk factor is that the housing market is expected to experience some significant adjustments during the foreseeable future, as the current price structure, which is based upon the extensive use of creative financing, is re-aligned with a sustainable price structure, which is based upon the use of more traditional financing structures.

Finally, the estimated absorption schedules, which represent escrow closing to homeowners, are subject to the Assumptions and Qualifications set-forth in the next section.

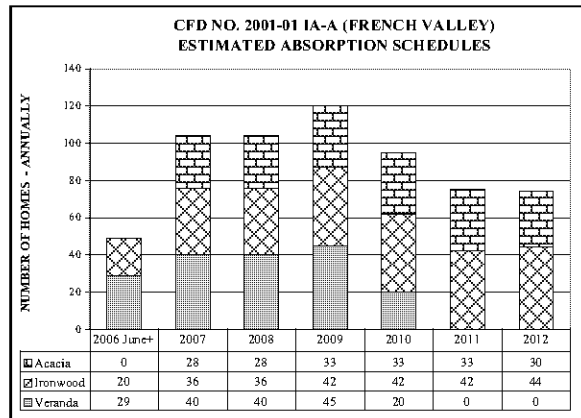
### Market Entry of the Projects

There are currently two projects that are active, and the third project is expected to enter the marketplace in the near future:

- **Veranda:** Summer 2005
- **Ironwood:** Spring 2006
- **Acacia:** Fall 2006

### Estimated Absorption Schedules for the Projects in CFD No. 2001-01 IA-A

Accordingly, the estimated absorption schedules for the single-family detached projects in CFD No. 2001-01 IA-A are as follows:



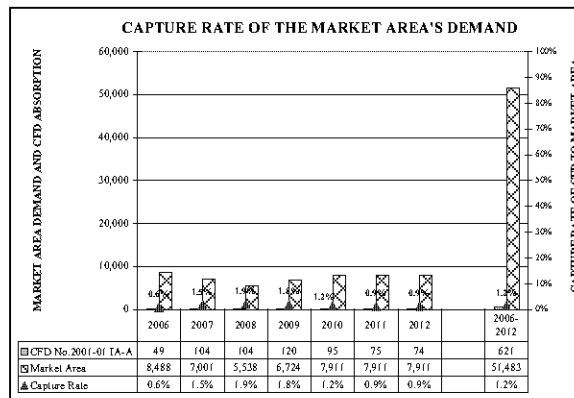
Therefore, the 621 remaining single-family detached homes in CFD No. 2001-01 IA-A are expected to be absorbed (escrows closed) during the June 2006 through 2012 time period, as follows:

- **June-December 2006:** 49 homes, including those homes that have already been sold but have not yet closed, as two projects commence escrow closings.
- **2007:** 104 homes, as the third project commences closings, also at the modified sales rates.
- **2008:** 104 homes, at the modified sales rates.
- **2009:** 120 homes, as sales rates return to normal levels.
- **2010:** 95 homes, as Veranda is closed-out.
- **2011:** 75 homes.
- **2012:** the remaining 74 homes, as Ironwood and Acacia are closed-out.

The relatively long time for absorption can also be attributed to CFD No. 2001-01 IA-A having one builder, as compared to multiple builders, with three projects that have relatively large number of homes from 185 to 262.

### Expected Capture Rates for CFD No. 2001-01 IA-A

The expected absorption schedule for the residential projects in CFD can also be expressed as a capture rate of the expected market demand for the CFD Market Area, the southwestern portion of Riverside County.



- **2006-2012:** For the time period, the capture rate amounts to some 1.2%, on the average.

## Closing Remarks

The estimated absorption schedules for the residential projects in CFD No. 2001-01 IA-A are subject to change due to potential shifts in economic/real estate market conditions and/or the development strategy by the developer/builder, Brookfield Homes, LLC.

### ESTIMATED ABSORPTION SCHEDULES EASTERN MUNICIPAL WATER DISTRICT CFD NO. 2001-01 IA-A (FRENCH VALLEY)

. JUNE 19, 2006; SUBJECT TO REVISION .

Projects >>>	Veranda	Ironwood	Acacia	Annually	Cumulatively
<b>Product Types</b>	Single-Family Detached	Single-Family Detached	Single-Family Detached		
<b>Lot Size</b>	7200	7200	7200		
<b>Builder</b>	Brookfield Homes	Brookfield Homes	Brookfield Homes		
<b>Number of Homes</b>	186	262	185	633	
Occupied: May 2006	12	0	0	12	
Future Occupancies: June 2006+	174	262	185	621	
<b>Number of Units - Estimated</b>					
Plan # 1	37	52	37		
Plan # 2	46	52	46		
Plan # 3	47	52	46		
Plan # 4	56	53	56		
Plan # 5		53			
<b>Totals</b>	<b>186</b>	<b>262</b>	<b>185</b>	<b>633</b>	
<b>Living Areas</b>					
Plan # 1	2,472	2,675	3,182		
Plan # 2	2,802	3,114	3,462		
Plan # 3	2,946	3,208	3,761		
Plan # 4	3,108	3,394	4,178		
Plan # 5		3,670			
<b>Averages</b>	<b>2,832</b>	<b>3,212</b>	<b>3,646</b>	<b>3,227</b>	
<b>Prices</b>	Actual	Actual	Estimated		
Plan # 1	\$430,000	\$455,000	\$500,000		
Plan # 2	\$450,000	\$480,000	\$510,000		
Plan # 3	\$462,000	\$490,000	\$520,000		
Plan # 4	\$460,000	\$505,000	\$530,000		
Plan # 5		\$515,000			
<b>Averages</b>	<b>\$450,500</b>	<b>\$489,000</b>	<b>\$515,000</b>	<b>\$485,286</b>	
<b>Value Ratio: Price/Living Area</b>	\$159	\$152	\$141	\$150	
<b>Homeowners Commence Occupancies</b>	Active	Start: November 2006	Start: Spring 2007		
<b>Absorption/Occupancies - Future</b>					
2006 June+	29	20	0	49	49
2007	40	36	28	104	153
2008	40	36	28	104	257
2009	45	42	33	120	377
2010	20	42	33	95	472
2011	0	42	33	75	547
2012	0	44	30	74	621
<b>Totals</b>	174	262	185	621	



## **SECTION VI: ASSUMPTIONS AND LIMITING CONDITIONS**

The Market Absorption Study is based upon various assumptions and limiting conditions; accordingly, these are as follows:

### **Property Boundaries**

No survey or engineering analysis of CFD No. 2001-01 IA-A property has been made by the market analyst; the District Engineer's report utilized for the Bond is deemed to be reliable. The market analyst assumes the existing boundaries to be correct, that no encroachments exist and assumes no responsibility for any condition not readily observable from customary investigation and inspection of the premises, which might affect the valuation, excepting those items which were specifically mentioned in the report.

### **Maps and Exhibits**

Maps and exhibits included in this report are for illustration only as an aid 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 the report.

### **Title to Property**

No opinion as to title is rendered. Data related to ownership and legal description, obtained from governmental records related to the formation of the District that forms the basis for identifying the boundaries of CFD No. 2001-01 IA-A are considered reliable. Title is assumed to be marketable and free and clear of all liens, encumbrances, easements and restrictions except those specifically discussed in the report. The property is evaluated assuming to be under responsible ownership and competent management and available for development to highest and best use.

### **Earthquakes and Seismic Hazards**

The property which is the subject of this market analysis is within a geographic area prone to earthquakes and seismic disturbances. Except as specifically indicated in the report, no seismic or geologic studies have been provided to the market analyst concerning the geologic and/or seismic condition of the subject property. The market analyst assumes no responsibility for the possible effect on the subject property of seismic activity and/or earthquakes.

### **Soil and Geological Studies**

No detailed soil studies or geological studies or reports were made available to the market analyst. Assumptions employed in this report regarding soils and geologic qualities of the subject property have been provided to the client. However, such assumptions are not conclusive and the market analyst assumes no responsibility for soils or geologic conditions discovered to be different from the conditions assumed unless otherwise stated in this report.

### **Hidden or Unapparent Conditions**

The market analyst assumes no responsibility for hidden or unapparent conditions of the property, subsoil, groundwater or structures that render the subject property more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

### **Presence and Impact of Hazardous Material**

Unless otherwise stated in the report, the market analyst did not become aware of the presence of any hazardous material or substance during the market analyst's general inspection of the subject property. However, the market analyst is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the evaluation of the subject property. The market analyst assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material.

### **Structural Deficiencies of Improvements**

The market analyst has not performed a thorough inspection of the subject property, and except as noted in this report has not found obvious evidence of structural deficiencies in any improvements located on the subject property. Consequently, the market analyst assumes no responsibility for hidden defects or nonconformity with specific governmental requirements, such as fire, building and safety, earthquake or occupancy codes, unless inspections by qualified independent professions or governmental agencies were provided to the market analyst. Further, the market analyst is not a licensed engineer or architect and assumes no responsibility for structural deficiencies not apparent to the market analyst at the time of their inspection.

### **Presence of Asbestos**

The market analyst is not aware of the existence of asbestos in any existing improvements on the subject property. However, the market analyst is not trained to discover the presence of asbestos and assumes no responsibility should asbestos be found in or at the subject property. For the purposes of this report, the market analyst assumes the subject property is free of asbestos and the subject property meets all federal, state and local laws regarding asbestos abatement.

### **Environmental and Other Regulations**

The property is evaluated assuming it to be in full compliance with all applicable federal, state and local environmental regulations and laws, unless otherwise stated.

### **Required Permits and Other Governmental Authority**

Unless otherwise stated, the property evaluated is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization that have been or can be obtained or renewed for any use on which the evaluation analysis contained in this report is based upon.

### **Designated Economic Scenario**

The Market Absorption Study focuses upon the expected absorption schedules for the products in CFD No. 2001-01 IA-A according to the designated economic scenario. Specifically, this scenario represents the economic and real estate conditions for the Market Region and also the Market Area during the foreseeable future according to the most probable conditions, and this is regarded as being appropriate for the Bond Financing. However, the economic and market conditions which actually materialize on a year by year basis may differ from those presented according to the designated economic scenario, as a result of exogenous factors which are difficult to forecast/quantify. Accordingly, the designated scenario should be utilized as an economic framework for evaluating the marketing prospects of the properties within CFD No. 2001-01 IA-A rather than a "literal" representation of what is expected to occur on a year/year basis during the foreseeable future.

### **Provision of the Infrastructure**

The Market Absorption Study assumes that the governmental agencies that supply public facilities and services, including water, provide these in a timely manner so that the proposed products/projects in CFD No. 2001-01 IA-A can respond to the expected market demand for their products. Otherwise, if the required infrastructure is not available in a timely manner, then the absorption of the products/projects could be adversely impacted.

### **Developer/Builder Responsiveness to Market Conditions**

The Market Absorption Study assumes that the developer/builder in CFD No. 2001-01 IA-A responds to the market conditions with products that are competitively priced and have the features/amenities that are desired by the purchasers. Specifically, some of the products in CFD No. 2001-01 IA-A have not yet entered the marketplace, and so the specific characteristics of their product types cannot be identified until they actually offer products on the marketplace. Consequently, to the extent that future products/projects have prices/features that differ from the competitive market standards, then their absorption schedules would need to be modified from those presented according to the designated economic scenario.

### **Financial Strength of the Project Developer/Builder**

The Market Absorption Study assumes that Project developer/builder in CFD No. 2001-01 IA-A (and also their lenders) have sufficient financial strength to adequately fund their projects, including paying their Special Taxes/Assessments, and that they have sufficient financial reserves which could be utilized to supplement their cash flow positions, in the event that adverse economic or market conditions occur.

### **Accuracy of Information from Others**

In preparing this report, the market analyst was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either expressed or implied, is given by the market analyst for the accuracy of such information and the market analyst assumes no responsibility for information relied upon and later found to have been inaccurate. The market analyst reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

### **Liability of Market Analyst**

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### **Timeliness of the Market Absorption Study**

The Market Absorption Study performs a comprehensive analysis of the relevant land-use, economic and residential market conditions that are expected to influence the marketing success of the products/projects in CFD No. 2001-01 IA-A. Nevertheless, the Study should be dated within six-months of the Bond Sale, or even sooner, should these land-use and/or economic market as well as real estate conditions change significantly.

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**MARKET ABSORPTION STUDY**

**COMMUNITY FACILITIES DISTRICT NO. 2001-01  
(FRENCH VALLEY)  
IMPROVEMENT AREA A**

**EASTERN MUNICIPAL WATER DISTRICT  
RIVERSIDE COUNTY, CALIFORNIA**

**APPENDIX A**

**SOUTHERN CALIFORNIA'S  
FUTURE DEVELOPMENT POTENTIAL**

**BY EMPIRE ECONOMICS, INC.**

**JUNE 19, 2006**

**THE USE OF THIS MARKET ABSORPTION STUDY IS AUTHORIZED ONLY  
FOR THE EMWD CFD NO. 2001-01 IA-A'S BOND ISSUE**

# SOUTHERN CALIFORNIA'S FUTURE DEVELOPMENT POTENTIAL

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## PART I

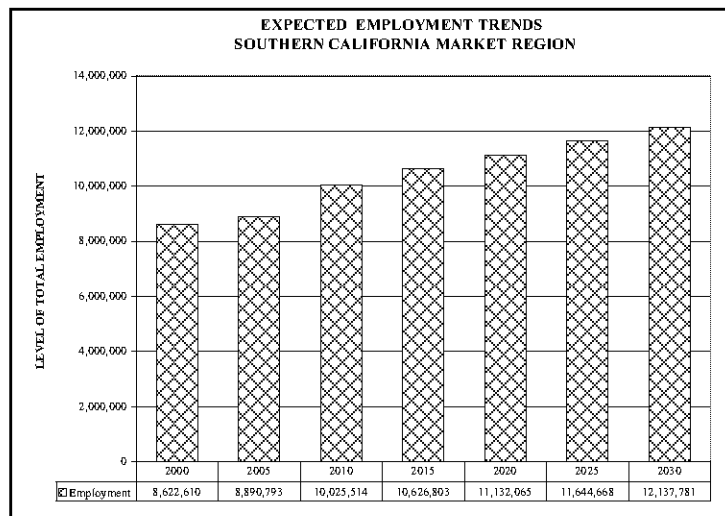
### LONG-TERM EMPLOYMENT FORECASTS

The purpose of this section is to discuss the long-term employment growth prospects for the Southern California Market Region, as a whole, and also each of its counties, in particular. First, the potential supply of new industrial-commercial projects, as represented by various governmental agencies, is discussed. Secondly, the probable demand for such projects, based upon a consensus forecast of the expected economic conditions, is presented. Then later, in a following section, the long-term employment supply-demand conditions for Southern California and its various counties are reconciled.

#### Supply Conditions: Employment Planning Projections

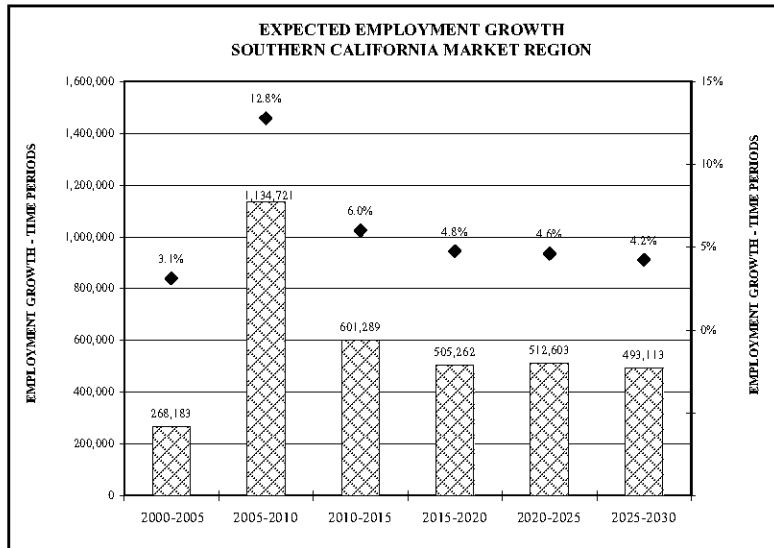
The long-term development potential or supply for employment growth in Southern California is based upon the forthcoming industrial-commercial projects that are being considered in the current/long-range planning processes of the various counties and cities. This information is compiled by two governmental agencies: Southern California Association of Governments (SCAG) for Los Angeles, Orange, Riverside, San Bernardino and Ventura counties/cities as well as the San Diego Association of Governments (SANDAG) for San Diego County and its cities. These planning projections or supply are considered to be reasonable estimates of the development potential for the forthcoming industrial and commercial projects since they are based upon probable land-use policies of the governing planning jurisdictions.

For Southern California, as a whole, employment is expected to rise from a level of 8,622,610 in 2000 to a level of 12,137,781 in 2030, an aggregate increase of some 3,515,171, for a growth rate of some 117,172 or 1.36% per year, on the average.

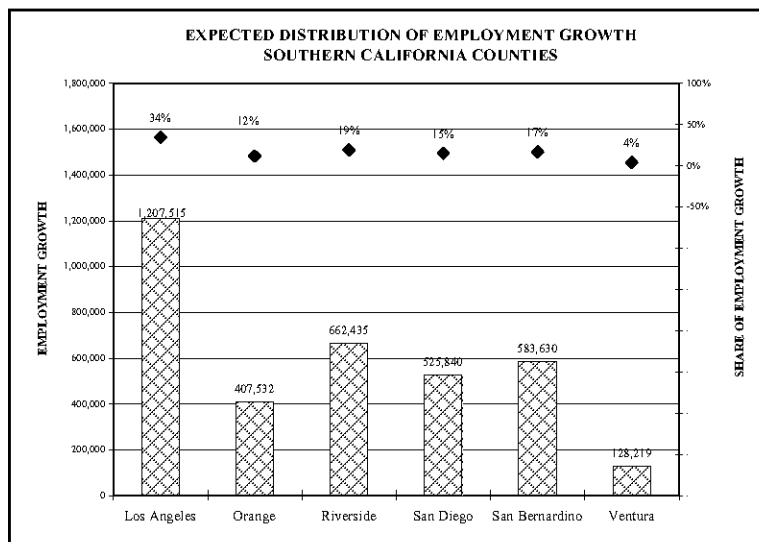


*Note: Fiscal Years*

The pattern of growth during these time periods shows that the strongest growth rates are expected to occur during 2005-2010 (1,134,721 or 2.55% annually) followed by moderate growth rates during 2010-2015 (601,289 or 1.20% annually), and then somewhat lower growth levels/rates for 2015-2020, 2020-2025 and 2025-2030 (503,657 or 0.91% annually, on the average).



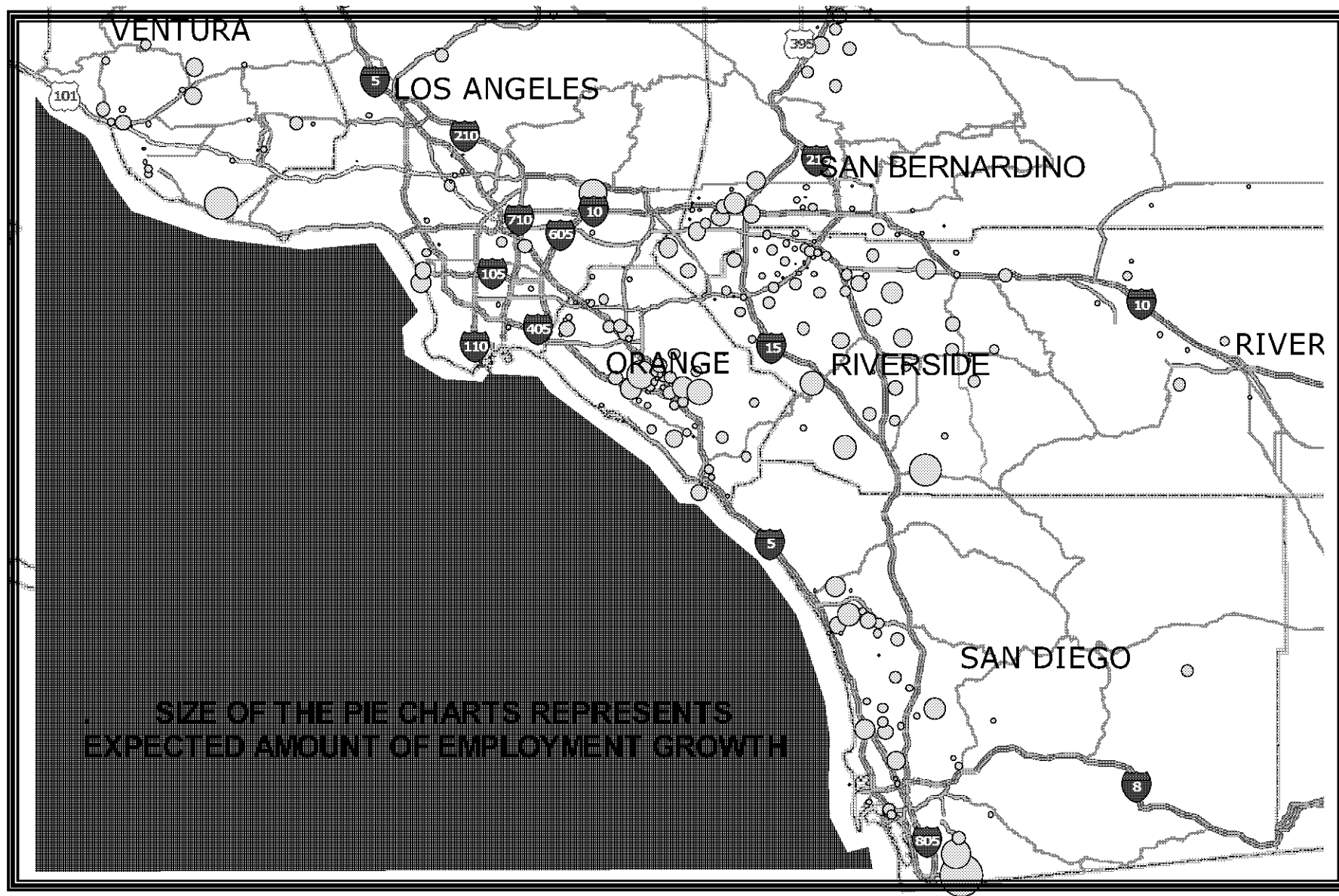
With respect to the geographical distribution of the employment growth for the various Southern California counties during the 2000-2030 time period, there are substantial variations among them, and these are as follows:



Los Angeles County is expected to experience the largest numerical amount of employment growth, some 1,207,515, for a share of some 34% of all the employment growth in Southern California during 2000-2030; this can be attributed to the large size of its current employment base. Riverside County is expected to experience the second largest numerical amount of growth, some 662,435 for a share of 19%. San Bernardino County is next with an expected growth of 583,630 or 17%, followed closely by San Diego County with a growth of 525,840 or 15%. Orange County is expected to have employment growth of 407,532 for a share of 12%. Finally, Ventura County has the lowest rate of growth, 128,219 for a share of only 4%.

For additional information on the geographical distribution of employment growth within Southern California during the 2000-2020+ time period, please refer to the exhibit on the following page.





### Demand Conditions: Consensus Economic Forecast

The long-term forecast of employment growth for Southern California (SC) during the 2006-2025 time period is based upon a consensus of the major economic forecasters for the Southern California economies, and this is regarded as representing the probable demand for the forthcoming business-industrial and commercial-office projects; accordingly, the characteristics of the various forecasters are as follows:

<b>Forecasting Source</b>	<b>Areas</b>	<b>Time Period</b>	<b>Specialization</b>
Data Resources Institute <b>(DRI)</b>	All SC- Counties	2006-2025	National/States/Counties (National Balanced Approach)
Univ. of CA, Los Angeles <b>(UCLA)</b>	US & CA	2006-2020	National/California/SC
Chapman University, OC <b>(CU/Chapman)</b>	OC, RC, SB, LA	2006	Regionally Oriented
Cal. State. Fullerton, OC <b>(CSUF/Fullerton)</b>	Most SC- Counties	2006	Regionally Oriented (Focus on SC-Counties)
Cal. State. Long Beach, LA <b>(CSULB/Long Beach)</b>	Most SC- Counties	2006	Regionally Oriented (Focus on SC-Counties)
Los Angeles Econ. Dev. Corp <b>(LAEDC/Los Angeles)</b>	Most SC- Counties	2006	Regionally Oriented (Focus on SC-Counties)
Calif. Economic Develop. Dept. <b>(EDD/Sacramento)</b>	All SC- Counties	2005-2010	California Oriented (Focus on Calif.-Counties)

- **DRI**, a highly regarded national forecasting firm, provides forecasts for the United States (US), 50 states and 3,110 counties, systematically focusing on growth trends and patterns from the national to the regional level. As such, it provides a balanced picture of overall future growth within the various states and counties. In DRI's model, the principal indicator of economic activity is employment, which drives the growth of population and housing. However, for DRI's county forecasts, population growth and housing demand are assumed to be proportionate to employment growth, and, as such, they do not explicitly consider commuting patterns among counties.
- **UCLA** provides a national forecast and also a forecast for California upon which it places a substantial amount of its research efforts. Consequently, the UCLA forecast of the California economy is highly regarded. UCLA's forecast for California is for relatively strong levels of employment and population growth during the foreseeable future. A critical assumption underlying this forecast is that California is expected to experience a substantial amount of net in-migration, at levels which are comparable to those that occurred during the 1980's. In making this forecast of continued significant in-migration, UCLA cites the State's economic opportunities and desirable lifestyles made possible by the following: receptivity to new ideas, a business atmosphere that promotes commercialization, and a temperate climate.

- **Chapman University (CU)** established the Anderson Center for Economic Research in 1979 and, since then, has provided economic forecasts based upon the Chapman Econometric Model. Although CU currently provides economic forecasts for Orange, Los Angeles, and Riverside/San Bernardino counties, its major focus has been Orange County, and it is widely regarded as Orange County's premier forecasting group. CU also produces several Orange County indexes, such as a purchasing managers' index and a leading economic indicator series, which enhances its insight into Orange County economic conditions and prospects.
- **CSU, Fullerton (CSUF)** established the Institute for Economic and Environmental Studies in 1992, and it has provided economic forecasts based upon a "comprehensive econometric models of the regional economy to forecast employment, output, income, and tax revenues". CSUF currently provides forecasts for Orange, Los Angeles, Riverside-San Bernardino and Ventura counties; however, its major focus is Orange County.
- **CSU, Long Beach (CSULB)** founded the Office of Economic Research in 1990, and it provides economic forecasts for Los Angeles, Orange, Riverside-San Bernardino, and Ventura counties. However, CSULB does not focus as strongly on Orange County's economic conditions as CU and CSUF.
- **Los Angeles Economic Development Corporation (LAEDC)** is a private, non-profit organization established in 1981 with the mission to attract, retain, and grow businesses and jobs in the Los Angeles region. LAEDC provides economic forecasts for the nation, state, as well as Los Angeles, Orange, San Bernardino and Riverside counties. LAEDC forecasts are based upon extensive surveys of industries as well as individual businesses and local government policy trends and, as such, it does not utilize an econometric model.
- **California Employment Development Department (EDD)** provides employment forecasts for all of the counties in California, typically on a two year cycle as compared to annually. For Orange County, the most recent forecast covers the 2005-2010 time period. According to EDD's *Industry Projections – Introduction and Methods*, forecasts are based on a county's past employment trends within each industry and are refined by a review of current economic developments within the local community that affect employment in each industry; additionally, state level trends are also considered. EDD explicitly notes nine assumptions underlying its analysis relating to technological trends, government finance, population growth rates, and personal attitudes, among others. Preliminary employment forecasts are produced by a mathematic model, and adjusted over the forecast period based on local and State developments.

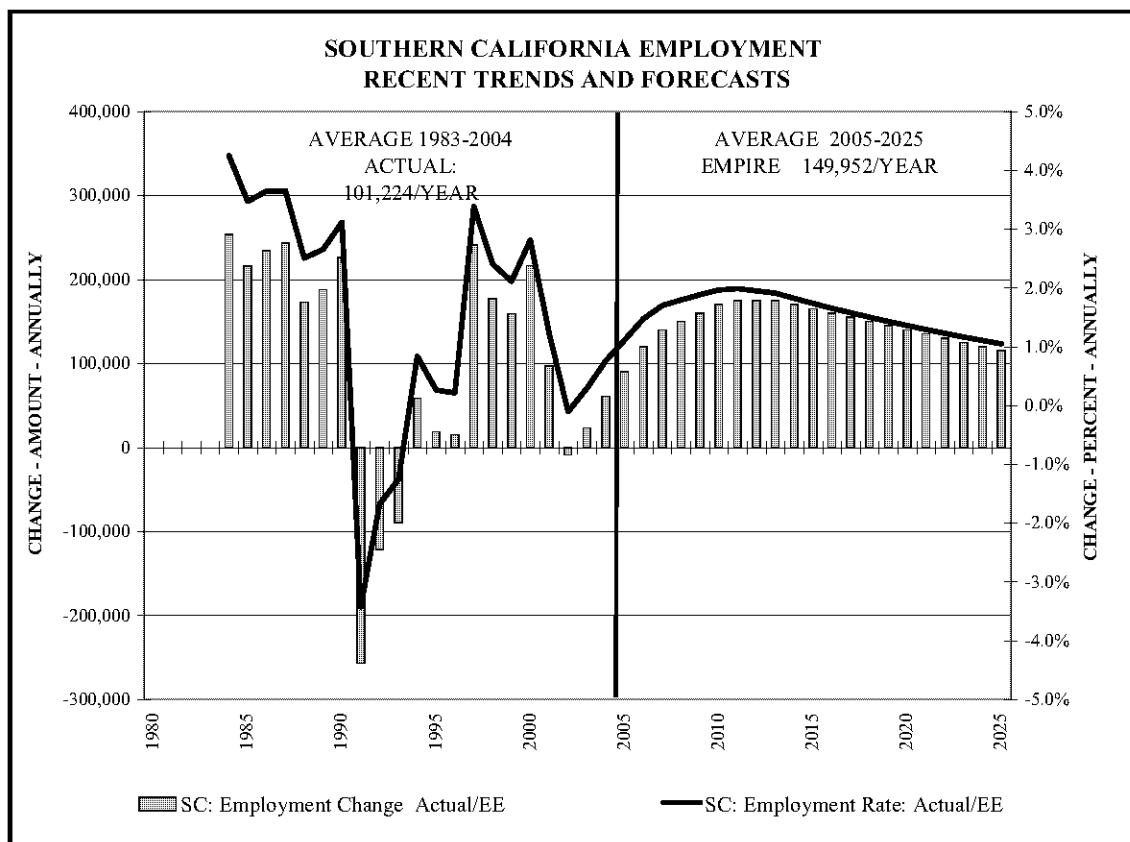
A comparison of the forecasts revealed some significant differences among them which can be attributed to the following: (a) whether the forecaster was nationally or regionally oriented; national forecasters consider all/several states and counties as compared to regional sources where forecasters have a higher degree of familiarity with the state and local economies and (b) the forecaster's methodology: econometric model/quantitative as compared to conceptual/qualitative.

Empire formulated a Consensus Forecast that blends the expectations of the various forecasters, rather than selecting a single forecaster, based upon the results of a comprehensive study of forecasts conducted by the Federal Reserve Bank of New York which concluded that:

- Consensus Forecasts, defined as combining the forecasts of several firms or agencies, were found to have a consistently higher degree of accuracy and reliability than any particular forecaster, and

- In analyzing the accuracy and reliability of the forecasts by six sub-groups, the forecasts with the highest degree of accuracy and reliability were issued by banks, manufacturing firms and econometric modelers. DRI, UCLA, CU, CSUF, and CSULB are all classified as econometric modelers, while LAEDC and EDD use less rigorous forecasting methods.

The Southern California Consensus long-term employment forecast is for employment to grow by some 3,065,000 during the 2005-2025 time period, for an average of some 149,952 per year. With regards to the growth rates for various time periods, they are expected to be as follows: during 2005-2010 growth of 132,000 per year or 1.58% annually, during 2011-2015 a substantially higher rate of growth of 173,000 per year or 1.89% per year and then growth rates declining gradually thereafter: during 2016-2020 some 155,000 or 1.55% per year and during 2021-2025 some to a 130,000 for a rate of some 1.21% annually. By comparison, the recent employment growth rates during 1983-2004 amounted to 101,224 per year, on the average, and this time period includes a major economic recession.



Note: Fiscal Years: For example, 2005 represents July 1, 2005 to June 30, 2006

## PART II

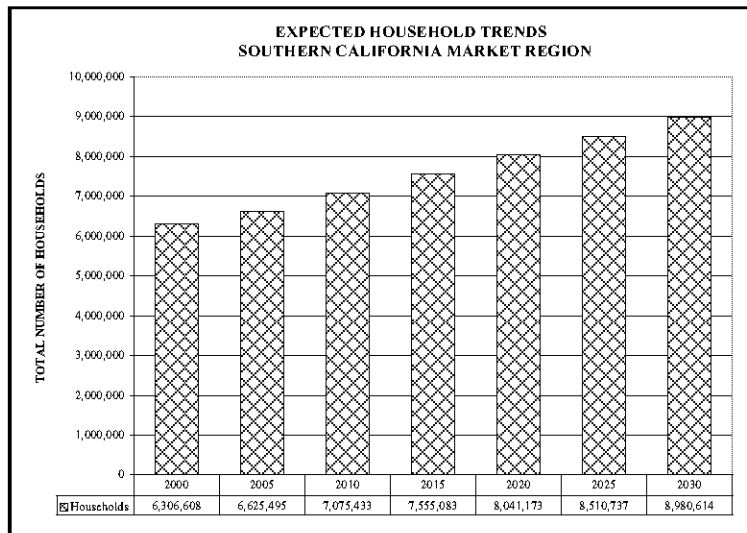
### LONG-TERM HOUSING FORECAST

The purpose of this section is to discuss the long-term housing growth prospects for the Southern California Market Region, as a whole, and also each of its counties, in particular. First, the potential supply of new residential projects, as represented by various governmental agencies, is discussed. Secondly, the probable demand for such projects, based upon a consensus forecast of the expected economic conditions, is presented. Then later, in a following section, the long-term housing supply-demand conditions for Southern California and its various counties are reconciled.

#### Supply Conditions: Housing Planning Projections

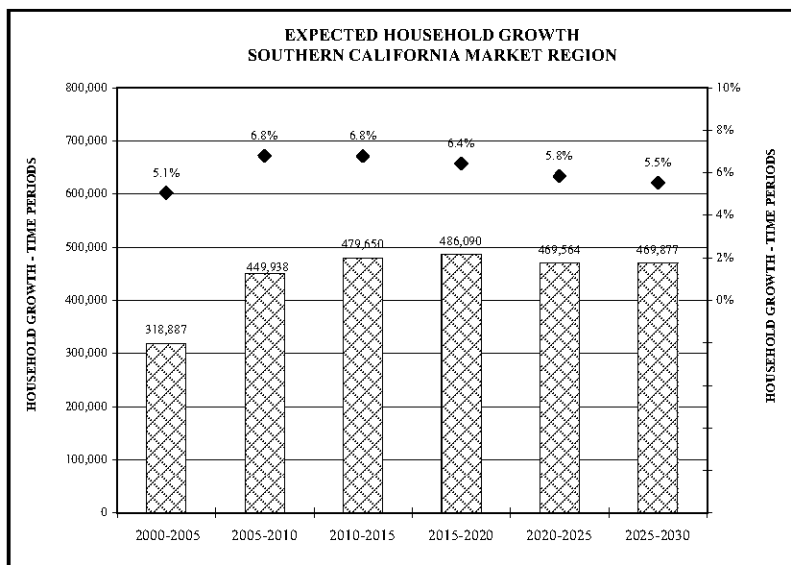
The long-term development potential or supply for residential growth in Southern California is based upon the forthcoming housing projects that are being considered in the current/long-range planning processes of the various counties and cities. This information is compiled by two governmental agencies: Southern California Association of Governments (SCAG) for Los Angeles, Orange, Riverside, San Bernardino and Ventura counties/cities as well as the San Diego Association of Governments (SANDAG) for San Diego County and its cities. These planning projections or supply are considered to be reasonable estimates of the development potential for the forthcoming housing projects since they are based upon probable land-use policies of the governing planning jurisdictions.

For Southern California, as a whole, housing is expected to rise from a level of 6,306,608 in 2000 to a level of 8,980,614 in 2030, an increase of some 2,674,006, for a growth rate of some 89,134 or 1.41% per year, on the average.

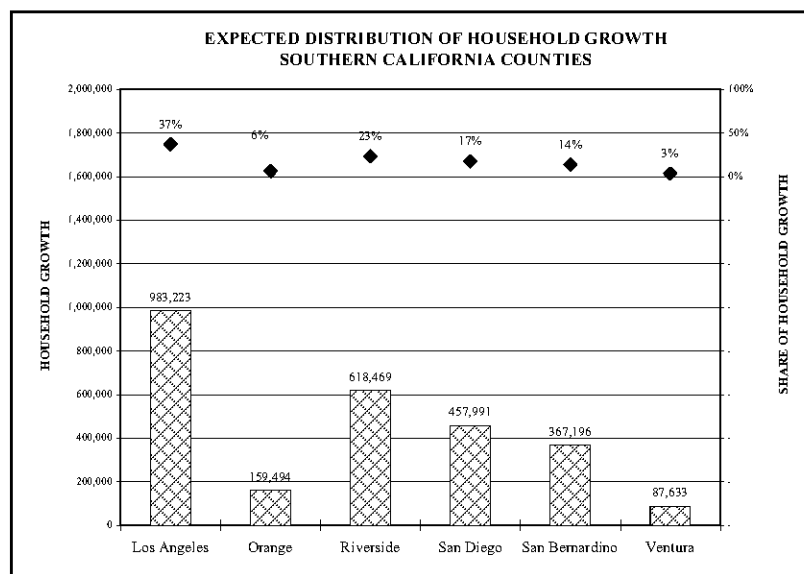


*Note: Fiscal Years*

The pattern of growth during these time periods shows that the strongest growth rates are expected to occur during 2005-2010 (449,938 or 1.36% annually) followed by moderate growth rates during 2010-2015 (479,650 or 1.36% annually), and then similar growth levels/rates for 2015-2020, 2020-2025 and 2025-2030 (475,177 or 1.19% annually, on the average).

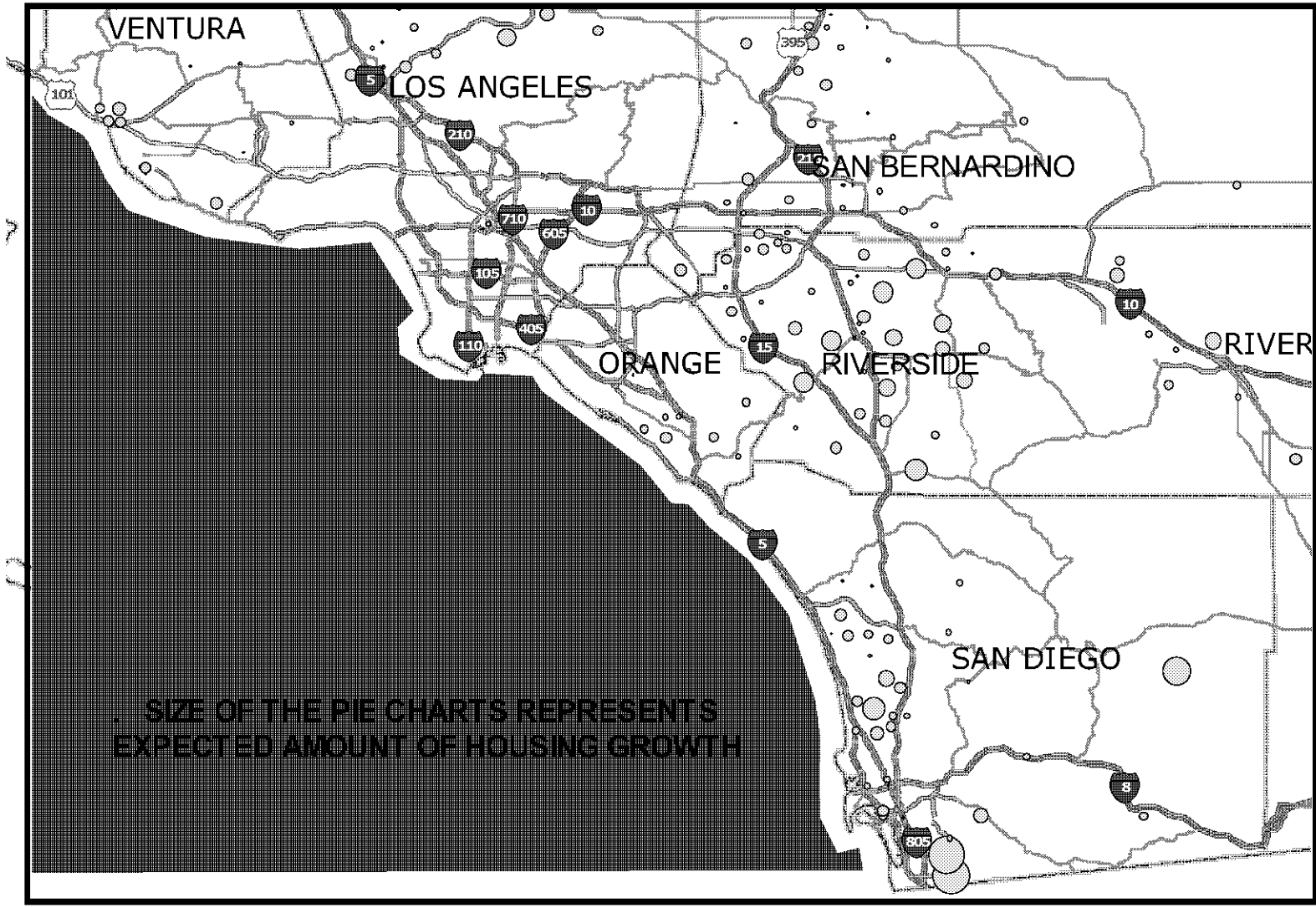


With respect to the geographical distribution of the housing growth for the various Southern California counties during the 2000-2030 time period, there are substantial variations among them, and these are as follows:



Los Angeles County is expected to experience the largest numerical amount of housing growth, some 983,223, some 36.8% of all the housing growth in Southern California during 2000-2030; this can be attributed to the SCAG policy of promoting additional development in the LA Urban Core.. Riverside County is expected to experience the second largest numerical amount of growth, some 618,469 for a share of 23.1%. San Diego County is next with an expected growth of 457,991 or 17.1%, followed by San Bernardino County with a growth of 367,196 or 13.7%. Orange County is expected to have housing growth of 159,494, due to the scarcity of developable property, for a share of 5.96%. Finally, Ventura County has the lowest rate of growth, 87,633 for a share of only 3.3%.

For additional information on the geographical distribution of housing growth within Southern California during the 2000-2020+ time period, please refer to the exhibit on the following page.



## **Consensus Forecast of Housing Demand for Southern California**

The expected employment growth for Southern California (SC), along with the ratio of new homes to new employment, is utilized as a foundation for estimating the amount of housing demand during the 2005-2025 time period. Employment growth is the primary determinant of housing demand because it provides households with the financial capability and the confidence to purchase housing.

Based on the historic H/E ratios for SC, the Empire's Consensus Forecast Model assumes a H/E ratio of 0.67 for SC. This ratio is the average annual H/E ratio that SC has actually experienced during the 1981-2005 time period. During 2002-2005, there have been declining levels of employment yet strong housing market conditions; this aberration can be attributed to the record low levels of mortgage rates.

SC's housing growth during the 2005-2025 time period is forecasted by starting with the SC Consensus Employment Forecast and multiplying this by the estimated H/E ratios for SC.

### **Recap of Recent Trends**

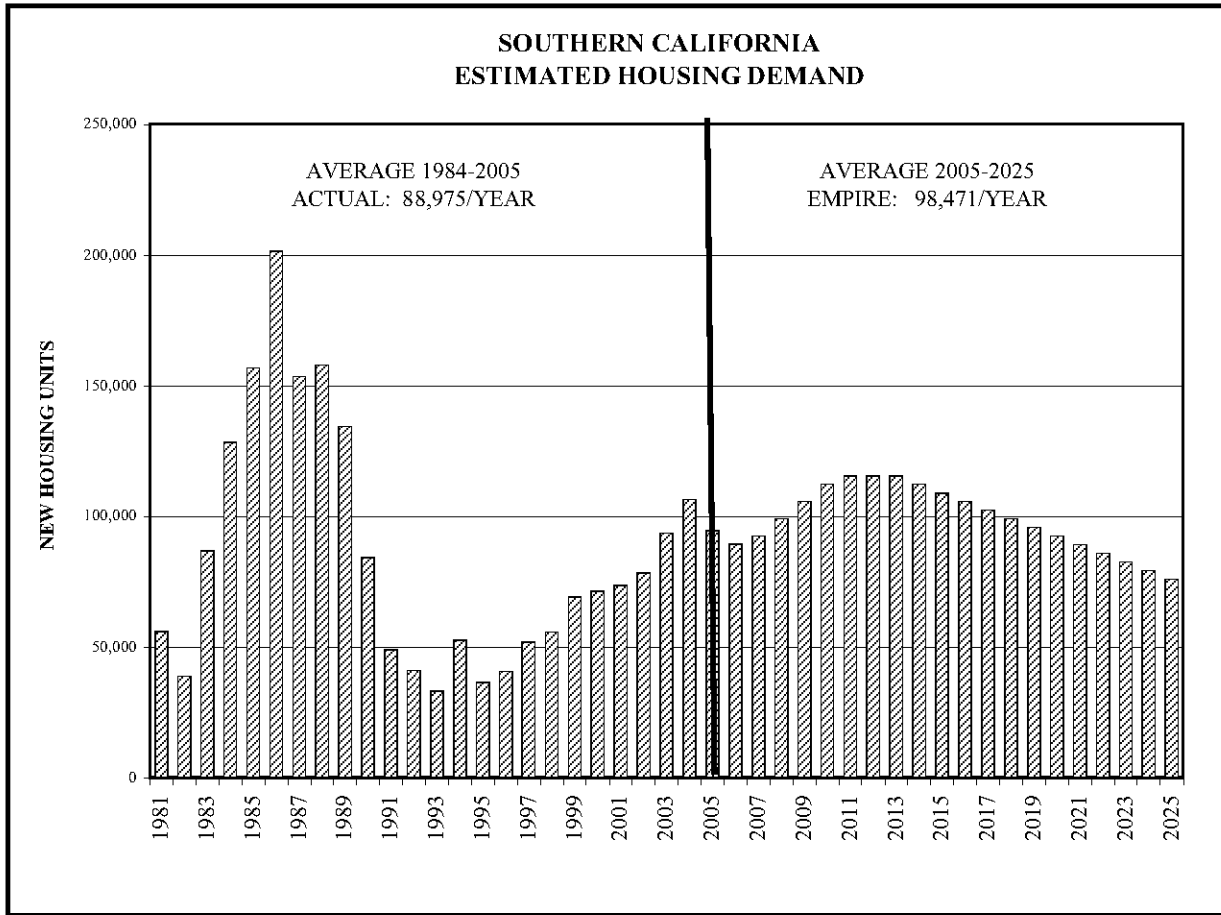
- During the 1984-1990, when employment growth was strong, the demand for new homes in SC averaged 145,181 units per year.
- However, from 1991 through 1996, during a severe economic recession, the demand for new homes in SC declined dramatically to 42,109 units per year.
- From 1997 through 2001, as the economy began to recover, the demand for new homes in SC rose moderately to 64,287 units per year.
- During 2002 through 2005, as purchasers took advantage of record low levels of mortgage rates, the demand for new homes in SC rose substantially to 92,705 units per year.

### **Forecast of Future Demand**

By multiplying the Consensus Employment Forecast for SC times the estimated future H/E ratios for SC, the forecast is that SC is expected to experience a total demand for 2,067,900 new housing units during the 2005-2025 time period, approximately 98,471 new units per year, on the average.

- During the 2005-2010 time period, the aggregate level of employment in SC is forecasted to rise, and so the average annual demand for new homes is expected to increase to 96,120 units per year.
- During the 2011-2015 time period, the rate of employment growth is forecasted to increase, and so the demand for new homes is expected to rise to a level of 114,180 units per year.
- During the 2016-2020 time period, the rate of employment growth is forecasted to moderate, and so the demand for new homes is expected to decline to a level of 102,300 units per year.
- During the 2021-2025 time period, the rate of employment growth moderates further, and the level of new housing demand is expected to decline to a level of 85,800 units per year.





*Note: Fiscal Years: For example, 2005 represents July 1, 2005 to June 30, 2006*

The forecasts of the demand for new housing in SC during the 2005-2025 time period are regarded as being reasonable based on the blended Consensus Employment Forecast and the assumptions made in the Study with respect to future H/E ratios. Specifically, the expected level of housing demand during the 2005-2025 time period, some 98,471 units per year on the average, is somewhat, though not significantly higher than the actual level of housing demand during the 1984-2005 time period, some 88,975 units per year on the average.

## **Expected Distribution of Housing Demand within Southern California**

The purpose of this section is to estimate the distribution of the aggregate level of demand for new homes for Southern California (SC), as derived in the previous section, among the various counties within Southern California, including Orange County (OC), Riverside County (RC), San Bernardino County (SB), Los Angeles County (LA), San Diego County (SD) and Ventura County (VC).

The SC-Counties, as a whole, essentially represent a self-contained equilibrium with respect to employment and housing because the vast majority of households employed in SC also have their primary residences in SC. For individual SC-Counties, however, there are employment/housing disequilibria because the members of many households live in one county but work in another. A typical example of this would be a person working in Orange County, in an urbanized employment centers, who chooses to live in Riverside County, in a suburban residential area. Such households seek employment in Orange County, since it offers much higher income opportunities, and simultaneously seek housing in Riverside County, since it provides an opportunity for their families to own a home.

As discussed below, the methodology utilized by Empire to allocate future housing growth among the various SC-Counties involves a comparison of the POTENTIAL demand for new housing to the PROBABLE demand for new housing.

For each SC-County, the POTENTIAL demand for new housing is calculated for the 2005-2025 time period by multiplying the amount of forecasted employment growth for each SC-County by the forecasted SC H/E Ratio. Accordingly, the potential demand for housing for each SC-County is the level of demand that the county would actually experience if all of the newly employed people in a county established their residences in the same county. Since this would produce a result where the total demand for housing for all counties equals the aggregate amount estimated for SC as a whole, the algorithm is internally consistent.

For each SC-County, however, there is a difference between the POTENTIAL demand and the PROBABLE demand for housing for two reasons. First, each county has dramatically different development potentials for Business Parks and Planned Communities. Second, the extensive transportation network throughout SC gives residents a great deal of latitude in selecting a residence given any particular job location. Accordingly, the factors underlying the estimation of the PROBABLE levels of demand within each SC-County are now discussed.

## **Southern California Development Trends and Commuting Patterns**

Despite geographic, political, and economic differences, Southern California has established itself as a cohesive, well-integrated economy. Furthermore, when SC has been impacted by dramatic economic changes, the real estate market has responded in a systematic and logical manner.

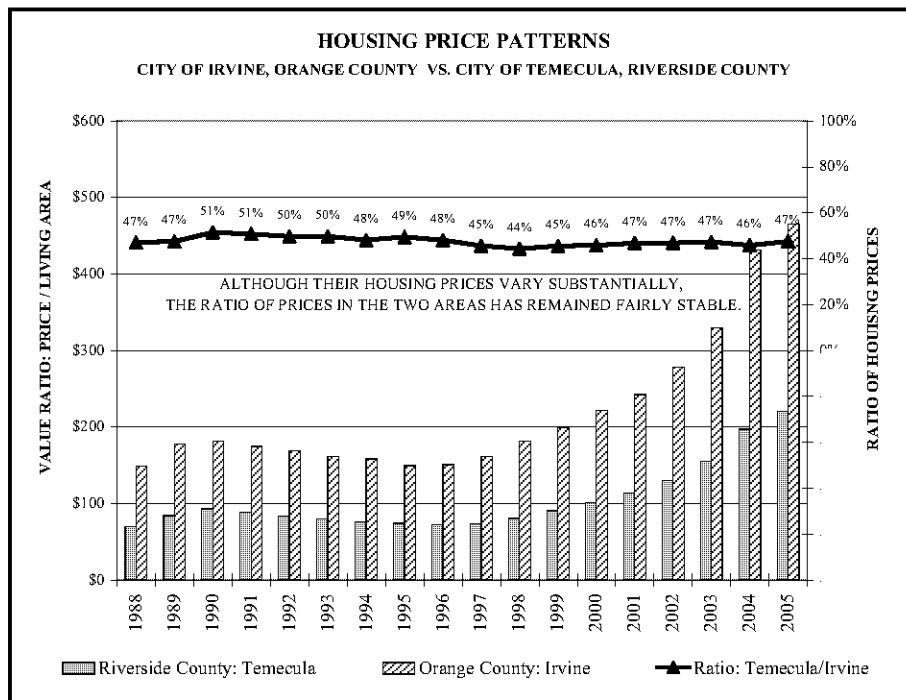
### **Overview of Current Development Patterns: Southern California as a Coherent Economy**

SC's development patterns originated with the formation of the City of Los Angeles and have since expanded outwards in a systematic fashion. These development patterns have followed the transportation system and the topography that is conducive to development, with the pace of expansion being driven by the rate of employment growth. Presently, the development patterns can be generally characterized as follows:

- The "urbanized" areas, those generally situated along the coast, such as the coastal portions of LA/OC/SD, have relatively high market shares of luxury and move-up housing, townhomes and condominiums, office buildings, and major regional retail centers.
- The "suburban" areas, such as the western portions of RC/SB, feature lower-priced move-up housing (especially in areas with hillside orientations), entry-level housing, major distribution centers, light industrial, and locally oriented retail centers.
- The "rural" areas, such as the central portions of RC/SB/SD and the high-desert areas of Lancaster-Palmdale/Victor Valley, feature primarily entry-level homes and housing for seniors and retirees.
- The "second-home" areas, primarily for seasonal use, are Coachella Valley, Palm Springs and Palm Desert as well as the San Bernardino Mountains, Lake Arrowhead and Big Bear; most of the second-home owners have their primary residence in Southern California.

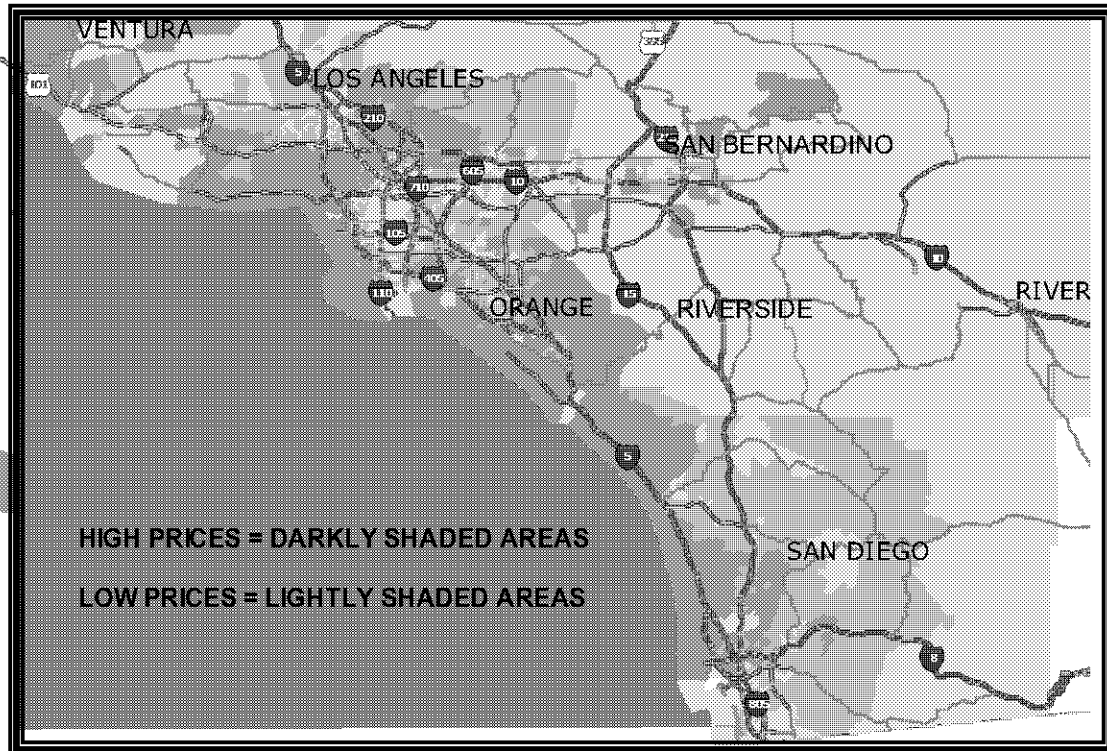
### Economic Incentives Underlying Commuting

The economic feasibility of commuting is driven by housing price differences between homes near employment centers in urbanized areas and homes located in suburban areas at varying distances from the urban employment centers. For instance, the value ratio (the price divided by living area) trends for a home in OC-Irvine, near a major employment center, was \$181 in 1990, declined to a low of \$150 in 1995, and then recovered to attain a new peak level of \$465 in 2005. During this same time period, the price of housing in Temecula, a newly developing residential area in RC some fifty miles away that offers lower-priced housing, followed a similar pattern: \$93 in 1990, a low of \$72 in 1996, and then a new peak level of \$220 in 2005. Consequently, the ratio of the price of housing in Temecula to Irvine during 1988 to 2005 remained within a fairly stable range during this time period of some 44%-51%. Therefore, builders with residential projects in Irvine and Temecula competitively set the prices of their homes so that an approximate equilibrium was maintained between these two areas.



Given the economic incentive to commute generated by lower cost housing, the attractiveness of various suburban residential areas depends on various factors, with the most significant being the transportation systems that connect the housing areas to the employment centers.

The prices of homes in the various SC-Counties are represented on the map below: the higher prices are generally found in the coastal areas (darkly shaded), lower prices are generally in the inland valleys (lightly shaded), and moderate prices between these two areas (medium shaded).



### Commuting Patterns within Southern California

SC's residential development patterns and the systematic locational-pricing structure that determines the commuting patterns among the various SC-Counties have been well established in both "static" (for a particular year) and "dynamic" (over various years) frameworks.

#### **"Static" Price-Location Relationships:**

- The price of housing is influenced by numerous factors, including location, size of living area, lot size, features, and amenities. Of these, the most significant is typically location, which in Southern California translates into coastal as compared to inland.
- For example, the price of a comparable home (with a similar lot size, living area, and other features) declines as its distance from the (LA-OC-SD) employment centers and coastal areas increases. The reduction in price reflects the discount that is required for households to endure the longer commute between their place of residence and their place of employment.

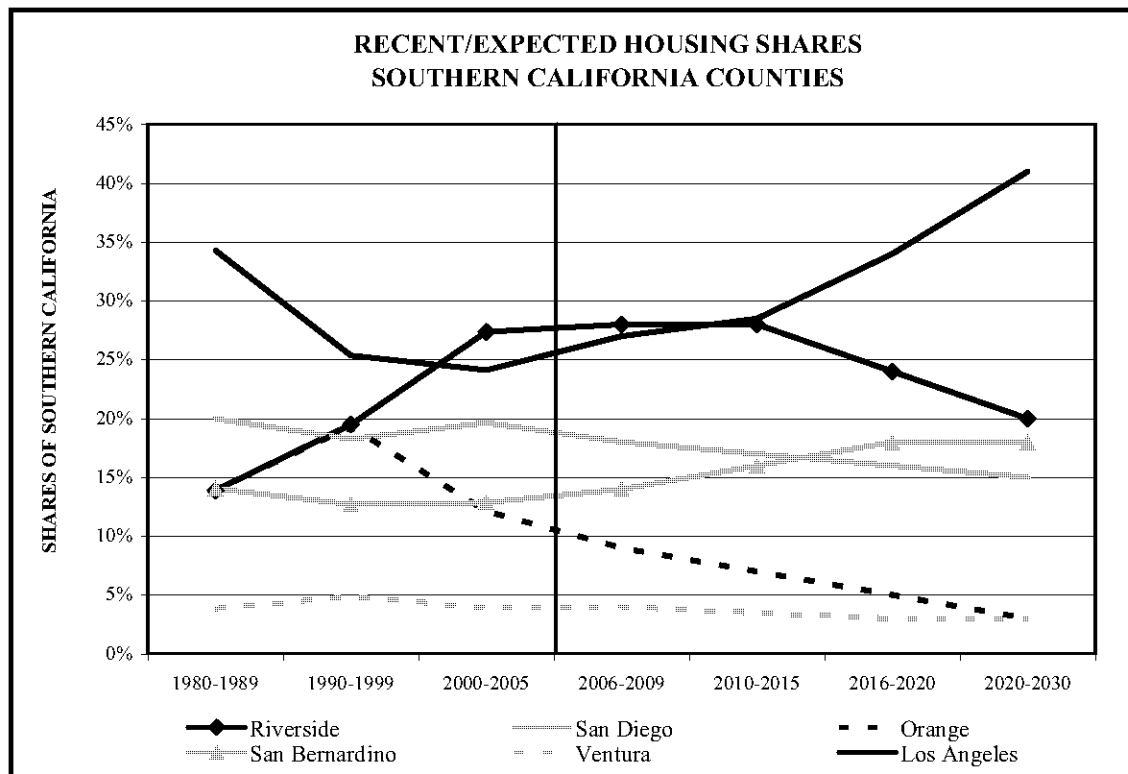
This price relationship is similar among the alternative commuting corridors, from Los Angeles and Orange County to Palmdale-Lancaster, Victor Valley, and Hemet-San Jacinto. In fact, the competitiveness among housing projects situated in these various remote residential areas has resulted in similar prices for comparable homes despite their different locations along the development fringe. This is because the transportation network gives households the option to decide among these areas, which then causes builders in each of the areas to price their products competitively despite their different locations.

**"Dynamic" Price-Location Relationships:**

- The price relationships discussed above have remained intact over time, including the real estate boom of the late 1980's and also the recession of the early to mid 1990's.
- When the LA-OC-SD urbanized areas experienced high levels of economic growth during the mid to late 1980's, the developers/builders in the urbanized areas offered product types that maximized their economic returns. This included higher-priced move-up housing, townhouses, and condominiums. Consequently, many households that wanted to purchase moderately-priced move-up or entry-level detached homes went to the suburban and rural areas, and these areas, in turn, experienced increased demand and, thus, rising home prices.
- However, when LA-OC-SD experienced recessionary conditions during the early to mid 1990's, developers/builders in the urbanized areas dramatically shifted their product types in order to maintain their cash-flows. This included providing lower-priced move-up housing and some entry-level housing. Consequently, in order for the suburban and rural builders to effectively compete with the product mixes being offered in the LA-OC-SD urban areas, they also significantly reduced their prices for entry-level housing products in an attempt to maintain their market shares.

## Expected Market Shares of New Housing Demand for the Southern California Counties

Based on an analysis of the commuting patterns during the 1980-2005 time period and the factors underlying these patterns, Empire estimated the probable shares of new housing development for each SC-County during the 2005-2030 time period.



➤ **Decreasing Shares of New Housing:**

- For OC, from 12.1% during 2000-2005 to 3.0% in 2020-2030.
- For SD, from 19.6% during 2000-2005 to 15.0% in 2020-2030.
- For VC, from 3.9% during 2000-2005 to 3.0% in 2020-2030.
- For RC, from 27.4% during 2000-2005 to 20.0% in 2020-2030.

➤ **Increasing Shares of New Housing:**

- For SBC, from 12.9% during 2000-2005 to 18.0% in 2020-2030.
- For LA, from 24.1% during 2000-2005 to 41.0% in 2020-2030.

## PART III

### RECONCILIATION OF THE LONG-TERM HOUSING FORECASTS: POTENTIAL SUPPLY/SCAG AND PROBABLE DEMAND/CONSENSUS

**The purpose of this section is to reconcile the SCAG/SANDAG and Economic Consensus approaches: the SCAG/SANDAG projections of the SUPPLY for employment and housing versus the Empire's Economic Consensus forecast, referred to as Empire or Consensus Forecast, of the DEMAND for employment and housing.**

As discussed above, the development capacity for the forthcoming Business Parks and Planned Communities in Southern California and its various counties, as set-forth by SCAG/SANDAG, represents the potential supply for Business Parks (employment) and Planned Communities (housing). By comparison, the Consensus Forecast for employment and housing growth for Southern California (SC) and its individual counties represents the demand for Business Parks (employment) and Planned Communities (housing).

The Consensus forecasts for employment and housing in each of the SC-Counties may be higher or lower than the respective SCAG/SANDAG projections of employment and housing for each of the SC-Counties; the implications of such differences are as follows:

- If the Consensus Forecast is below the SCAG/SANDAG projection, then the unconstrained DEMAND for employment and/or housing can be fully accommodated by the amount of SUPPLY or development capacity.
- If the Consensus Forecast exceeds the SCAG/SANDAG projection, then the unconstrained DEMAND for employment and/or housing exceeds the SUPPLY or development capacity. Although such a scenario implies that a county has the potential for additional development, such development would only be realized if additional Business Parks and/or Planned Communities are able to secure development approvals. The potential for securing such entitlements varies for employment/Business Parks as compared to housing/Planned Communities; the reasons are discussed below.
- Employment growth (beyond the identified capacity) can typically be accommodated by more intensively developing the proposed industrial-office properties; for instance, by adding additional stories to a proposed structure such as an office building, and, as such, does not require additional amounts of property.
- Residential growth (beyond the identified capacity) is significantly more difficult to accommodate for the following reasons:

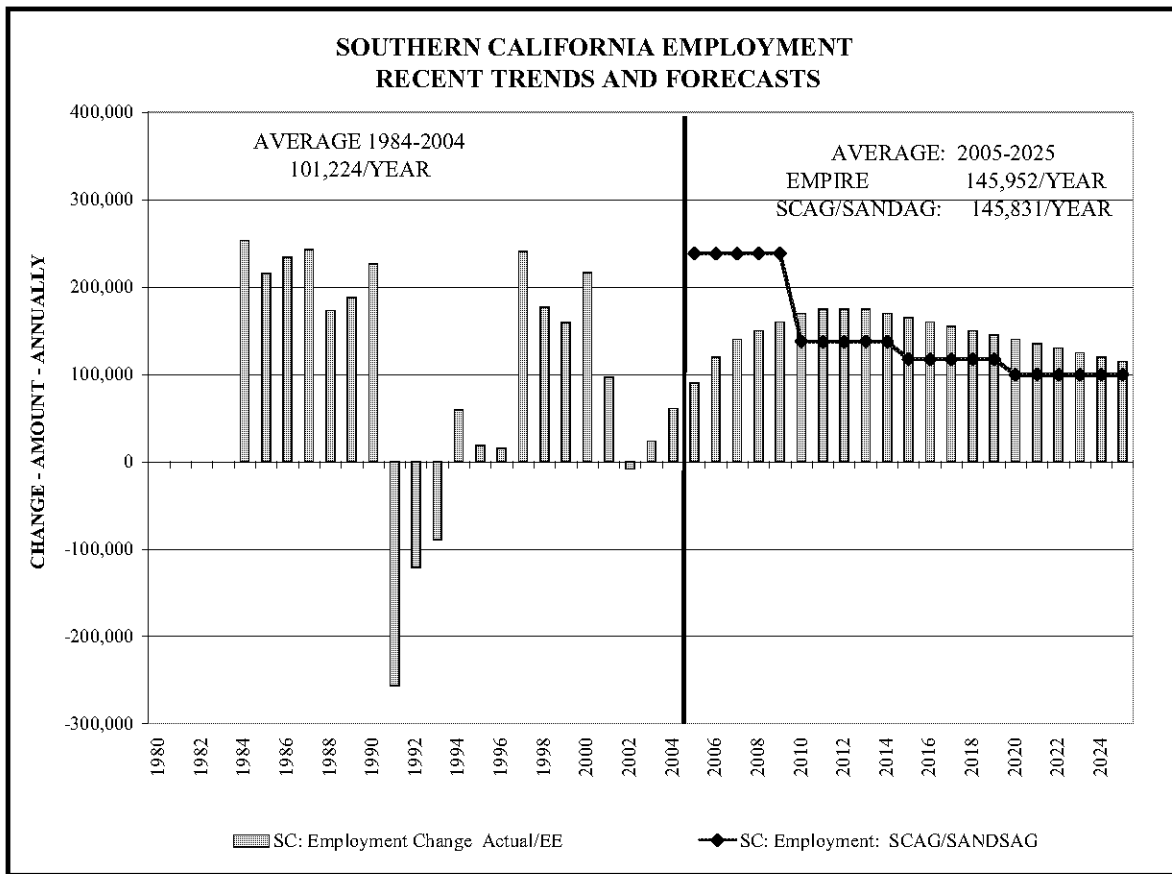
The development of Planned Communities, which typically feature single-family housing, requires large parcels of undeveloped property. Furthermore, due to various planning and environmental issues, the developer must typically endure a lengthy and costly process to secure entitlements.

An alternative to such new Planned Communities is to shift already entitled but undeveloped property from single-family to multiple-family products (townhomes, condominiums and apartments), thereby increasing the number of housing units that a given parcel of property would yield. However, the extent to which such product type shifts are feasible are often constrained, since multi-family housing typically appeals to households without children while single-family housing is strongly desired by households with children.

**Southern California Employment/Housing Comparisons**

A comparison of employment and housing SCAG/SANDAG (SS) Projection and the Empire Consensus Forecast for Southern California (SC), as a whole, reveals the following similarities/differences:

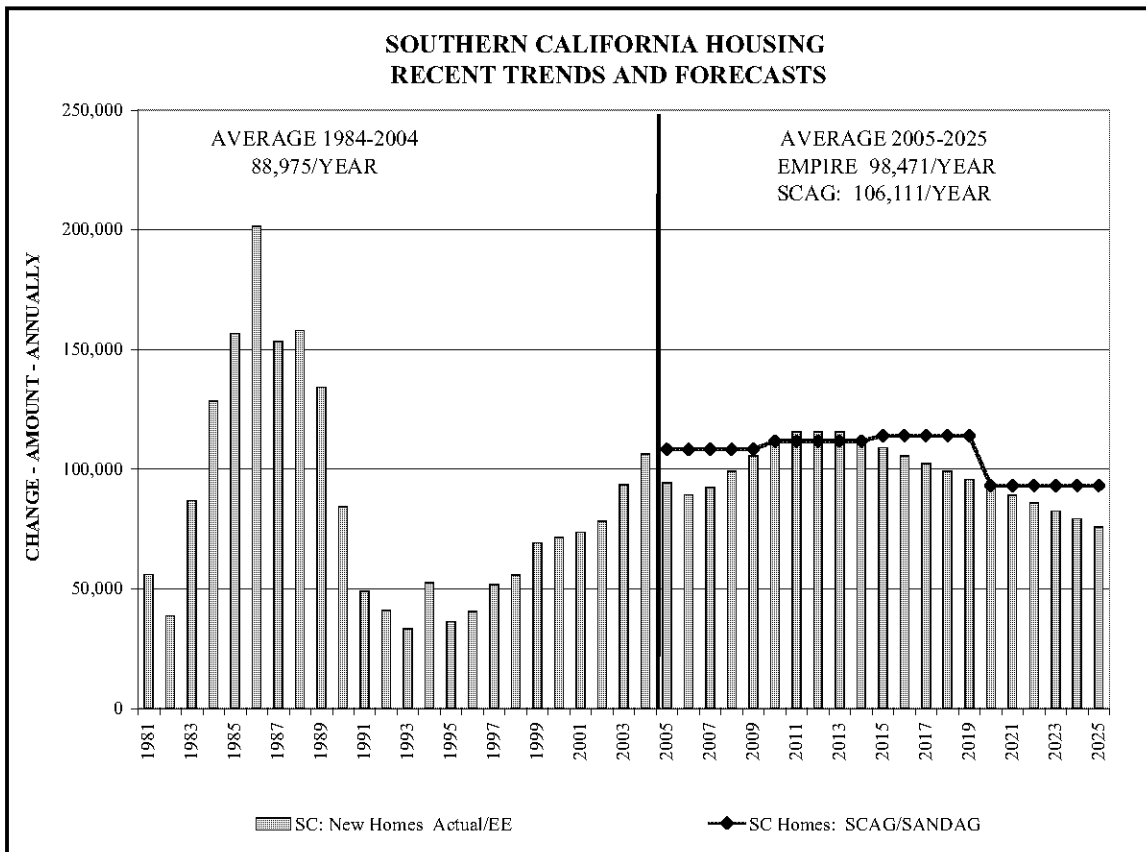
- For employment growth during the 2005-2025 time period, as a whole, the Empire Forecast of 145,952/yr. is similar to the SS Projection of 145,831/yr., a differential of less that 1.0%. However, there are some significant variations between the Empire Forecast and the SS Projection with regards to the distribution of the growth within this time period: During 2005-2010, the Empire Forecast is substantially below the SS Projection, due to the slower than expected recovery for employment, but then this lower rate of growth is eventually recouped during 2005-2025 when the SS Projection is below the Empire Forecast.



Note: Fiscal Years: For example, 2005 represents July 1, 2005 to June 30, 2006



- For housing growth during the 2005 to 2025, Empire Forecast for some 98,471 homes per year is somewhat lower than the SS Projection for 106,111 homes per year, a differential of some 8%. Specifically, during 2005-2008, the Empire Forecast is below the SS Projection, next they are similar during 2009-2014, and then the Empire Forecast is lower during 2015 to 2025.



*Note: Fiscal Years: For example, 2005 represents July 1, 2005 to June 30, 2006*

### Comparison of SS Projections and Empire's Consensus Forecast

For Southern California, as a whole, the Empire Forecast for employment growth is similar to the SS Projection of development capacity, and so the SS Projection is supported by the Empire Consensus Forecast. With regards to the Southern California housing, the Empire Forecast is somewhat lower than the SS Projection of development capacity, and this can be attributed to the SS Projection making the assumption about a substantial amount of new housing in downtown Los Angeles (LA). However, with regards to SS Projection of development capacity in the other parts of Southern California (excluding downtown LA), the Empire Forecast supports the SS Projection.

Therefore, the SS Projections are supported by the Empire Consensus Forecast with respect to Southern California's development capacity for employment and housing; the only exception is for a substantial amount of housing development in downtown LA.

However, with respect to the forecast during the 2005-2025 time period on a year to year basis, the Market Absorption Study uses the Empire Forecast, since it is based upon a consensus forecast, rather than the planning projections.

## PART IV

### **GEOGRAPHICAL DISTRIBUTION OF EMPLOYMENT/HOUSING GROWTH AMONG SOUTHERN CALIFORNIA MARKET AREAS**

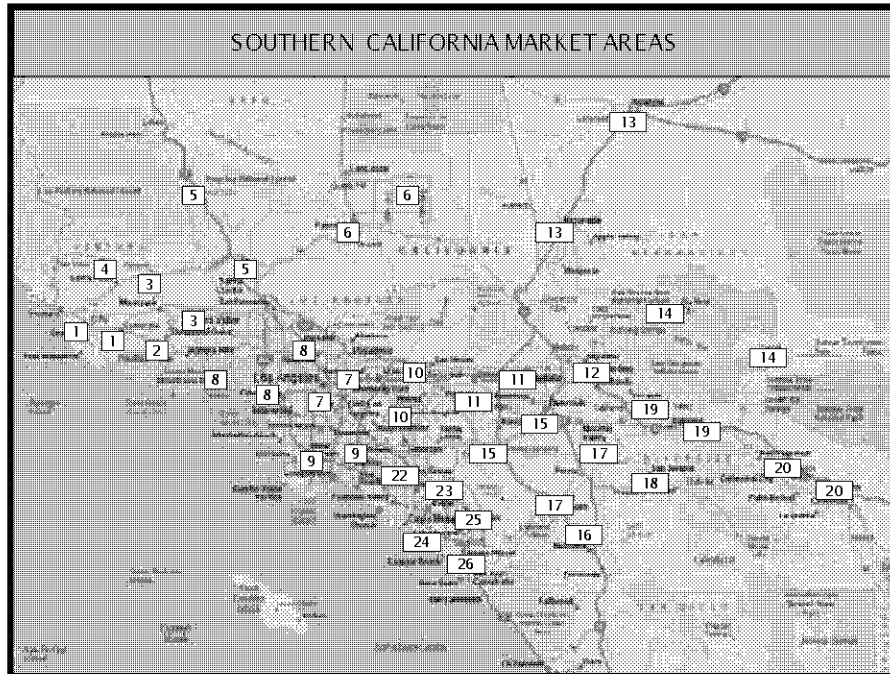
**The purpose of this section is to discuss the geographical distribution of the expected employment and housing growth for the Southern California Market Region among the various market areas, in general.**

#### **Characteristics and Development Potential of the Southern California Market Areas**

To identify the geographical development patterns for employment and housing within the Southern California Market Region, it has been partitioned into thirty-two Market Areas, with the boundaries of each of these based upon a consideration of the following:

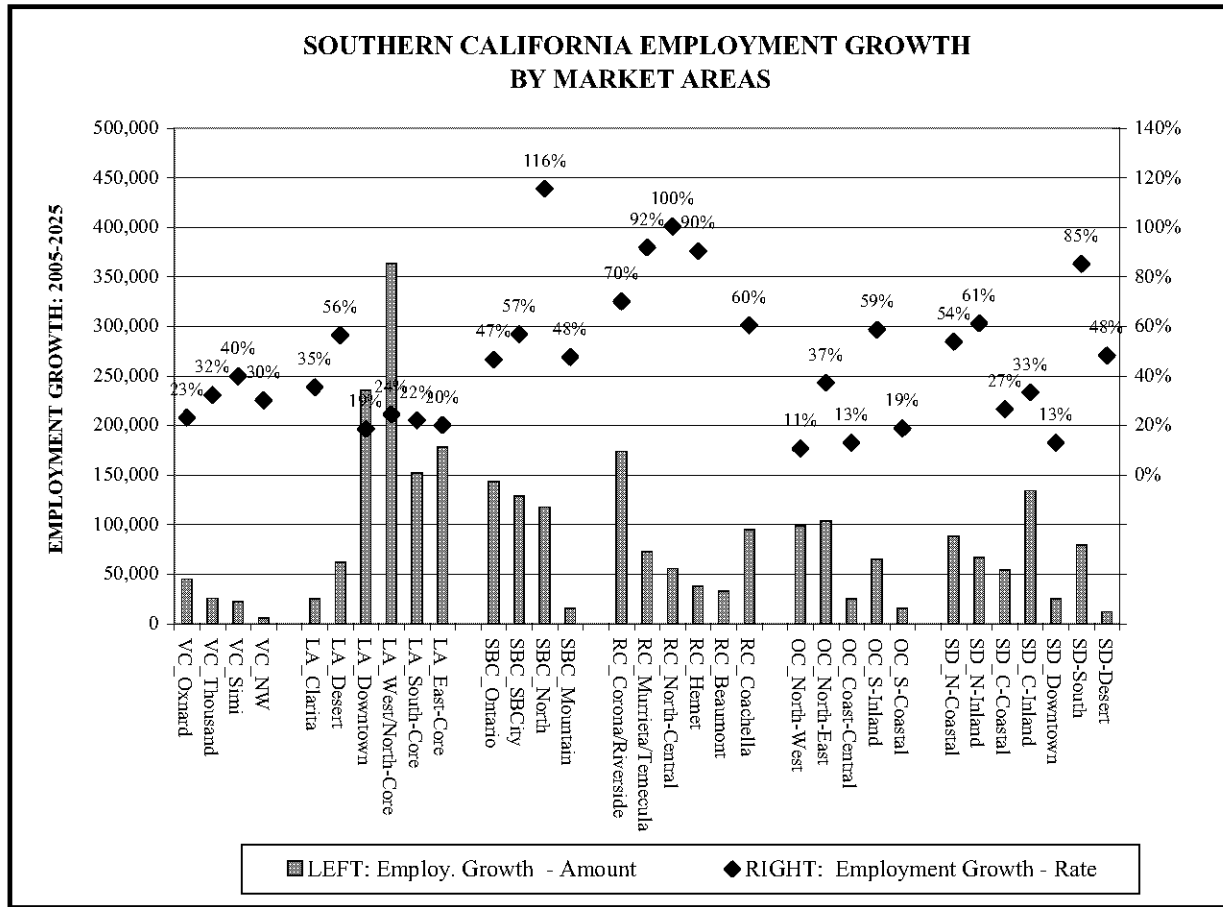
- Topographical features, such as coastal, inland valleys, or high-desert.
- Inter-connecting transportation corridors that provide accessibility by way of freeways and other primary roads, such as Highways 5, 405, 210, 14, 60, 91, 15, 215 and 10, major Southern California transportation freeways.
- Economic maturity of the area according to the composition of its development activity, such as urban, suburban or rural.

Accordingly, the characteristics of these Market Areas are now discussed, with regards to the expected amounts of their employment and residential development potential.



Map Code	County	Market Area
1	VC	South-West
2	VC	South-East
3	VC	North-East
4	VC	North-West
5	LA	Santa Clarita
6	LA	North-Desert
7	LA	Downtown Core
8	LA	West/North-Core
9	LA	South-Core
10	LA	East-Core
11	SBC	West Valley
12	SBC	East Valley
13	SBC	North-Desert
14	SBC	Mountains
15	RC	North-West
16	RC	South-West
17	RC	North Central
18	RC	Central-East
19	RC	Central
20	RC	Coachella Valley
22	OC	North-West
23	OC	North-East
24	OC	Coastal-Central
25	OC	South-Inland
26	OC	South-Coastal
27	SD	North-Coastal
28	SD	North-Inland
29	SD	Central-Coastal
30	SD	Central-Inland
31	SD	Downtown-Core
32	SD	South
33	SD	Inland-Desert

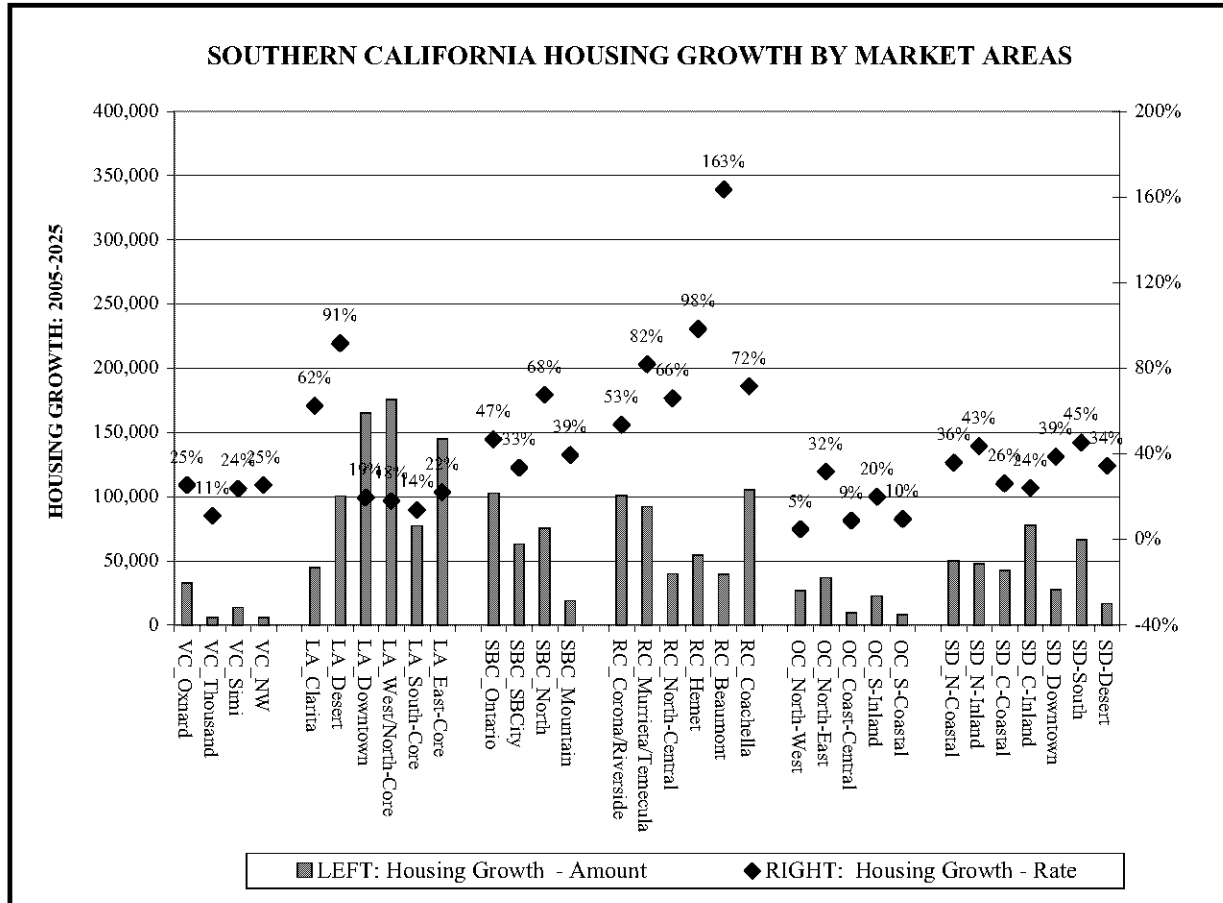
The expected development potential of the Market Areas with respect to employment is gauged using the total amount of growth and also the percentage rate of growth during 2005-2025; these are represented on the following graph:



Note: Fiscal Years: For example, 2005 represents July 1, 2005 to June 30, 2006

The Market Areas with the highest expected amounts of employment growth, more than 150,000 new positions during 2005-2025, are LA-Downtown, LA-West/North Core, LA-South Core and LA-East Core, all of which have relatively large employment bases, as well as RC-Corona/Riverside. While the Market Areas with the greatest percentage changes, 90% or more during 2005-2025, are expected to be SBC-North, RC-Murrieta/Temecula, RC-North/Central and RC-Hemet; these areas currently have relatively smaller employment bases.

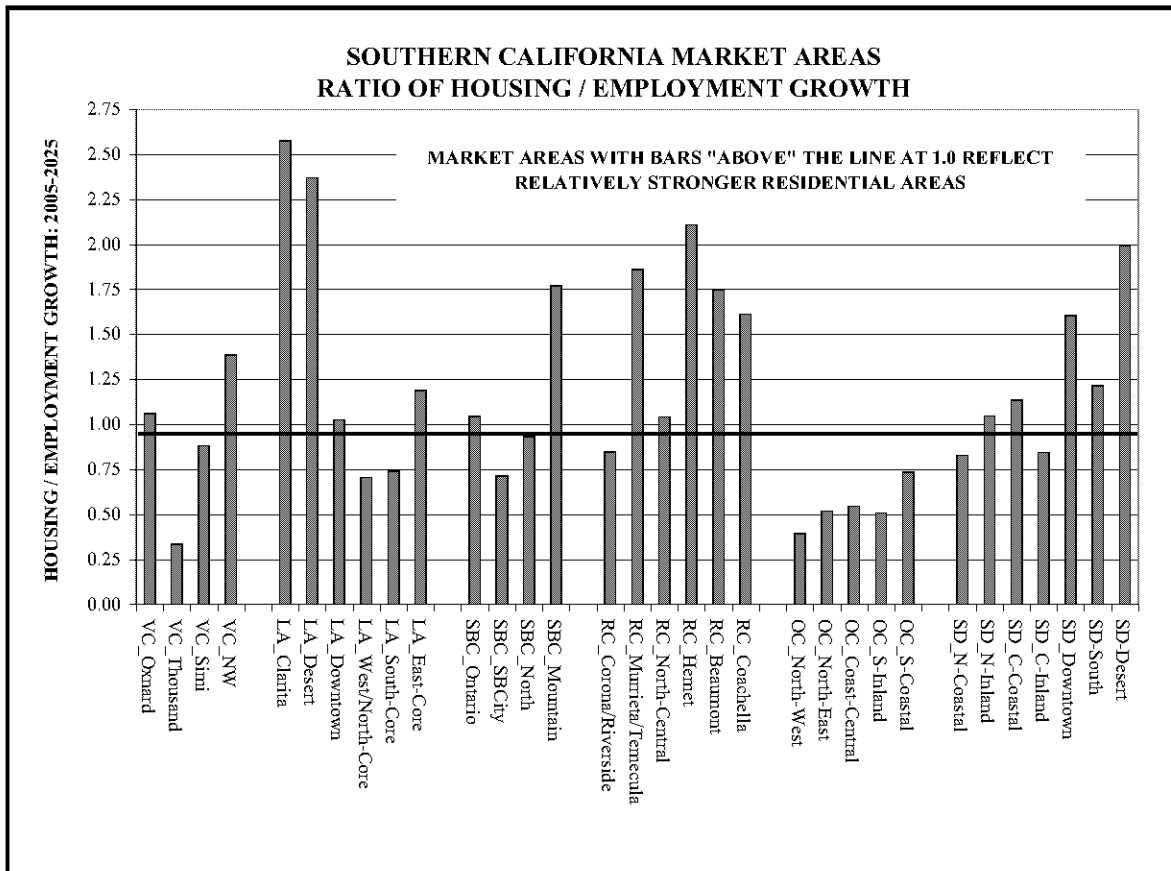
The expected development potential of the Market Areas with regards to new housing is gauged using the total amount of growth and also the percentage rate of growth during 2005-2025; these are represented on the following graph:



Note: Fiscal Years: For example, 2005 represents July 1, 2005 to June 30, 2006

The Market Areas with the highest expected amounts of housing growth, more than 100,000 new homes during 2005-2025, are LA-Downtown, LA-West/North Core and LA-East Core, areas that currently have relatively large amounts of existing housing that are expected to be redeveloped, also LA-Desert an area which has a substantial amount of developable property and SBC-Ontario as well as RC-Corona/Riverside and RC-Coachella. While the Market Areas with the greatest percentage changes, more than 80% during 2005-2025 are expected to be LA-Desert, RC-Murrieta/Temecula, RC-Hemet and RC-Beaumont, areas which currently have relatively small amounts of existing housing. Finally, it is worthwhile to note that the strong growth prospects for the LA-Downtown areas are based upon the SCAG policy of encouraging more development in the urbanized areas as compared to the rural areas.

The relative amounts of housing and employment growth are compared for each of the Market Areas, in order to identify whether they can be characterized as employment centers or residential centers. Specifically, this statistic is based upon the ratio of new housing to new employment: a relatively high ratio reflects a residential center (more homes than jobs) while a relatively low ratio reflects an employment center (more jobs than homes); these ratios appear on the following graph:



Note: Fiscal Years: For example, 2005 represents July 1, 2005 to June 30, 2006

So, the Market Areas which are expected to be among the strongest employment centers (ratio of below approximately 0.85) are located primarily in Orange County (OC), all of its Market Areas; Ventura County (VC), VC-Thousand Oaks; San Bernardino County (SBC), SBC-City; Riverside County (RC), RC-Corona/Riverside, and San Diego County (SD), SD-North Coastal and SD-Central Inland. While the Market Areas which are expected to be strong housing centers (ratio of more than 1.50) are Los Angeles County (LA), LA-Clarita and LA-Desert; SBC-Mountain; Riverside County (RC), Murrieta/Temecula, Hemet, Beaumont and Coachella; and San Diego County (SD), SD Downtown and SD Desert.

**Therefore, the analysis of the expected amounts of employment and residential growth in the various Southern California Market Areas reveals their characteristics as either employment or residential centers, and this, in turn, is utilized to gauge the development potential for the CFD Market Area, in particular.**



