

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Community Facilities District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2014 Bonds. See "LEGAL MATTERS — Tax Matters."*

**\$14,390,000**

**COMMUNITY FACILITIES DISTRICT NO. 03-1  
(NEWPORT ROAD)  
OF THE COUNTY OF RIVERSIDE  
SPECIAL TAX REFUNDING BONDS, SERIES 2014**

**Dated: Date of Delivery**

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

The Community Facilities District No. 03-1 (Newport Road) of the County of Riverside Special Tax Refunding Bonds, Series 2014 (the "Series 2014 Bonds") are primarily being issued and delivered by Community Facilities District No. 03-1 (Newport Road) of the County of Riverside (the "Community Facilities District") to refund the Community Facilities District's outstanding Special Tax Bonds, Series 2004 maturing on and after September 1, 2015. See "THE REFUNDING PLAN" herein. The Community Facilities District has been formed by and is located in the County of Riverside, California (the "County").

The Series 2014 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to an Indenture, dated as of December 1, 2014 (the "Indenture"), by and between the Community Facilities District and Wells Fargo Bank, National Association, as trustee (the "Trustee").

The Series 2014 Bonds are special obligations of the Community Facilities District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of parcels within the Community Facilities District subject to the Special Tax and from certain other funds pledged under the Indenture, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the Board of Supervisors of the County and the qualified electors within the Community Facilities District. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Special Taxes." The Board of Supervisors of the County is the legislative body of the Community Facilities District.

The Series 2014 Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof in book-entry form only. Purchasers of Series 2014 Bonds will not receive certificates representing their beneficial ownership of the Series 2014 Bonds but will receive credit balances on the books of their respective nominees. Interest on the Series 2014 Bonds will be payable on March 1, 2015 and semiannually thereafter on each September 1 and March 1. Principal of and interest on the Series 2014 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the beneficial owners of the Series 2014 Bonds. See "THE SERIES 2014 BONDS — General Provisions" and APPENDIX F — "BOOK-ENTRY ONLY SYSTEM" herein.

*Neither the faith and credit nor the taxing power of the County of Riverside, the State of California or any political subdivision thereof is pledged to the payment of the Series 2014 Bonds. Except for the Net Special Tax Revenues (as defined herein), no other taxes are pledged to the payment of the Series 2014 Bonds. The Series 2014 Bonds are special obligations of the Community Facilities District payable solely from Net Special Tax Revenues (as defined herein) and certain other amounts held under the Indenture as more fully described herein.*

The Series 2014 Bonds are subject to optional redemption, mandatory redemption from Special Tax prepayments, mandatory redemption from Allocable Road and Bridge Benefit District Fees and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE SERIES 2014 BONDS — Redemption" herein.

**Certain events could affect the ability of the Community Facilities District to pay the principal of and interest on the Series 2014 Bonds when due. The purchase of the Series 2014 Bonds involves significant investment risks, and the Series 2014 Bonds may not be suitable investments for many investors. 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 other matters set forth herein, in evaluating the investment quality of the Series 2014 Bonds.**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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MATURITY SCHEDULE  
(See Inside Cover Page)

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The Series 2014 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the Community Facilities District with respect to the Series 2014 Bonds. Certain legal matters will be passed on for the County and the Community Facilities District by the County Counsel and for the Underwriter by Nossaman LLP, Irvine, California, as counsel to the Underwriter. It is anticipated that the Series 2014 Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about December 16, 2014.

**STIFEL**

## MATURITY SCHEDULE

### \$8,940,000 Serial Bonds

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP<sup>†</sup></i>
2015	\$ 860,000	2.000%	1.400%	100.420	76911FSD7
2016	700,000	3.000	1.900	101.838	76911FSE5
2017	720,000	3.000	2.380	101.614	76911FSF2
2018	740,000	3.000	2.790	100.732	76911FSG0
2019	760,000	3.000	3.160	99.302	76911FSH8
2020	780,000	4.000	3.520	102.458	76911FSJ4
2021	810,000	4.000	3.850	100.874	76911FSK1
2022	840,000	4.000	4.150	99.014	76911FSL9
2023	875,000	4.125	4.380	98.164	76911FSM7
2024	910,000	4.250	4.530	97.814	76911FSN5
2025	945,000	5.000	4.640	102.781 <sup>C</sup>	76911FSP0

### \$5,450,000 Term Bonds

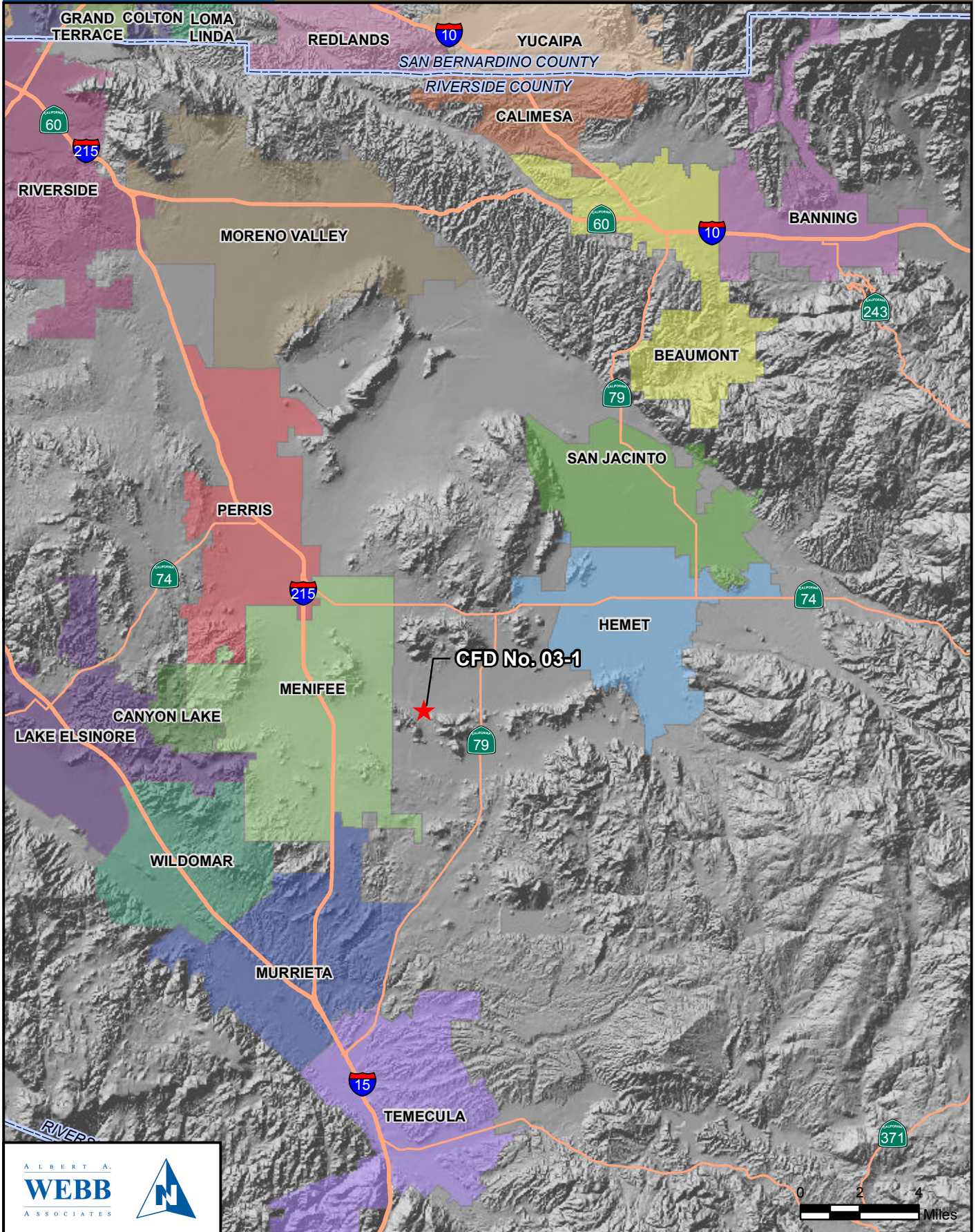
\$5,450,000 5.000% Term Bonds due September 1, 2030 Yield: 4.950% Price:100.374<sup>C</sup> CUSIP No.<sup>†</sup> 76911FSQ8

<sup>C</sup> Priced to call on September 1, 2024.

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. Copyright© 2014 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 take any responsibility for the accuracy of such numbers.

VICINITY MAP

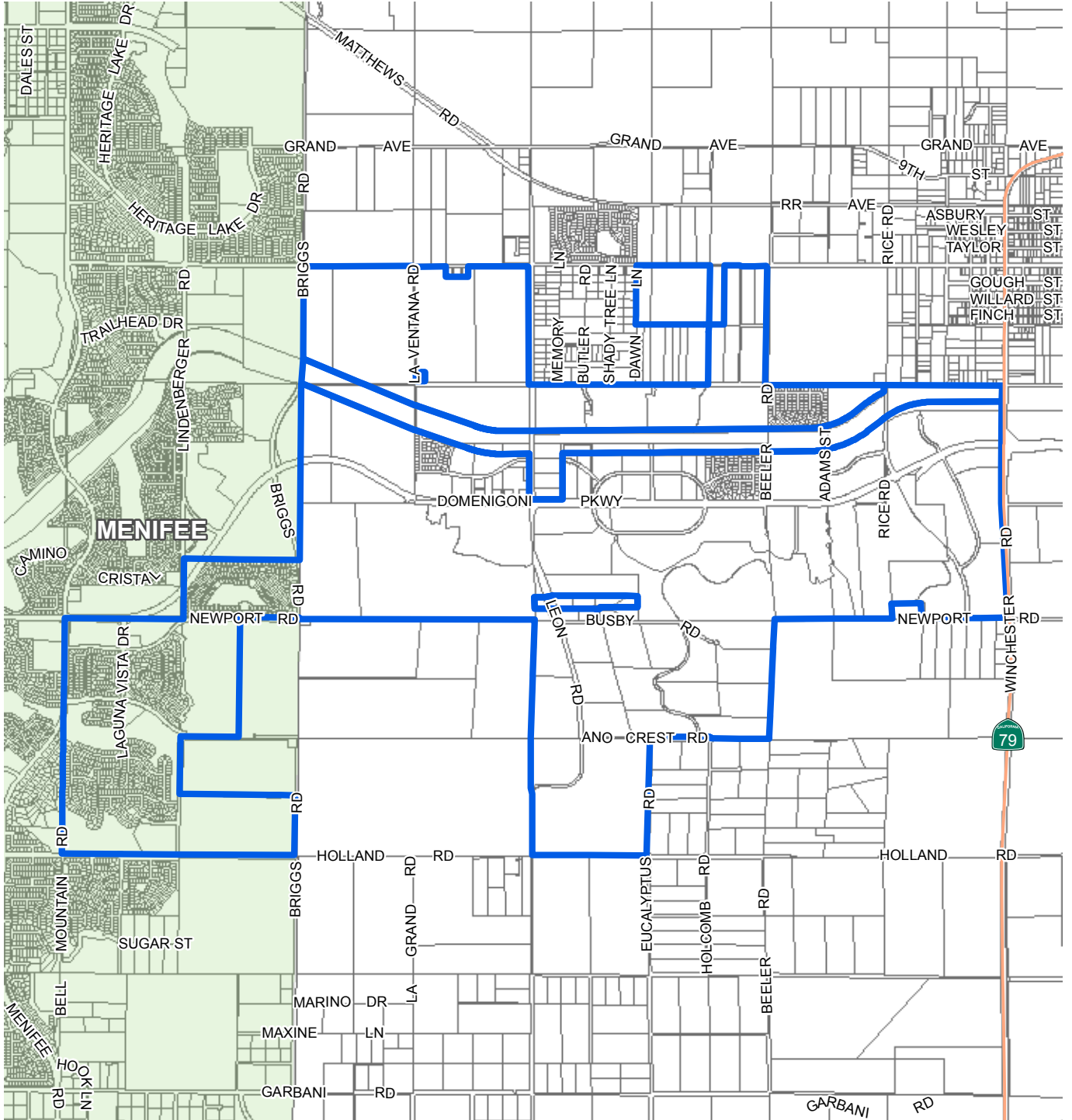
COUNTY OF RIVERSIDE



# LOCATION MAP

## COMMUNITY FACILITIES DISTRICT NO. 03-1

### COUNTY OF RIVERSIDE



LEGEND

 CFD BOUNDARY



**COMMUNITY FACILITIES DISTRICT NO. 03-1  
(NEWPORT ROAD)**

**COUNTY OF RIVERSIDE  
STATE OF CALIFORNIA**

**BOARD OF SUPERVISORS**

Jeff Stone, Third District, Chairman<sup>(1)</sup>  
Marion Ashley, Fifth District, Vice Chairman  
John Benoit, Fourth District  
Kevin Jeffries, First District  
John Tavaglione, Second District

**COUNTY OFFICIALS**

Jay Orr, County Executive Officer  
Don Kent, Treasurer-Tax Collector  
Paul Angulo, Auditor-Controller  
Larry Ward, Assessor-County Clerk-Recorder  
Gregory P. Priamos, County Counsel  
Ed Corser, Finance Director

**BOND COUNSEL**

Orrick, Herrington & Sutcliffe LLP  
Los Angeles, California

**FINANCIAL ADVISOR**

Fieldman, Rolapp & Associates  
Irvine, California

**SPECIAL TAX CONSULTANT**

Albert A. Webb Associates  
Riverside, California

**DISCLOSURE COUNSEL**

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

**TRUSTEE**

Wells Fargo Bank, National Association  
Los Angeles, California

**VERIFICATION AGENT**

Grant Thornton LLP  
Minneapolis, Minnesota

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<sup>(1)</sup> Chairman Supervisor Stone has been elected to the California State Senate and, as of November 30, 2014, is no longer a member of the Riverside County Board of Supervisors. Supervisor Ashley will serve as Chairman until Governor Brown appoints a replacement.

No dealer, broker, salesperson or other person has been authorized by the County, the Community Facilities District, the Trustee or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Series 2014 Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the County, the Community Facilities District, the Trustee or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2014 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 or Beneficial Owners of the Series 2014 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment to this Official Statement, is intended to be deposited with the Electronic Municipal Market Access System (“EMMA”) of the Municipal Securities Rulemaking Board (the “MSRB”), which can be found at [www.emma.msrb.org](http://www.emma.msrb.org).

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, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information in APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” attached hereto has been furnished by The Depository Trust Company, and no representation has been made by the Community Facilities District or the County or the Underwriter as to the accuracy or completeness of such information.

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the County or the Community Facilities District. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Community Facilities District or any other parties described herein since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the County for further information in connection therewith.

A wide variety of other information, including financial information, concerning the County, is available from publications and websites of the County and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement.

*Cautionary Information Regarding Forward-Looking Statements in the 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,” “project,” “budget” or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as set forth in the Continuing Disclosure Agreement, a form of which is attached as Exhibit D, neither the County nor the Community Facilities District plans to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

**In connection with the offering of the Series 2014 Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of such bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Series 2014 Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof, and such public offering prices may be changed from time to time by the Underwriter.**

**The Series 2014 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such Act. The Series 2014 Bonds have not been registered or qualified under the securities laws of any state.**

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**\$14,390,000**  
**COMMUNITY FACILITIES DISTRICT NO. 03-1**  
**(NEWPORT ROAD)**  
**OF THE COUNTY OF RIVERSIDE**  
**SPECIAL TAX REFUNDING BONDS, SERIES 2014**

**INTRODUCTION**

**General**

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Series 2014 Bonds (defined below) to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Definitions” herein.

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by Community Facilities District No. 03-1 (Newport Road) of the County of Riverside (the “Community Facilities District”) of the \$14,390,000 Community Facilities District No. 03-1 (Newport Road) of the County of Riverside Special Tax Refunding Bonds, Series 2014 (the “Series 2014 Bonds”). The proceeds of the Series 2014 Bonds, together with certain existing funds of the Community Facilities District, will primarily be used to defease all of the Community Facilities District’s outstanding Special Tax Bonds, Series 2004 (the “2004 Bonds”), originally issued in the aggregate principal amount of \$20,000,000 and now outstanding in the principal amount of \$15,045,000 (the “Refunded Bonds”). A portion of the Series 2014 Bonds will also be used to fund a deposit to the Reserve Fund and to pay costs of issuance of the Series 2014 Bonds. See “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The Series 2014 Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and an Indenture dated as of December 1, 2014 (the “Indenture”) by and between the Community Facilities District and Wells Fargo Bank, National Association (the “Trustee”). Upon their issuance, the Series 2014 Bonds will be the only outstanding bonds of the Community Facilities District and will be secured under the Indenture by a pledge of and lien upon Net Special Taxes Revenues (as defined herein) and any other amounts held in the Special Tax Fund as described in the Indenture. The Community Facilities District will covenant in the Indenture not to issue any other bonds or indebtedness secured by the Special Taxes, except to refund all or a portion of the Series 2014 Bonds. See “THE SERIES 2014 BONDS — Additional Bonds for Refunding Purposes Only” herein.

**The Community Facilities District**

*Formation Proceedings.* The Community Facilities District was formed by the County of Riverside (the “County”) pursuant to the Act.

The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election of the property owners

within such district and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a district and may levy and collect a special tax within such district to repay such indebtedness.

Pursuant to the Act, the Board of Supervisors of the County adopted the necessary resolutions stating its intent to establish the Community Facilities District, to authorize the levy of Special Taxes on taxable property within the boundaries of the Community Facilities District, and to have the Community Facilities District incur bonded indebtedness. Following public hearings conducted pursuant to the provisions of the Act, the Board of Supervisors of the County adopted resolutions establishing the Community Facilities District and calling special elections to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the Community Facilities District. On July 29, 2003, at an election held pursuant to the Act, the landowners who comprised the qualified voters of the Community Facilities District, authorized the Community Facilities District to incur bonded indebtedness in an aggregate principal amount not to exceed \$20,000,000 and approved the rate and method of apportionment of the Special Taxes for the Community Facilities District (the "Rate and Method") to pay the principal of and interest on the bonds of the Community Facilities District. The Rate and Method is set forth in APPENDIX A hereto. The Board of Supervisors of the County acts as the legislative body of the Community Facilities District.

*Development Status.* The Community Facilities District is generally located in the Menifee/Winchester Valley area, partially in the western portion of the City of Menifee and partially in an unincorporated portion of south Riverside County, about 35 miles southeast of the City of Riverside and 65 miles north of San Diego, west of the City of Hemet and north of the cities of Murrieta and Temecula, specifically, east of Menifee Road, south of Simpson Road, north of Holland Road and west of Highway 79.

The Community Facilities District is irregular in shape and consists of low mountains to rolling hills and level farm land. The Salt Creek runs east/west through the northerly portion of the Community Facilities District.

The Community Facilities District is accessed via Newport Road. Newport Road, which was constructed and acquired through the Community Facilities District, connects Winchester Road (State Highway 79) at the northeast corner of the Community Facilities District and the I-215 Interstate Freeway.

The Community Facilities District is comprised of approximately 3,050 gross acres, including approximately 500 acres that have topographical or geological constraints adversely affecting the ability to develop such acreage. The Community Facilities District includes approximately 2,124 developable acres which are primarily residential acres. Actual acreage subject to the levy of the Special Tax will be less as the property develops and portions of the property are dedicated to public agencies for public streets, water and sewer facilities, flood control drainage facilities, school facilities, open space, park or habitat reserve, and public or private utility easements. Individually, most of the property holdings are rectangular and range in size from approximately 1.84 acres to approximately 399.13 acres. Residential density ranges from approximately 1.1 to approximately 9.8 dwelling units per acre, with an average density of approximately 3.5 dwelling units per acre.

The land within the Community Facilities District has an estimated probable build-out of approximately 8,586 single-family detached and attached homes, park, elementary school and retail sites. The probable number of dwelling units at build-out is based on 85% of the maximum number of units allowed by an approved Specific Plan or the mid-point of the range of dwelling units allowed by the zoning designation under the Comprehensive General Plan (as defined herein). As of June 30, 2014, there were 1,463 parcels within the Community Facilities District, including 1,347 parcels within a final tract map which are classified as "Developed Property" under the Rate and Method. The 1,347 parcels of Developed Property within the Community Facilities District included 919 individually owned single family detached homes as of January 1, 2014 and an additional 428 parcels owned by the developer which were subdivided with the intent to construct single family detached homes. Additionally, as of January 1, 2014, there were approximately 1,913 gross

acres of property in an undeveloped condition without paved access, consisting of farm land or rock outcroppings or rocky hillsides. See “THE COMMUNITY FACILITIES DISTRICT” herein.

The assessed value of the property within the Community Facilities District for Fiscal Year 2014-15 subject to the levy of the Special Tax was \$295,421,928 resulting in an estimated assessed value-to-lien ratio of 6.60-to-1 for the property subject to the Special Tax levy based on the principal amount of the Series 2014 Bonds and other overlapping land secured debt as of October 1, 2014. See “THE COMMUNITY FACILITIES DISTRICT — Estimated Assessed Value-to-Lien Ratios” herein.

### **Security and Sources of Payment for the Series 2014 Bonds**

*General.* The Series 2014 Bonds are special obligations of the Community Facilities District, and the interest on and principal of and redemption premiums, if any, on the Series 2014 Bonds are payable solely from Net Special Tax Revenues (described below) to be levied annually against the property in the Community Facilities District, and other amounts on deposit in the Special Tax Fund, the Bond Fund and the Reserve Fund. As described herein, the Special Taxes are collected along with *ad valorem* property taxes on the tax bills mailed by the Treasurer-Tax Collector of Riverside County. Although the Special Taxes will constitute a lien on the property subject to taxation in the Community Facilities District, they will not constitute a personal indebtedness of the owners of such property. There is no assurance that such owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if they are financially able to do so.

*Net Special Tax Revenues.* Under the Indenture, the Community Facilities District has pledged to repay the Series 2014 Bonds from Net Special Tax Revenues and other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund established under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Net Special Tax Revenues consist of Special Tax Revenues less the amount required to pay Administrative Expenses. Special Tax Revenues are defined in the Indenture to include the proceeds of the Special Taxes received by or on behalf of the Community Facilities District, including any prepayments thereof, interest and penalties thereon, proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, and proceeds of any security for payment of Special Taxes taken in lieu of foreclosure after payment of administrative costs and attorney’s fees payable from proceeds of such redemption, sale or security, which shall be limited to the amount of said lien and interest and penalties thereon.

The Net Special Tax Revenues are the primary security for the repayment of the Series 2014 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Special Taxes.” In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Series 2014 Bonds are amounts held by the Trustee in the Special Tax Fund, the Bond Fund and the Reserve Fund. Amounts held in the Rebate Fund, Earnings Fund and the Administrative Expense Fund are not available to pay the debt service on the Series 2014 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Reserve Fund.”

*Proceeds of Foreclosure Sales.* Pursuant to Section 53356.1 of the Act and the Indenture, the Community Facilities District will covenant in the Indenture with and for the benefit of the Owners of the Series 2014 Bonds that the Community Facilities District will commence appropriate judicial foreclosure proceedings against parcels with total Special Tax delinquencies in excess of \$5,000 (not including interest and penalties thereon) by the October 1 following the close of each Fiscal Year in which the last of such Special Taxes were due and will commence appropriate judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied in such Fiscal Year, and diligently pursue to completion such foreclosure proceedings. However, notwithstanding the foregoing, the Community Facilities District may elect to accept payment from a property owner of at least the enrolled amount but less than the full amount of the penalties, interest, costs and attorneys’ fees related to a Special Tax delinquency, if permitted by law. Additionally, notwithstanding the foregoing, in certain instances the amount of a Special

Tax delinquency on a particular parcel is so small that the cost of appropriate foreclosure proceedings will far exceed the Special Tax delinquency and in such cases foreclosure proceedings may be delayed by the Community Facilities District until there are sufficient Special Tax delinquencies accruing to such parcel (including interest and penalties thereon) to warrant the foreclosure proceedings cost. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*”

There is no assurance that the property within the Community Facilities District can be sold for the assessed values described herein, or for a price sufficient to pay the principal of and interest on the Series 2014 Bonds in the event of a default in payment of Special Taxes by the current or future landowners within the Community Facilities District. See “SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios” herein.

**EXCEPT FOR THE NET SPECIAL TAX REVENUES AND AMOUNTS HELD IN THE SPECIAL TAX FUND, THE BOND FUND AND THE RESERVE FUND, NO OTHER FUNDS ARE PLEDGED TO THE PAYMENT OF THE SERIES 2014 BONDS. THE SERIES 2014 BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE COUNTY BUT ARE SPECIAL OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE NET SPECIAL TAX REVENUES AND AMOUNTS HELD IN THE SPECIAL TAX FUND, THE BOND FUND AND THE RESERVE FUND UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE), THE COUNTY, OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2014 BONDS.**

Under the terms of the Indenture, the Community Facilities District may issue additional bonds secured by the Net Special Tax Revenues of the Community Facilities District on a parity with the Series 2014 Bonds only to refund all or a portion of the Series 2014 Bonds or any other additional bonds issued for refunding purposes. See “THE SERIES 2014 BONDS — Additional Bonds for Refunding Purposes Only.”

#### **Description of the Series 2014 Bonds**

The Series 2014 Bonds will be issued and delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Series 2014 Bonds (the “Beneficial Owners”) in the denominations of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series 2014 Bonds. In the event that the book-entry only system described herein is no longer used with respect to the Series 2014 Bonds, the Series 2014 Bonds will be registered and transferred in accordance with the Indenture. See APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” herein.

Principal of, premium, if any, and interest on the Series 2014 Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Series 2014 Bonds, the Beneficial Owners will become the registered owners of the Series 2014 Bonds and will be paid principal and interest by the Trustee, all as described herein. See APPENDIX F — “BOOK-ENTRY ONLY SYSTEM” herein.

The Series 2014 Bonds are subject to optional redemption, mandatory redemption from Special Tax prepayments, mandatory redemption from Allocable Road and Bridge Benefit District Fees and mandatory sinking fund redemption prior to maturity as set forth herein. For a more complete description of the Series 2014 Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE

SERIES 2014 BONDS” and APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” herein.

### **Tax Matters**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Community Facilities District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual amount or receipt of interest on, the Series 2014 Bonds. See “LEGAL MATTERS — Tax Matters.”

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

Wells Fargo Bank, National Association will act as Trustee under the Indenture and as the escrow agent under the Escrow Agreement relating to the defeasance of the Refunded Bonds. Stifel, Nicolaus & Company, Incorporated is the Underwriter of the Series 2014 Bonds. Certain proceedings in connection with the issuance and delivery of the Series 2014 Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. See APPENDIX E — “FORM OF OPINION OF BOND COUNSEL.” Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the Community Facilities District with respect to the Series 2014 Bonds. Fieldman, Rolapp & Associates is acting as Financial Advisor to the County in connection with the Series 2014 Bonds. Certain legal matters will be passed upon for the County and the Community Facilities District by County Counsel, and for the Underwriter by Nossaman LLP, Irvine, California, as Underwriter’s Counsel. Other professional services have been performed by Albert A. Webb Associates, Inc., Riverside, California, as Special Tax Consultant and Grant Thornton LLP as Verification Agent.

For information concerning the respects in which certain of the above-mentioned professionals, advisors, counsel and agents may have a financial or other interest in the offering of the Series 2014 Bonds, see “LEGAL MATTERS — Financial Interests” herein.

### **Continuing Disclosure**

The Community Facilities District will enter into a Continuing Disclosure Agreement, dated as of December 1, 2014, with the Trustee (the “Continuing Disclosure Agreement”) pursuant to which the Community Facilities District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) system certain annual financial information and operating data. The Community Facilities District will further agree to provide notice of certain listed events. These covenants will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). See APPENDIX D — “FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE COMMUNITY FACILITIES DISTRICT” hereto for a description of the specific nature of the annual reports to be filed by the Community Facilities District and notices of material events to be provided by the Community Facilities District.

Within the last five years, the Community Facilities District has not failed to comply in any material respect with any of its prior continuing disclosure obligations under Rule 15c2-12(b)(5). However, during the last five years, the County and certain of its related entities have failed to comply in certain respects with continuing disclosure obligations related to outstanding indebtedness. See “CONTINUING DISCLOSURE.”

## Bond Owners' Risks

Certain events could affect the timely repayment of the principal of and interest on the Series 2014 Bonds when due. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Series 2014 Bonds. The Series 2014 Bonds are not rated by any nationally recognized rating agency. *The purchase of the Series 2014 Bonds involves significant investment risks, and the Series 2014 Bonds may not be suitable investments for many investors.* See "SPECIAL RISK FACTORS" herein.

## Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Brief descriptions of the Series 2014 Bonds and the Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Series 2014 Bonds and the constitution and laws of the State as well as the proceedings of the Board of Supervisors of the County, acting as the legislative body of the Community Facilities District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Series 2014 Bonds, by reference to the Indenture.

Copies of the Indenture, the Continuing Disclosure Agreement and other documents and information referred to herein are available for inspection and (upon request and payment to the County of a charge for copying, mailing and handling) for delivery from the Trustee at 707 Wilshire Blvd., 17th Floor, Los Angeles, California 90017, Attention: Corporate Trust Department.

## Update of Certain Information Since the Date of the Preliminary Official Statement

The Official Statement includes certain changes since the date of the Preliminary Official Statement. The projected Fiscal Year 2015-16 Special Tax levy has been revised. See Table 6 and Table 7.

## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of Series 2014 Bond proceeds and other funds on hand of the Community Facilities District:

### Sources of Funds

Principal Amount of Series 2014 Bonds	\$ 14,390,000.00
Net Original Issue Premium	56,886.05
Prior Funds <sup>(1)</sup>	<u>2,614,182.99</u>
TOTAL SOURCES	<u>\$ 17,061,069.04</u>

### Uses of Funds

Escrow Fund	\$ 15,481,090.03
Reserve Fund	1,282,534.12
Cost of Issuance Fund <sup>(2)</sup>	199,251.39
Underwriter's Discount	<u>98,193.50</u>
TOTAL USES	<u>\$ 17,061,069.04</u>

<sup>(1)</sup> Funds transferred from Special Tax Fund, the Reserve Fund, the Earnings Fund and the Bond Fund relating to the Refunded Bonds.

<sup>(2)</sup> Includes Bond Counsel fees, Disclosure Counsel fees, Financial Advisor fees, Special Tax Consultant fees, Verification Agent fees, Trustee and Escrow Agent fees and expenses, and other miscellaneous costs.

## THE REFUNDING PLAN

### General

A portion of the proceeds from the sale of the Series 2014 Bonds will be used along with other funds held by the Community Facilities District to defease the Refunded Bonds. The Community Facilities District will enter into an Escrow Agreement with regard to the Refunded Bonds (the "Escrow Agreement"), dated as of December 1, 2014, by and between the Community Facilities District and Wells Fargo Bank, National Association (the "Escrow Agent"). An irrevocable escrow fund will be established under the Escrow Agreement (the "Escrow Fund"). The moneys deposited with the Escrow Agent will be sufficient to defease the Refunded Bonds and redeem the Refunded Bonds maturing on and after September 1, 2015 on March 1, 2015 (the "Redemption Date"). Moneys on deposit in the Escrow Fund will either be invested in U.S. Treasury Department Securities, State and Local Government Series ("SLGS") or will be held uninvested in cash. The amounts in the Escrow Fund will be held by the Escrow Agent and for the benefit of the owners of the Refunded Bonds and will be applied to redeem the Refunded Bonds which remain outstanding, in whole, on March 1, 2015. Upon the establishment of the Escrow Fund as described above, the Refunded Bonds will be discharged under the Indenture and the owners of the Refunded Bonds will have no rights thereunder except to be paid the principal and interest due on the Refunded Bonds from amounts in the Escrow Fund.

Grant Thornton LLP, upon delivery of the Series 2014 Bonds, will deliver a verification report relating to the sufficiency of moneys deposited into the Escrow Fund to pay the principal of, interest on and the redemption price with respect to the Refunded Bonds on the Redemption Date.

## THE SERIES 2014 BONDS

### General Provisions

The Series 2014 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing on March 1, 2015 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Series 2014 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. So long as the Series 2014 Bonds are held in book-entry form, principal and interest on the Series 2014 Bonds will be paid to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the Beneficial Owners in accordance with DTC procedures. See APPENDIX F — "BOOK-ENTRY ONLY SYSTEM."

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Series 2014 Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Series 2014 Bond, unless (i) a Series 2014 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event interest thereon shall be payable from such Interest Payment Date, (ii) a Series 2014 Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the Closing Date, or (iii) interest on any Series 2014 Bond is in default as of the date of authentication thereof, in which event interest thereon shall be payable from the date to which interest has previously been paid or duly provided for.

### Authority for Issuance

The Series 2014 Bonds will be issued pursuant to the Act and the Indenture. As required by the Act, the Board of Supervisors of the County has taken the following actions with respect to establishing the Community Facilities District and authorizing the issuance of the Series 2014 Bonds:

*Resolutions of Intention:* On March 11, 2003, the Board of Supervisors adopted Resolution No. 2003-110 stating its intention to establish the Community Facilities District and to authorize the levy of a

special tax therein pursuant to the Rate and Method. On March 11, 2003 the Board of Supervisors adopted Resolution No. 2003-111 stating its intention to incur bonded indebtedness in an amount not to exceed \$20,000,000 with respect to the Community Facilities District. The Community Facilities District proceedings authorize Special Taxes to be used to pay directly for the construction of certain public facilities, including constructing Newport Road as a six lane urban arterial with a raised center median from Menifee Road to Winchester Road (State Highway 79) with required drainage appurtenances and connectors to existing streets (collectively, the "Facilities"). All of the Facilities have been completed and accepted or dedicated by the applicable public agency.

*Resolution of Formation:* Following a noticed public hearing on April 15, 2003, the Board of Supervisors adopted Resolution No. 2003-173 (the "Resolution of Formation"), establishing the Community Facilities District and authorizing the levy of a special tax within the Community Facilities District pursuant to the Rate and Method.

*Resolution of Necessity:* On April 15, 2003, the Board of Supervisors adopted Resolution No. 2003-174 deeming it necessary to incur bonded indebtedness in an amount not to exceed \$20,000,000 within the Community Facilities District.

*Resolution Calling Election:* On April 15, 2003, the Board of Supervisors adopted Resolution No. 2003-175 calling an election for the purpose of submitting the propositions to incur bonded indebtedness, to levy a special tax within the Community Facilities District and to establish an appropriations limit for the Community Facilities District to the qualified electors of the Community Facilities District at an election called therefor.

*Landowner Election and Declaration of Results:* On July 29, 2003, a special election was held within the Community Facilities District, in which the landowners eligible to vote, being the qualified electors, approved the ballot proposition to incur bonded indebtedness in a maximum amount of \$20,000,000, to levy a special tax within the Community Facilities District and to establish an appropriations limit for the Community Facilities District.

On August 19, 2003, the Legislative Body adopted Resolution No. 2003-17 declaring the results of the special election.

*Special Tax Lien and Levy:* A Notice of Special Tax Lien for the Community Facilities District was recorded in the real property records of the County on September 11, 2003 as Document No. 2003-703258.

*Ordinance Levying Special Taxes:* On August 26, 2003, the Board of Supervisors adopted an Ordinance levying the Special Tax within the Community Facilities District.

*Resolution Authorizing Issuance of the Series 2014 Bonds:* On November 4, 2014, the Board of Supervisors of the County, acting as the legislative body of the Community Facilities District, adopted a resolution approving the issuance of the Series 2014 Bonds.



## Debt Service Schedule

The following table presents the annual debt service on the Series 2014 Bonds, assuming there are no redemptions other than mandatory sinking fund redemptions. However, it should be noted that the Rate and Method allows prepayment of the Special Taxes in full or in part and the Indenture requires redemption of Series 2014 Bonds on any Interest Payment Date from the proceeds of any prepayments of Special Taxes. Additionally, the Series 2014 Bonds are subject to optional redemption on any Interest Payment Date and mandatory redemption on any Interest Payment Date from Allocable Road and Bridge Benefit District Fees. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Special Taxes” and “THE SERIES 2014 BONDS — Redemption.”

<i>Period Ending September 1</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2015	\$ 860,000	\$ 422,534.12	\$ 1,282,534.12
2016	700,000	579,318.76	1,279,318.76
2017	720,000	558,318.76	1,278,318.76
2018	740,000	536,718.76	1,276,718.76
2019	760,000	514,518.76	1,274,518.76
2020	780,000	491,718.76	1,271,718.76
2021	810,000	460,518.76	1,270,518.76
2022	840,000	428,118.76	1,268,118.76
2023	875,000	394,518.76	1,269,518.76
2024	910,000	358,425.00	1,268,425.00
2025	945,000	319,750.00	1,264,750.00
2026	990,000	272,500.00	1,262,500.00
2027	1,040,000	223,000.00	1,263,000.00
2028	1,085,000	171,000.00	1,256,000.00
2029	1,140,000	116,750.00	1,256,750.00
2030	<u>1,195,000</u>	<u>59,750.00</u>	<u>1,254,750.00</u>
	\$14,390,000	\$5,907,459.20	\$20,297,459.20

Source: The Underwriter.

## Redemption

*Optional Redemption.* The Series 2014 Bonds maturing on or after September 1, 2025 shall be subject to optional redemption, in whole or in part in Authorized Denominations of \$5,000 and any integral multiple thereof, on any Interest Payment Date on or after September 1, 2024, from any source of available funds, at a Redemption Price equal to the principal amount of the Series 2014 Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

*Mandatory Redemption from Special Tax Prepayments.* The Series 2014 Bonds are subject to mandatory redemption, in whole or in part, on any Interest Payment Date on or after March 1, 2015, from and to the extent of any prepaid Special Taxes deposited in the Prepayment Account of the Redemption Fund, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series 2014 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
March 1, 2015 through March 1, 2022	103%
September 1, 2022 and March 1, 2023	102
September 1, 2023 and March 1, 2024	101
September 1, 2024 and thereafter	100

*Mandatory Redemption from Allocable Road and Bridge Benefit District Fees.* The Series 2014 Bonds shall be subject to mandatory redemption, in whole or in part, on any Interest Payment Date on or after March 1, 2015, from and to the extent of any Allocable Road and Bridge Benefit District Fees (“RBBDF”) deposited in the RBBDF Account of the Redemption Fund, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series 2014 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
March 1, 2015 through March 1, 2022	103%
September 1, 2022 and March 1, 2023	102
September 1, 2023 and March 1, 2024	101
September 1, 2024 and thereafter	100

*Mandatory Sinking Fund Redemption.* The Series 2014 Bonds maturing September 1, 2030 (the “Series 2014 Term Bonds”) shall be subject to mandatory sinking fund redemption, in part, on September 1 in each year, commencing September 1, 2026, at a Redemption Price equal to the principal amount of the Series 2014 Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

<i>Sinking Fund Redemption Date (September 1)</i>	<i>Principal Amount to be Redeemed</i>
2026	\$ 990,000
2027	1,040,000
2028	1,085,000
2029	1,140,000
2030 (Maturity)	1,195,000

If some but not all of the Series 2014 Term Bonds are redeemed pursuant to the optional redemption provisions of the Indenture described above, the principal amount of Series 2014 Term Bonds to be redeemed described above on any subsequent September 1 shall be reduced, by \$5,000 or an integral multiple thereof, as designated by the Community Facilities District in a Written Certificate of the Community Facilities District filed with the Trustee; provided, however, that the aggregate amount of such reductions shall not exceed the aggregate amount of Series 2014 Term Bonds so optionally redeemed.

If some but not all of the Series 2014 Term Bonds are redeemed pursuant to the mandatory redemption from Special Tax Prepayments provisions of the Indenture, the principal amount of Series 2014 Term Bonds to be redeemed described above on any subsequent September 1 shall be reduced by the aggregate principal amount of the Series 2014 Term Bonds so redeemed, such reduction to be allocated among redemption dates as nearly as practicable on a pro rata basis in amounts of \$5,000 or integral multiples thereof, as determined by the Trustee, notice of which determination shall be given by the Trustee to the Community Facilities District.

If some but not all of the Series 2014 Term Bonds are redeemed pursuant to the mandatory redemption from RBBDF provisions of the Indenture, the principal amount of Series 2014 Term Bonds to be redeemed described above on any subsequent September 1 shall be reduced by the aggregate principal amount of the Series 2014 Term Bonds so redeemed, such reduction to be allocated among redemption dates as nearly as practicable on a pro rata basis in amounts of \$5,000 or integral multiples thereof, as determined by the Trustee, notice of which determination shall be given by the Trustee to the Community Facilities District.

*Notice of Redemption.* So long as the Series 2014 Bonds are held by DTC, all notices of redemption will be sent only to DTC in accordance with its procedures and will not be delivered to any Beneficial Owner.

The Trustee is obligated to mail, at least 30 days but not more than 60 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the original purchasers of the Series 2014 Bonds and the registered Owners of the Series 2014 Bonds at the addresses appearing on the Bond registration books. The notice of redemption must state the date of the notice, the redemption date, the redemption place and the Redemption Price and must designate the CUSIP numbers (if any), the Series 2014 Bond numbers and the maturity or maturities of the Series 2014 Bonds to be redeemed (except in the case of redemption of all of the Series 2014 Bonds of such maturity or maturities), and must require that such Series 2014 Bonds be then surrendered at the office of the Trustee, and state that further interest on such Series 2014 Bonds will not accrue from and after the date fixed for redemption.

So long as notice by first class mail has been provided as set forth above, the actual receipt by the Owner of any Series 2014 Bond of notice of such redemption is not a condition precedent to redemption. Neither the failure to receive such notice nor any defect in such notice will affect the validity of the proceedings for redemption of such Series 2014 Bonds or the cessation of interest on the date fixed for redemption.

With respect to any notice of any optional redemption of Series 2014 Bonds, unless at the time such notice is given the Series 2014 Bonds to be redeemed shall be deemed to have been paid within the meaning of the Indenture, such notice shall state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the principal of and premium, if any, on the Series 2014 Bonds on the date fixed for redemption (the "Redemption Price"), and accrued interest on, the Series 2014 Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Community Facilities District shall not be required to redeem such Series 2014 Bonds. In the event a notice of redemption of Series 2014 Bonds contains such a condition and such moneys are not so received, the redemption of Series 2014 Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the Persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there shall be no redemption of Series 2014 Bonds pursuant to such notice of redemption.

*Effect of Redemption.* When notice has been mailed as provided in the Indenture, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, having been set aside with the Trustee, the Series 2014 Bonds shall become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Series 2014 Bonds shall be paid at the Redemption Price thereof, together with interest accrued and unpaid to said date.

If, on said date fixed for redemption, moneys for the Redemption Price of all the Series 2014 Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof shall have been mailed as aforesaid and not canceled, then, from and after said date, interest on said Series 2014 Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Series 2014 Bonds shall be held in trust for the account of the Owners of the Series 2014 Bonds so to be redeemed without liability to such Owners for interest thereon.

### **Registration, Transfer and Exchange**

*Registration.* The Trustee will keep sufficient books for the registration and transfer of the Series 2014 Bonds. The ownership of the Series 2014 Bonds will be established by the bond registration books held by the Trustee.

*Transfer or Exchange.* Whenever any Series 2014 Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new Series 2014 Bond or Series 2014 Bonds of the same maturity, for a like aggregate principal amount of authorized denominations; provided that the Trustee will not

be required to register transfers or make exchanges of (i) Series 2014 Bonds for a period of 15 days next preceding the date of any selection of the Series 2014 Bonds to be redeemed, or (ii) any Series 2014 Bonds chosen for redemption.

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

The Community Facilities District may at any time after the issuance and delivery of the Series 2004 Bonds issue additional bonds (“Additional Bonds”) for refunding purposes only payable from the Net Special Tax Revenues and other amounts deposited in the Special Tax Fund and on a parity with the Series 2014 Bonds. The issuance of Additional Bonds is subject to specific conditions including that the Community Facilities District must be in compliance with all covenants set forth in the Indenture and any Supplement then in effect. See APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Additional Bonds — Conditions for the Issuance of Additional Bonds” for the conditions to the issuance of Additional Bonds.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS**

### **Covenants and Warranties**

The Community Facilities District will covenant in the Indenture to comply with the covenants and warranties therein, which will be in full force and effect upon the issuance of the Series 2014 Bonds. See APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Covenants.”

### **Special Obligations**

The Series 2014 Bonds are special obligations of the Community Facilities District, and the interest on and principal of and redemption premiums, if any, on the Series 2014 Bonds are payable solely from Net Special Tax Revenues (described below) to be levied annually against the property in the Community Facilities District, and other amounts on deposit in the Special Tax Fund, the Bond Fund and the Reserve Fund.

Under the Indenture, the Community Facilities District has pledged to repay the Series 2014 Bonds from Net Special Tax Revenues and other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund established under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Net Special Tax Revenues consist of Special Tax Revenues less the amount required to pay Administrative Expenses. Special Tax Revenues are defined in the Indenture to include the proceeds of the Special Taxes received by or on behalf of the Community Facilities District, including any prepayments thereof, interest and penalties thereon, proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, and proceeds of any security for payment of Special Taxes taken in lieu of foreclosure after payment of administrative costs and attorney’s fees payable from proceeds of such redemption, sale or security, which shall be limited to the amount of said lien and interest and penalties thereon.

“Special Taxes” means the special taxes levied within the Community Facilities District pursuant to the Act, the Ordinance adopted by the Community Facilities District authorizing the levy of special taxes within the Community Facilities District and the Indenture.

“Administrative Expenses” means costs related to the administration of the Community Facilities District, including but not limited to, the cost of administering the levy and collection of the Special Tax and all other administrative costs of the Community Facilities District, including, but not limited to, the fees and expenses of the Trustee (including any fees and expenses of its counsel), the expenses of the Community Facilities District or the County in carrying out the Community Facilities District’s duties hereunder including annual audits, the fees and expenses of its special tax consultants and its legal counsel, and costs incurred in the levying and collection of the Special Tax, the costs incurred in the foreclosure of parcels delinquent in the

payment of Special Taxes or in connection with obtaining security for payment of Special Taxes in lieu of foreclosure, costs associated with the creation and dissemination of continuing disclosure, fees incurred in connection with the calculation of arbitrage rebate due to the federal government, amounts payable to the federal government as arbitrage rebate and all other costs of the Community Facilities District, the County or the Trustee incurred in connection with the discharge of their respective duties hereunder, including, in the case of the County, in any way reasonably related to the administration of the Community Facilities District (other than costs of any consultant or firm of financial consultants appointed by the Community Facilities District or the County incurred in connection with the prepayment of the Special Tax).

The Net Special Tax Revenues are the primary security for the repayment of the Series 2014 Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Series 2014 Bonds are amounts held by the Trustee in the Special Tax Fund, the Bond Fund and the Reserve Fund. Amounts held in the Rebate Fund, Earnings Fund and the Administrative Expense Fund are not available to pay the debt service on the Series 2014 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Reserve Fund."

**EXCEPT FOR THE NET SPECIAL TAX REVENUES AND AMOUNTS HELD IN THE SPECIAL TAX FUND, THE BOND FUND AND THE RESERVE FUND, NO OTHER FUNDS ARE PLEDGED TO THE PAYMENT OF THE SERIES 2014 BONDS. THE SERIES 2014 BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE COUNTY BUT ARE SPECIAL OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE NET SPECIAL TAX REVENUES AND AMOUNTS HELD IN THE SPECIAL TAX FUND, THE BOND FUND AND THE RESERVE FUND UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE), THE COUNTY, OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2014 BONDS.**

### **Special Taxes**

*Authorization and Pledge.* In accordance with the provisions of the Act, the Board of Supervisors of the County established the Community Facilities District on April 15, 2003 for the purpose of financing the acquisition, construction and installation of various public improvements required in connection with the proposed development within the Community Facilities District. At a special election held on July 29, 2003, the owners of the property within the Community Facilities District authorized the Community Facilities District to incur indebtedness in an amount not to exceed \$20,000,000, and approved the Rate and Method for the Community Facilities District, a copy of which is attached as APPENDIX A to this Official Statement, authorizing the Special Tax to be levied to repay indebtedness with respect to the Community Facilities District.

The Community Facilities District will covenant in the Indenture that, beginning with Fiscal Year 2015-16, the Community Facilities District will fix and levy the amount of Special Taxes within the Community Facilities District in each Fiscal Year in accordance with the Rate and Method and, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield Special Tax Revenues in the amount required for (i) the payment of principal of and interest on any Outstanding Series 2014 Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, (ii) any necessary replenishment of the Reserve Fund, and (iii) the payment of Administrative Expenses estimated to be paid from such Special Tax Revenues, taking into account the balances in the funds and accounts established under the Indenture.

*10% Limitation on Increases in the Special Tax Levy as a Result of Delinquencies.* Section 53321 of the Act states that under no circumstances will the Special Tax levied in any fiscal year against any parcel used for private residential purposes (parcels are considered "used for private residential purposes" on the date that

an occupancy permit for private residential use is issued) be increased as a consequence of delinquency or default by more than 10% above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. Therefore, even though the maximum Special Tax rates may allow for Special Tax increases greater than 10%, in the event of high delinquencies in the Community Facilities District, the Community Facilities District could not increase the Special Taxes in the fiscal year following such delinquencies by more than 10% on the completed residential units for which certificates of occupancy have been issued. See “SPECIAL RISK FACTORS — Insufficiency of Special Taxes.”

*Rate and Method of Apportionment of Special Taxes.* All capitalized terms used in this section shall have the meaning in the Rate and Method, the text of which is set forth in full in APPENDIX A.

The Rate and Method provides the means by which the Board of Supervisors of the County, acting as the legislative body of the Community Facilities District (the “Legislative Body”), may annually levy the Special Taxes within the Community Facilities District up to the applicable Maximum Special Tax to pay for Special Tax Requirement, described below. The Rate and Method provides that the Special Tax shall be levied for the period necessary to satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2029-30 or the stated maturity of the bonds, whichever is sooner.

*Special Tax Requirement.* The Special Tax Requirement is defined as the amount required in any Fiscal Year 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;
- (v) any amounts required to establish or replenish any reserve funds for the Bonds; less
- (vi) a credit for funds available to reduce the annual Special Tax levy as determined pursuant to the Indenture.

*Method of Apportionment.* The Rate and Method provides that the Legislative Body shall levy the Special Tax on all Taxable Property until the amount of Special Taxes equals the Special Tax Requirement in accordance with the following steps:

First: The Special Tax shall be levied Proportionately on each Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax rate, as needed to satisfy the Special Tax Requirement;

Second: If additional moneys are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Parcel of Initial Taxable Property at up to 100% of the Initial Assigned Special Tax and Proportionately on each Parcel of Undeveloped Property at up to 100% of the Assigned Special Tax as needed to satisfy the Special Tax Requirement;

Third: If additional moneys are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax as needed to satisfy the Special Tax Requirement;

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, the Special Tax shall be levied on each Parcel of Initial Taxable Property up to the

Initial Maximum Special Tax in Exhibit A of the Rate and Method as needed to satisfy the Special Tax Requirement;

Fifth: If additional moneys are needed to satisfy the Special Tax Requirement after the first four steps have been completed, the Special Tax 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 Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Parcel as needed to satisfy the Special Tax Requirement;

Sixth: If additional moneys are needed to satisfy the Special Tax Requirement after the first five steps have been completed, the Special Tax shall be levied Proportionately on each Parcel of Public Property and/or Property Owner's Association Property that is not Exempt Property pursuant to the provisions of the Rate and Method, at up to 100% of the Maximum Special Tax as needed to satisfy the Special Tax Requirement.

**Notwithstanding the above, under no circumstances will the Special Taxes levied against any Parcel of Residential Property be increased by more than 10% per fiscal year above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. See “—Special Taxes — 10% Limitation on Increases in the Special Tax Levy as a Result of Delinquencies.”**

*Developed and Undeveloped Property; Exempt Property.* The Rate and Method declares that for each Fiscal Year, each Parcel shall be categorized as either Developed Property, Initial Taxable Property, Undeveloped Property, Public Property or Property Owner's Association Property, and shall be subject to the levy of Special Taxes in accordance with the Rate and Method.

(i) “Initial Taxable Property” means each Parcel as listed in column 1 of Exhibit A to the Rate and Method. Exhibit A lists the acres, TOPO/GEO Challenged Acreage, Initial Taxable Acres, Initial Assigned Special Tax (\$705 per acre) and Initial Maximum Special Tax (\$928 per acre) for each Parcel within the boundaries of the Community Facilities District.

(ii) “TOPO/GEO Challenged Parcel” means a Parcel that is wholly within the boundaries of the TOPO/GEO Challenged Area as identified in Exhibit B to the Rate and Method. Such area relates to property which has a topographical or geological constraint adversely affecting the ability to develop such property. For purposes of calculating the Maximum Special Tax and the Backup Special Tax for each Parcel of Undeveloped Property, the acreage is to be reduced by the acreage of each Parcel within the TOPO/GEO Challenged Area. The Rate and Method does levy a Special Tax with respect to “TOPO/GEO Parcels” categorized as Developed Property as described below.

(iii) “Developed Property” means (i) with respect to any Parcel of Taxable Property, other than TOPO/GEO Challenged Parcels, each such Parcel created by a Final Map recorded prior to the January 1 preceding the Fiscal Year for which the Special Tax is being levied and (ii) with respect to any TOPO/GEO Challenged Parcel, each such Parcel for which a building permit issued prior to the January 1 preceding the Fiscal Year for which the Special Tax is being levied.

(iv) “Undeveloped Property” means all Taxable Property for which (i) a parcel map or lot line adjustment is recorded on one or more Parcel(s) of Initial Taxable Property and (ii) the total taxable Acreage of the resulting Parcel(s) does not equal the taxable Acreage as shown in column 4 of Exhibit A of the Rate and Method.

(v) “Taxable Property” means all Parcels in the Community Facilities District that are not exempt from the Special Tax pursuant to law or are not classified as Exempt Property.

(vi) “Exempt Property” is defined by reference to Section E of the Rate and Method which provides that land other than the area identified in the TOPO/GEO Challenged Area, conveyed or irrevocably offered for dedication to a public agency after formation of the Community Facilities District and not

otherwise shown as or not exempt pursuant to Section E of the Rate and Method, shall be subject to the levy of Special Tax pursuant to Section 53317.3 or 53317.5 of the Act. Parcels irrevocably offered for dedication to a public agency within the TOPO/GEO Challenged Area shall not be deducted from the acreage exemptions below. Notwithstanding, the foregoing, the Special Tax shall not be imposed upon any of the following:

(a) The Legislative Body shall not levy Special Taxes on up to 447.36 Acres of Public Property which include, but are not limited to, public streets, water and sewer facilities and/or flood control drainage channels.

(b) The Legislative Body shall not levy Special Taxes on up to 53.58 Acres of Public Property that is owned by a public school district.

(c) The Legislative Body shall not levy Special Taxes on up to 130.17 Acres of Public Property and/or Property Owner's Association Property that is property dedicated and restricted for the use of open space, park, or habitat reserve.

(d) Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easements.

After the limit of Acres within each of the above has been reached, the Special Tax obligation for any additional Public Property and/or Property Owner's Association Property may be prepaid pursuant to the provisions of the Rate and Method. Until the Special Tax obligation is prepaid as provided for in the preceding sentence, the Public Property and/or Property Owner's Association Property will be subject to the levy of the Special Tax as provided for in the Rate and Method.

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

(i) Undeveloped Property: In any Fiscal Year, the Maximum Special Tax for each Parcel of Undeveloped Property shall be \$928 per Acre; provided, however, that for purpose of such calculation, the Acreage of any parcel shall be reduced by the Acreage of such parcel within the TOPO/GEO Challenged Area, as determined by the Administrator.

(ii) Developed Property: In any Fiscal Year, the Maximum Special Tax for each Parcel of Single Family Property shall be the greater of \$232 per Parcel or the amount derived by application of the Backup Special Tax. The Maximum Special Tax and the Backup Special Tax for each parcel of Non-Residential Property and Multifamily Property shall be \$928 per Parcel/Acre; provided, however, that for purposes of such calculation, the Acreage of any Parcel shall be reduced by the Acreage of such parcel within the TOPO/GEO Challenged Area, as determined by the Administrator.

The Backup Special Tax for each parcel of Single Family Property, other than TOPO/GEO Challenged Parcels that are categorized as Developed Property, created by a specific Final Map is determined by multiplying \$928 by the total Acreage of the Taxable Property within such Final Map, excluding the Acreage associated with Multifamily Property, Multiple Land Use Property, Non-Residential Property, Public Property and/or Property Owner's Association Property that is not Exempt Property pursuant to the Rate and Method, and the Acreage, if any, within the TOPO/GEO Challenged Area within such Final Map, and dividing such amount by the number of Parcels of Single Family Property within the specific Final Map. Notwithstanding the foregoing, if the number of Parcels of Single Family Property in a specific Final Map is subsequently changed or modified by recordation of a lot line adjustment or similar instrument, then the Backup Special Tax will be recalculated for the Parcels within the Final Map. The Backup Special Tax for each TOPO/GEO Challenged Parcel that is categorized as Developed Property is \$232. See APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES — Table 1" herein for a listing of the Assigned Special Taxes for Developed Property.



The Assigned Special Tax for each Parcel of Initial Taxable Property is \$705 per Initial Taxable Acre as described in Exhibit A to the Rate and Method. The Maximum Special Tax for each Parcel of Initial Taxable Property shall be \$928 per Initial Taxable Acre as described in the Rate and Method.

*Prepayment of Special Taxes.* The Maximum Special Tax obligation of a Parcel of Developed Property, Public Property and/or Property Owner's Association Property that is not exempt Property may be prepaid in full and the obligation of the Parcel to pay the Special Tax permanently satisfied, provided that there are no delinquent Special Taxes with respect to such Parcel at the time the Special Tax obligation would be prepaid. The Prepayment Amount for a Parcel eligible for prepayment is calculated based on Bond redemption amounts and other costs, all as specified in APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES — Section H" herein.

In addition, an owner of a Developed Property may partially prepay the Maximum Special Tax in increments of \$5,000 as calculated as specified in APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES — Section H" herein.

*Collection and Application of Special Taxes.* The Special Taxes are levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as ad valorem property taxes. The Community Facilities District may, however, collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

The County assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the Special Taxes for the Community Facilities District. The delinquency dates for property tax payment are December 10 for the first installment and April 10 for the second installment. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the Community Facilities District's share of such taxes (including the Special Taxes) to the Community Facilities District, periodically and typically pursuant to a published schedule. Prior to distribution, the moneys are deposited in an account established on behalf of the Community Facilities District in the County Treasurer's Investment Pool (the "Pool"). If the County or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that the Special Taxes could be temporarily unavailable to the Community Facilities District.

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

The Community Facilities District will make certain covenants in the Indenture for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the Community Facilities District's ability to collect sufficient Special Taxes to pay debt service on the Series 2014 Bonds and Administrative Expenses when due. The Community Facilities District will covenant in the Indenture not to initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Series 2014 Bonds. If an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Series 2014 Bonds, the Community Facilities District shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Series 2014 Bonds. See "SPECIAL RISK FACTORS — Proposition 218."

Although the Special Taxes constitute liens on taxed parcels within the Community Facilities District, they do not constitute a personal indebtedness of the owners of property within the Community Facilities District. In addition to the obligation to pay Special Taxes, properties in the Community Facilities District are

subject to other assessments and special taxes as set forth under Table 1 herein. These other special taxes and assessments are co-equal to the lien for the Special Taxes. Moreover, other liens for taxes and assessments could come into existence in the future in certain situations without the consent or knowledge of the County or the landowners in the Community Facilities District. See “SPECIAL RISK FACTORS — Parity Taxes and Special Assessments” herein. There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled “SPECIAL RISK FACTORS.”

Under the terms of the Indenture, all Special Tax Revenues received by the Community Facilities District are to be deposited in the Special Tax Fund; provided, however, that with respect to any Special Tax Revenues that represent prepaid Special Taxes that are to be applied to the redemption of the Series 2014 Bonds in accordance with the provisions of the Indenture, said prepaid Special Taxes shall be identified as such in a Written Certificate of the Community Facilities District delivered to the Trustee at the time such prepaid Special Taxes are transferred to the Trustee, the portion of such prepaid Special Taxes to be applied to the Redemption Price of the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Prepayment Account of the Redemption Fund and the portion of such prepaid Special Taxes to be applied to the payment of interest on the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Bond Fund. See “— Special Tax Fund” and APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

*Proceeds of Foreclosure Sales.* The proceeds of delinquent Special Taxes received following a judicial foreclosure sale of parcels within the Community Facilities District resulting from a landowner’s failure to pay the Special Taxes when due, up to the amount of the delinquent Special Tax lien, are included within the Net Special Tax Revenues pledged to the payment of principal and interest on the Series 2014 Bonds under the Indenture.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the Community Facilities District of Special Taxes in an amount which is less than the Special Tax levied, the Board of Supervisors of the County, as the legislative body of the Community Facilities District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the Community Facilities District will covenant in the Indenture with and for the benefit of the Owners of the Series 2014 Bonds that the Community Facilities District will commence appropriate judicial foreclosure proceedings against parcels with total Special Tax delinquencies in excess of \$5,000 (not including interest and penalties thereon) by the October 1 following the close of each Fiscal Year in which the last of such Special Taxes were due and will commence appropriate judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied in such Fiscal Year, and diligently pursue to completion such foreclosure proceedings.

However, notwithstanding the foregoing, the Community Facilities District may elect to accept payment from a property owner of at least the enrolled amount but less than the full amount of the penalties, interest, costs and attorneys’ fees related to a Special Tax delinquency, if permitted by law. Additionally, notwithstanding the foregoing, in certain instances the amount of a Special Tax delinquency on a particular parcel is so small that the cost of appropriate foreclosure proceedings will far exceed the Special Tax delinquency and in such cases foreclosure proceedings may be delayed by the Community Facilities District until there are sufficient Special Tax delinquencies accruing to such parcel (including interest and penalties thereon) to warrant the foreclosure proceedings cost. See APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Covenants” herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Fund) have been exhausted, debt service payments on the Series 2014 Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the County and the Community Facilities District. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” herein. Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See “SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios” herein. Although the Act authorizes the Community Facilities District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the Community Facilities District or the County any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

### **Estimated Debt Service Coverage**

Special Taxes will be levied each year in an amount equal to the Special Tax Requirement determined in accordance with the Rate and Method. The Special Tax Requirement is calculated to include an amount equal to the debt service on the Series 2014 Bonds in the ensuing Bond Year plus the amount required to maintain the Reserve Fund at the Reserve Requirement plus the amount needed to pay Administrative Expenses, less the amount of earnings on deposit in the Reserve Fund in excess of the Reserve Requirement. The Special Tax Requirement in Fiscal Year 2015-16 is projected to be \$1,349,319, with \$70,000 of this amount budgeted to pay Administrative Expenses.

The Special Tax Requirement in Fiscal Year 2014-15 is approximately 71.73% of the Maximum Special Tax rates, and the Special Tax Requirement in Fiscal Year 2015-16 is projected to be approximately 61.34% of the Maximum Special Tax rates. However, parcels of Developed Property are currently levied at the Maximum Special Tax rates for such parcels. Additionally, pursuant to Section 53321(d) of the Act, Special Taxes levied on any parcel of property used for private residential purposes in the Community Facilities District may not be increased by more than 10% in any fiscal year above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. See “— Special Taxes — 10% Limitation on Increases in the Special Tax Levy as a Result of Delinquencies.” As a result, it is possible that the Community Facilities District may not be able to levy Special Taxes at the full amount of the Maximum Special Tax rates, as a result of high delinquencies. Assuming no delinquencies, the Special Taxes that may be levied within the Community Facilities District are at least 110% of maximum annual debt service on the Bonds plus estimated Administrative Expenses in each of the years the Bonds are outstanding.

### **Special Tax Fund**

The Trustee shall establish and maintain a separate fund designated the “Special Tax Fund.” As soon as practicable after the receipt by the Community Facilities District of any Special Tax Revenues, the Community Facilities District shall transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; provided, however, that with respect to any Special Tax Revenues that represent prepaid Special Taxes that are to be applied to the redemption of the Series 2014 Bonds in accordance with the provisions of the Indenture, said prepaid Special Taxes shall be identified as such in a Written Certificate of the Community Facilities District delivered to the Trustee at the time such prepaid Special Taxes are transferred to the Trustee, the portion of such prepaid Special Taxes to be applied to the Redemption Price of the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Prepayment Account of the Redemption Fund and the portion of such prepaid Special Taxes to be applied to the payment of interest on the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Bond Fund.

*Disbursements.* Upon receipt of a Written Request of the Community Facilities District, the Trustee shall withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the amount specified in such Written Request of the Community Facilities District as the amount necessary to be transferred thereto in order to have sufficient amounts available therein to pay Administrative Expenses.

On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall make the following transfers in the following order of priority:

Bond Fund. The Trustee shall withdraw from the Special Tax Fund and transfer to the Bond Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Bond Fund to be equal to the principal and interest due on the Bonds on such Interest Payment Date; and

Reserve Fund. After having made any transfers required to be made pursuant to the preceding paragraph, the Trustee shall withdraw from the Special Tax Fund and transfer to the Reserve Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

### **Bond Fund**

The Trustee will hold the Bond Fund (as defined in the Indenture) for the benefit of the Bond Owners.

On each Interest Payment Date, the Trustee will withdraw from the Bond Fund and pay to the Bond Owners the principal, if any, of and interest on the Bonds then due and payable, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds.

In the event that, on the Business Day prior to an Interest Payment Date, amounts in the Bond Fund are insufficient to pay the principal, if any, of and interest on the Bonds due and payable on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds, the Trustee shall withdraw from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Bond Fund.

In the event that, on an Interest Payment Date, amounts in the Bond Fund are insufficient to pay the principal, if any, of and interest on the Bonds due and payable on such interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds, the Trustee shall apply available funds therein in accordance with the provisions of the Indenture relating to the application of Net Special Tax Revenues upon a default. See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Events of Default and Remedies — Application of Net Special Tax Revenues After Default.”

### **Redemption Fund**

Moneys in the Redemption Fund shall be set aside and used solely for the purpose of redeeming Bonds in accordance with the Indenture.

### **Reserve Fund**

Certain proceeds of the Series 2014 Bonds will be deposited into the Reserve Fund in an amount equal to the Reserve Requirement (see “ESTIMATED SOURCES AND USES OF FUNDS” herein). Reserve Requirement is defined in the Indenture to mean, as of any date of calculation, an amount equal to the least of (a) 10% of the original aggregate principal amount of the Bonds (excluding Bonds refunded with proceeds of

subsequently issued Bonds), (b) the Maximum Annual Debt Service on the Bonds and (c) 125% of the Average Annual Debt Service on the Bonds.

If a portion of Bonds are to be redeemed, a proportionate amount in the Reserve Fund (determined on the basis of the principal of such Bonds to be redeemed and the original principal of such Bonds) will be applied to the redemption of such Bonds; provided, however, that such amount shall be so transferred only if and to the extent that the amount remaining on deposit in the Reserve Fund will be at least equal to the Reserve Requirement (excluding from the calculation thereof said Bonds to be redeemed).

Except as otherwise provided in the Indenture, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of and interest on the Bonds or, in accordance with the provisions of the Indenture, for the purpose of redeeming Bonds. Transfers shall be made from the Reserve Fund to the Bond Fund in the event of a deficiency in the Bond Fund, in accordance with the Indenture.

Moneys in the Reserve Fund will be invested and deposited as described in the Indenture. Any interest or profits or other income received with respect to investments held in the Reserve Fund will be transferred to the Bond Fund, as directed by the Indenture, to the extent amounts on deposit on the Reserve Fund exceed the Reserve Requirement.

See APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Security For Bonds; Flow of Funds; Investments — Investment of Moneys” for a description of the timing, purpose and manner of disbursements from the Reserve Fund.

#### **Administrative Expense Fund**

The Trustee will receive the transfer of Special Taxes from the Community Facilities District from the Special Tax Fund and deposit in the Administrative Expense Fund an amount sufficient to pay Administrative Expenses.

**Moneys in the Administrative Expense Fund will not be pledged to payment of debt service on the Bonds.**

### **THE COMMUNITY FACILITIES DISTRICT**

#### **General Description of the Community Facilities District**

The Community Facilities District is generally located in the Menifee/Winchester Valley area, partially in the western portion of the City of Menifee and partially in an unincorporated portion of south Riverside County, about 35 miles southeast of the City of Riverside and 65 miles north of San Diego, west of the City of Hemet and north of the cities of Murrieta and Temecula, specifically, east of Menifee Road, south of Simpson Road, north of Holland Road and west of Highway 79.

The Community Facilities District is irregular in shape and consists of low mountains to rolling hills and level farm land. The Salt Creek runs east/west through the northerly portion of the Community Facilities District.

The Community Facilities District is accessed via Newport Road. Newport Road, which was constructed and acquired through the Community Facilities District, connects Winchester Road (State Highway 79) at the northeast corner of the Community Facilities District and the I-215 Interstate Freeway.

The Community Facilities District is comprised of approximately 3,050 gross acres, including approximately 500 acres that have topographical or geological constraints adversely affecting the ability to develop such acreage. The Community Facilities District includes approximately 2,124 developable acres which are primarily residential acres. Actual acreage subject to the levy of the Special Tax will be less as the property develops and portions of the property are dedicated to public agencies for public streets, water and sewer facilities, flood control drainage facilities, school facilities, open space, park or habitat reserve, and public or private utility easements. Individually, most of the property holdings are rectangular and range in size from approximately 1.84 acres to approximately 399.13 acres. Residential density ranges from approximately 1.1 to approximately 9.8 dwelling units per acre, with an average density of approximately 3.5 dwelling units per acre. The land within the Community Facilities District has an estimated probable build-out of approximately 8,586 single-family detached and attached homes, park, elementary school and retail sites. The probable number of dwelling units at build-out is based on 85% of the maximum number of units allowed by an approved Specific Plan or the mid-point of the range of dwelling units allowed by the zoning designation under the Comprehensive General Plan (as defined herein). As of June 30, 2014, there were 1,463 parcels within the Community Facilities District, including 1,347 parcels within a final tract map which are classified as "Developed Property" under the Rate and Method. The 1,347 parcels of Developed Property within the Community Facilities District included 919 individually owned single family detached homes as of January 1, 2014 and an additional 428 parcels owned by the developer which were subdivided with the intent to construct single family detached homes. Additionally, as of January 1, 2014, there were approximately 1,913 gross acres of property in an undeveloped condition without paved access, consisting of farm land or rock outcroppings or rocky hillsides.

The Community Facilities District was originally comprised primarily of three approved Specific Plans — SPA-293, Winchester Hills (approved for a maximum of approximately 5,683 dwelling units), SPA-288, the Crossroads in Winchester (approved for a maximum of approximately 795 dwelling units), and SPA-247, Menifee East (approved for a maximum of approximately 1,283 dwelling units). These three Specific Plans are approved for 7,761 dwelling units, which is approximately 90.4% of the estimate of 8,586 units for all properties within the Community Facilities District. (The estimated probable build-out of approximately 8,586 single-family detached and attached homes at build-out is based on 85% of the maximum number of units allowed by approved Specific Plans and the mid-point of the range of dwelling units allowed by the zoning designation under the Comprehensive General Plan.) In addition to these three Specific Plans, there are approximately 485 acres of land not in any Specific Plan subject to individual ownerships.

On October 7, 2003, the Board of Supervisors approved the Comprehensive General Plan, in the form of a General Plan amendment. The County was divided into 19 Community Plan Areas. The Community Facilities District is located in the Menifee East Plan Area and the Winchester Hills Plan Area. The General Plan established foundation components (Community Development, Rural Community, Agricultural and Open Spaces). The Community Facilities District is within the Community Development Foundation Component. Each Specific Plan is required to process a General Plan amendment to process the Specific Plan and is thereby encompassed within the Comprehensive General Plan. Since its adoption eighty-three General Plan Amendments have been adopted by the Board of Supervisors through a series of resolutions as of December 2008. The County is currently undergoing a second five year review of the Comprehensive General Plan due to be completed in 2014.

There have been six recorded tract maps within the Community Facilities District since the Community Facilities District was formed. These maps include three tracts currently within the City of Menifee and three tracts in the unincorporated portion of the County.

The tracts within the City of Menifee are within the Menifee East Plan Area and include: (i) Tract No. 29837, recorded September 16, 2004, including 310 single family detached residential units, (ii) Tract No. 30422-1, recorded October 23, 2006, including 342 single family detached residential units; and (iii) Tract No. 30422-2, recorded December 23, 2009, expected to include 373 single family residential units at build-out. Development within the first two tracts has been completed and sold to individual owners according to the

Fiscal Year 2014-15 Assessor's Roll from the County Assessor's Office. Of the 373 single family residential units within Tract No. 30422-2, as of June 1, 2014, 298 are owned by individual home owners and 75 are owned by Centex Homes, the developer of such tract.

The three tract maps recorded within the unincorporated area of the County are within the Winchester Hills Plan Area and include: (i) Tract No. 30322-1, recorded June 16, 2006, expected to include 141 single family residential units at build-out; (ii) Tract No. 30809, recorded September 25, 2007, expected to include 123 single family residential units at build-out; and (iii) Tract No. 30266-1, recorded October 27, 2008, expected to include 58 single family residential units at build-out. All of these are still owned by the developer, according to the Fiscal Year 2014 15 Assessor's Roll from the Riverside County Assessor's Office.

There are four approved tentative tract maps and 14 tentative tract maps in the land review process.

Four different school districts serve the property within the Community Facilities District. The school districts include Romoland School District (K-8), Hemet Unified School District (K-12), Menifee Union School District (K-8) and Perris Union High School District (9-12).

A portion of the proceeds of the bonds originally issued by the Community Facilities District was used to acquire and construct various public facilities authorized to be acquired or constructed within the Community Facilities District. These proceeds have all been expended and the public improvements to be financed by the Community Facilities District are complete. The completed improvements include constructing Newport Road as a six lane urban arterial with a raised center median from Menifee Road to Winchester Road (State Highway 79) with required drainage appurtenances and connectors to existing streets.

#### **Estimated Direct and Overlapping Indebtedness**

Within the boundaries of the Community Facilities District are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on the parcels within the Community Facilities District and others have authorized but have not yet issued bonds which, if issued, will be secured by taxes and assessments levied on parcels within the Community Facilities District. The approximate amount of the direct and overlapping debt secured by such taxes and assessments on the parcels within the Community Facilities District for Fiscal Year 2014-15 is shown in Table 1 below.

**TABLE 1**  
**COMMUNITY FACILITIES DISTRICT NO. 03-1 (NEWPORT ROAD)**  
**OF THE COUNTY OF RIVERSIDE**  
**DIRECT AND OVERLAPPING DEBT SUMMARY**  
**(As of October 1, 2014)**

**I. ASSESSED VALUE**

2014-15 Equalized Roll Assessed Valuation<sup>(1)</sup>

\$ 295,421,928

**II. SECURED PROPERTY TAX ROLL**

Description of Tax Bill	Type	Total Parcels Levied	Total Levy	% Applicable	Parcels in CFD 03-1	Levy Amount
General Purpose	1%	903,070	\$2,133,488,338	0.137%	1,456	\$ 2,917,939
Menifee Union School District (0.03275)	GO	36,817	2,379,796	3.498	1,041	83,251
Perris Union High School District (0.06303)	GO	66,022	7,492,246	2.161	1,045	161,921
Metro Water East 1301999 (0.00350%)	GO	N/A <sup>(2)</sup>	81,023,196	0.013	1,447	10,189
EMWD IMP U-35 & U-36 (0.04800%)	GO	11,274	1,470,225	8.425	1,294	123,866
Hemet Unified School District (0.11991%)	GO	60,653	10,366,721	0.398	402	41,228
MWD Standby East	WTR	241,739	2,809,294	0.937	1,455	26,326
EMWD Standby - Combined Charge	WTR	245,279	5,857,941	0.844	1,455	49,423
CSA #84 Menifee	CSA	15,393	472,169	7.281	1,032	34,376
CSA #84 Streetlights	CSA	1,319	58,985	23.609	287	13,926
CSA #152 Street Sweeping	CSA	60,860	1,660,800	1.802	1,007	29,933
Flood Control NPDES - Santa Ana	BAA	369,156	2,487,120	0.130	953	3,223
Valley Wide Menifee Facilities LMD 88-1	LMD	6,285	1,813,814	16.872	983	306,031
Valley-Wide Regional Facilities LMD 88-1	LMD	68,643	1,164,377	0.469	982	5,457
Menifee Union School District CFD 2002-5	CFD	310	491,396	100.000	310	491,396
Menifee Union School District CFD 2003-2 IA A	CFD	715	757,554	100.000	715	757,554
Perris Union High School District CFD 92-1	CFD	18,316	3,449,852	7.740	968	267,013
EMWD CFD 2005-47 IA A	CFD	667	803,541	100.000	667	803,541
CFD 03-1 Newport Road	CFD	1,453	1,486,770	100.000	1,453	1,486,770
<b>Fiscal Year 2014-15 Total Property Tax Liability</b>						<b>\$ 7,613,365</b>
Total Property Tax as a Percentage of 2014-15 Assessed Valuation						2.58%

**III. LAND SECURED BOND INDEBTEDNESS**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels in CFD 03-1	Amount of Debt
Menifee Union School District CFD 2002-5	CFD	\$ 6,195,000	\$ 5,055,000	100.000%	310	\$ 5,055,000
Menifee Union School District CFD 2003-2 IA A	CFD	10,900,000	9,585,000	100.000	713	9,585,000
Perris Union High School District CFD 92-1	CFD	33,450,000	32,935,000	7.740	712	2,549,117
EMWD CFD 2005-47 IA A <sup>(8)</sup>	CFD	13,385,000	13,210,000	100.000	412	13,210,000
CFD 03-1 Newport Road <sup>(4)</sup>	CFD	20,000,000	14,390,000	100.000	1,463	14,390,000
<b>Total Land Secured Bonded Debt<sup>(5)</sup></b>						<b>\$ 44,789,117</b>

Authorized and Unissued Direct and Overlapping Bonded Debt

	Type	Authorized	Unissued	% Applicable	Parcels in CFD 03-1	Applicable
Menifee Union School District CFD 2002-5	CFD	\$ 8,000,000	\$ 1,805,000	100.000%	310	\$ 1,805,000
Menifee Union School District CFD 2003-2 IA A	CFD	15,000,000	4,100,000	100.000	713	4,100,000
Perris Union High School District CFD 92-1	CFD	40,000,000	6,550,000	7.740	712	506,960
EMWD CFD 2005-47 IA A	CFD	16,000,000	0	100.000	412	0
CFD 03-1 Newport Road	CFD	20,000,000	0	100.000	1,463	0
<b>Total Unissued Land Secured Indebtedness<sup>(5)</sup></b>						<b>\$ 6,411,960</b>
<b>Total Outstanding and Unissued Land Secured Indebtedness</b>						<b>\$ 51,201,077</b>

**IV. GENERAL OBLIGATION BOND INDEBTEDNESS**

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable <sup>(6)</sup>	Parcels in CFD 03-1	Amount of Debt
Menifee Union School District	GO	\$ 45,958,923	\$ 43,908,642	3.998572%	1,041	\$ 1,755,719
Perris Union High School District <sup>(5)</sup>	GO	104,802,260	80,413,834	2.451315	1,045	1,971,196
Hemet Unified School District	GO	160,000,000	131,940,000	3.476378	402	4,586,733
EMWD ID No. U-35 & U-36	GO	18,012,000	16,808,000	9.537110	1,447	1,602,997
Metropolitan Water District East	GO	850,000,000	132,275,000	0.012761	1,294	16,880
<b>Total General Obligation Bonded Debt<sup>(5)</sup></b>						<b>\$ 9,933,525</b>

Authorized and Unissued Direct and Overlapping Indebtedness

	Type	Authorized	Unissued	% Applicable <sup>(6)</sup>	Parcels in CFD 03-1	Applicable
Menifee Union School District	GO	\$ 45,960,000	\$ 1,078	3.998572%	1,041	\$ 43
Perris Union High School District <sup>(7)</sup>	GO	215,420,000	110,617,740	2.451315	1,045	2,711,589
Hemet Unified School District	GO	209,000,000	49,000,000	3.476378	402	1,703,425
EMWD ID No. U-35 & U-36	GO	65,900,000	47,888,000	9.537110	1,447	4,567,131
Metropolitan Water District East	GO	850,000,000	0	0.012761	1,294	0
<b>Total Unissued General Obligation Indebtedness<sup>(5)</sup></b>						<b>\$ 8,982,188</b>

**Total Outstanding and Unissued General Obligation Indebtedness**

**TOTAL OF ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT** \$ 54,722,642  
**TOTAL OF ALL OUTSTANDING AND UNISSUED DIRECT AND OVERLAPPING INDEBTEDNESS** \$ 70,116,790

**IV. Ratios to 2014-15 Assessed Valuation**

Outstanding Land Secured Bonded Debt 6.60:1  
Total Outstanding Bonded Debt 5.40:1

<sup>(1)</sup> Fiscal Year 2014-15 Equalized Roll Assessed Valuation, Riverside County Assessor's Office.

<sup>(2)</sup> Per Dennis Butkovich of Metropolitan Water District, Metropolitan does not receive parcel count data from the counties, and therefore "Total Parcels Levied" is not available and "Total Levy" is estimated and not exact.

<sup>(3)</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>(4)</sup> Outstanding Debt for the Community Facilities District is based on bond sizing information provided by the Underwriter.

<sup>(5)</sup> Outstanding Principal includes Capital Appreciation Bonds.

<sup>(6)</sup> Percentage applicable determined by Fiscal Year 2014-15 Equalized Roll Assessed Value information.

<sup>(7)</sup> Per Perris Union High School District, all prior year debt authorization amounts have been used and the only remaining Authorized and Unissued Debt is from the 2012 Measure T Election in the amount of \$110,617,740.

<sup>(8)</sup> The issued amount of bonds against the bonded debt authorization for EMWD CFD No. 2005-47 Improvement Area A includes the original aggregate principal amount of the 2008 Bonds (\$5,110,000) plus the aggregate principal amount of the 2012 Bonds which is not allocated to the refunding of the outstanding 2008 Bonds (\$3,845,000) plus the aggregate principal amount of the 2014 Bonds (\$4,430,000).

Source: Albert A. Webb Associates.



In addition to the bonded indebtedness set forth in Table 1, new community facilities districts or special assessment districts may be formed which include all or a portion of the Community Facilities District, and, upon approval of the registered voters or landowners in such districts, as applicable, may issue more bonds and levy additional special taxes or other taxes and assessments. In addition to the Special Taxes, the property owners in the Community Facilities District will be required to pay the general *ad valorem* property taxes for their parcels.

### Expected Tax Burden

Table 2 below sets forth an estimated property tax bill for an estimated low, average and high residential unit value in the Community Facilities District. The estimated tax rates and amounts presented herein are based on information for Fiscal Year 2014-15. The actual amounts charged may vary and may increase in future years. For Fiscal Year 2014-15, the projected total effective tax rate range for the units in the Community Facilities District is approximately 2.09% of assessed value to approximately 2.79% of assessed value.

**TABLE 2  
COMMUNITY FACILITIES DISTRICT NO. 03-1 (NEWPORT ROAD)  
OF THE COUNTY OF RIVERSIDE  
ESTIMATED FISCAL YEAR 2014-15 TAX OBLIGATION  
FOR AN INDIVIDUALLY OWNED SAMPLE DEVELOPED PROPERTY**

	<i>Low</i>	<i>Average</i>	<i>High</i>
Assessed Value as of Fiscal Year 2014-15 <sup>(1)</sup>	\$ 169,307.00	\$ 258,416.00	\$ 449,595.00
<b>Ad Valorem Property Taxes</b>			
GENERAL PURPOSE	\$ 1,693.07	\$ 2,584.16	\$ 4,495.95
MENIFEE UNION SCHOOL DISTRICT (0.03275%)	55.45	84.63	147.24
PERRIS UNION HIGH SCHOOL DISTRICT (0.06303%)	106.71	88.61	154.17
METRO WATER EAST 1301999 (0.00350%)	5.93	9.56	16.64
EMWD IMP U-35 & U-36 (0.04800%)	81.27	124.04	215.81
Total General Property Taxes	<u>\$ 1,942.43</u>	<u>\$ 2,891.00</u>	<u>\$ 5,029.81</u>
<b>Assessment, Special Taxes &amp; Parcel Charges<sup>(2)</sup></b>			
MWD STANDBY EAST	\$ 6.94	\$ 6.94	\$ 6.94
EMWD STANDBY - COMBINED CHARGE	21.00	21.00	21.00
CSA #84 MENIFEE	46.96	46.96	46.96
CSA #152 STREET SWEEPING	3.14	3.14	3.14
FLOOD CONTROL NPDES - SANTA ANA	3.78	3.78	3.78
VALLEY WIDE MENIFEE FACILITIES LMD 88-1	317.00	317.00	317.00
VALLEY-WIDE REGIONAL FACILITIES LMD 88-1	5.54	5.54	5.54
MENIFEE UNION SCHOOL DISTRICT CFD 2003-2 IA A	817.10	856.28	1,581.42
PERRIS UNION HIGH SCHOOL DISTRICT CFD 92-1	275.84	275.84	275.84
EMWD CFD 2005-47 IA A	1,058.86	1,058.86	1,870.72
CFD 03-1 NEWPORT ROAD <sup>(3)</sup>	232.00	232.00	232.00
Total Assessments & Parcel Charges	<u>\$ 2,788.16</u>	<u>\$ 2,827.34</u>	<u>\$ 4,364.34</u>
Projected Total Property Tax	\$ 4,730.59	\$ 5,718.34	\$ 9,394.15
Projected Effective Tax Rate	2.79%	2.21%	2.09%

<sup>(1)</sup> Range of assessed values for homes owned by individuals from the Fiscal Year 2014-15 Equalized Roll, Riverside County Assessor's Office.

<sup>(2)</sup> Reflects actual amounts applied for Fiscal Year 2014-15. Provides a sample estimate tax bill for select developed parcels within the Community Facilities District and may not reflect all overlapping assessments and not all assessments overlap all the parcels within the boundaries of the Community Facilities District.

<sup>(3)</sup> Projected Special Tax is based on bond sizing information provided by the Underwriter.

Source: Riverside County Assessor, Albert A. Webb Associates.

## **Principal Taxpayers**

In Fiscal Year 2015-16, approximately 23.16% of the Special Taxes are projected to be levied on parcels of single family detached residential property, or parcels intended to be developed as single family detached residential property, which are classified as “Developed” under the Rate and Method, 32.01% on parcels classified as “Initial Taxable Property” under the Rate and Method, which is undeveloped property in its original state since formation, and 44.83% on parcels classified as “Undeveloped Property” under the Rate and Method. As a result of the Special Taxes levied on Initial Taxable Property and Undeveloped Property, there are several property owners within the Community Facilities District which are responsible for a significant proportion of the Special Tax levy. A summary of the top 20 taxpayers within the Community Facilities District is set forth in Table 3 below.

None of the top 20 taxpayers within the Community Facilities District are currently delinquent in the payment of Special Taxes, although top 20 taxpayers have been delinquent in the past five fiscal years. See “SPECIAL RISK FACTORS — Concentration of Ownership.”

**TABLE 3  
COMMUNITY FACILITIES DISTRICT NO. 03-1 (NEWPORT ROAD)  
OF THE COUNTY OF RIVERSIDE  
PROJECTED TOP 20 TAXPAYERS  
FISCAL YEAR 2015-16**

<i>Owner</i>	<i>No. of Developed Parcels<sup>(1)</sup></i>	<i>No. of Undeveloped Parcels</i>	<i>Total No. of Parcels</i>	<i>Acquisition Date(s)<sup>(4)</sup></i>	<i>No. of Acres</i>	<i>Assessed Value<sup>(2)(4)</sup></i>	<i>% of Assessed Value<sup>(2)</sup></i>	<i>Estimated Series 2014 Bonds<sup>(3)</sup></i>	<i>Other Overlapping Land Secured Debt</i>	<i>Aggregate Outstanding &amp; Proposed Land Secured Debt</i>	<i>Value-to-Lien Ratio<sup>(4)</sup></i>	<i>Current Maximum Special Tax</i>	<i>% of Maximum Special Tax</i>	<i>Fiscal Year 2015-16 Projected Special Tax<sup>(5)</sup></i>	<i>% of Applied Special Tax</i>
1. Warner Kathy Separate Prop Trust	0	13	13	5/2010	157.38	\$ 984,692	0.33%	\$ 909,628	\$ 1,921,604	\$ 2,831,232	0.35:1	\$ 146,049	6.99%	\$ 85,294	6.32%
2. San Pedro Farm Rancon	0	1	1	8/2012	141.31	1,411,378	0.48	816,746	1,725,390	2,542,137	0.56:1	131,136	6.27	76,585	5.68
3. Rancon Crossroads	0	5	5	9/2010 & 1/2012	126.21	2,574,282	0.87	729,471	1,541,020	2,270,491	1.13:1	117,123	5.60	68,401	5.07
4. Woods Venture	123	17	140	3/2008	85.08	4,102,346	1.39	676,026	1,428,117	2,104,143	1.95:1	88,216	4.22	63,390	4.70
5. Salt Creek I	0	1	1	7/2010	107.35	245,329	0.08	620,464	1,310,740	1,931,203	0.13:1	99,621	4.77	58,180	4.31
6. Rancon Winchester Valley 155	0	2	2	12/2005	103.85	2,100,631	0.71	600,234	1,268,005	1,868,239	1.12:1	96,373	4.61	56,283	4.17
7. CV Inland Inv I	0	4	4	7/2013	103.65	2,049,253	0.69	599,078	1,265,563	1,864,641	1.10:1	96,187	4.60	56,174	4.16
8. PIM Bluecap Winchester	0	2	2	11/2007	91.97	2,166,000	0.73	531,570	1,122,951	1,654,521	1.31:1	85,348	4.08	49,844	3.69
9. Winchester Meadows	58	3	61	3/2009	61.98	5,246,818	1.78	501,737	1,059,927	1,561,664	3.36:1	70,973	3.40	47,047	3.49
10. Salt Creek II	0	3	3	7/2010	82.30	124,763	0.04	475,679	1,004,880	1,480,559	0.08:1	76,374	3.65	44,603	3.31
11. Rancon Winchester Valley 85	0	3	3	7/2002 & 12/2010	80.53	3,853,199	1.30	465,449	983,269	1,448,717	2.66:1	74,732	3.58	43,644	3.23
12. Ranchos Prop Ltd & Rancon Real Estate Corp	0	1	1	5/2008	71.98	1,079,700	0.37	416,031	878,873	1,294,905	0.83:1	66,797	3.20	39,010	2.89
13. La Ventana 242	0	1	1	12/2008	69.84	1,265,846	0.43	403,663	852,744	1,256,407	1.01:1	64,812	3.10	37,851	2.81
14. Mighty Dev	0	6	6	10/2010	63.11	642,902	0.22	364,764	770,571	1,135,335	0.57:1	58,566	2.80	34,203	2.53
15. Rancon Winchester Valley 200	0	1	1	4/2007	56.12	673,044	0.23	324,363	685,223	1,009,587	0.67:1	52,079	2.49	30,415	2.25
16. Rancho De Los Cazadores <sup>(6)</sup>	0	3	3	1989 & 2006	53.31	141,375	0.05	308,122	650,913	959,035	0.15:1	49,472	2.37	28,892	2.14
17. Stone Star Riverside	141	0	141	2/2011	22.09	1,724,179	0.58	348,862	736,976	1,085,838	1.59:1	32,712	1.57	32,712	2.42
18. Centex Homes	106	2	108	12/2009	32.57	11,257,891	3.81	334,108	705,809	1,039,917	10.83:1	36,127	1.73	31,329	2.32
19. Regent Winchester	0	2	2	3/2011	51.44	2,596,112	0.88	297,314	628,081	925,395	2.81:1	47,736	2.28	27,878	2.07
20. Warner Kathy L	0	2	2	1/2010	50.30	311,428	0.11	290,725	614,161	904,886	0.34:1	46,678	2.23	27,261	2.02
SUBTOTAL	428	72	500		1,612.37	44,551,168	15.08	10,014,035	21,154,818	31,168,853	1.43:1	1,537,111	73.54	938,994	69.59
ALL OTHERS	919	44	963		511.72	250,870,760	84.92%	\$ 4,375,965	\$ 9,244,299	\$ 13,620,264	18.42:1	\$ 553,060	26.46%	\$ 410,325	30.41%
<b>TOTAL</b>	<b>1,347</b>	<b>116</b>	<b>1,463</b>		<b>2,124.09</b>	<b>\$ 295,421,928</b>	<b>100.00%</b>	<b>\$ 14,390,000</b>	<b>\$ 30,399,117</b>	<b>\$ 44,789,117</b>	<b>6.60:1</b>	<b>\$ 2,090,171</b>	<b>100.00%</b>	<b>\$ 1,349,319</b>	<b>100.00%</b>

(1) Developed Property are those as defined in the Rate and Method.

(2) Reflects the assessed value based on ownership status as of January 1, 2014.

(3) Series 2014 Bond allocation based on Fiscal Year 2015-16 projected Special Tax levy for the total Community Facilities District of \$1,349,319.

(4) The County has utilized the Fiscal Year 2014-15 assessed values within the Community Facilities District. Because a parcel's assessed value generally represents the lower of its acquisition cost and adjustments for inflation (but not more than 2% per fiscal year) or its current market value, a parcel's assessed value may not be indicative of the parcel's market value. Parcels (in particular, undeveloped parcels) acquired while real estate prices were depressed and not resold may reflect assessed values significantly below current market value. Beginning in 2008, the County, much like the rest of the Country, experienced a severe real estate recession which lasted through 2011. Of the Top 20 Taxpayers, all but Top Taxpayer Nos. 2, 6, 7, 8, 11 (for one parcel), 15 and 16 acquired their properties during the period from March 2008 through January 2012.

(5) Projected Special Tax is based on bond zoning information provided by the Underwriter.

(6) Land consists of one large agricultural parcel transferred in 1989 and two small vacant parcels transferred in 2006.

Source: Albert A. Webb Associates.

## Delinquency History

Table 4 below summarizes the Special Tax delinquencies for property within the boundaries of the Community Facilities District for Fiscal Years 2007-08 through 2013-14. The highest fiscal year end delinquency rate in any of these years was 15.75% for Fiscal Year 2008-09 as of September 30, 2009, during the height of the real estate market slowdown which began in 2008. However, delinquency rates within the Community Facilities District have declined significantly since that time. The delinquency rate for Fiscal Year 2013-14 was 0.14% as of September 30, 2014 and did not include any top 20 taxpayers. Currently, there are no foreclosure actions in process in the Community Facilities District.

**TABLE 4**  
**COMMUNITY FACILITIES DISTRICT NO. 03-1 (NEWPORT ROAD)**  
**OF THE COUNTY OF RIVERSIDE**  
**SPECIAL TAX DELINQUENCY HISTORY**  
**Fiscal Years 2007-08 through 2013-14**

<i>Fiscal Year</i>	<i>Amount Levied</i>	<i>Parcels Levied<sup>(2)</sup></i>	<i>Delinquencies as of September 30 of Fiscal Year<sup>(1)</sup></i>			<i>Delinquencies as of September 30, 2014</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>
2007-08	\$1,551,004.18	889	93	\$ 74,752.08	4.82%	1	\$ 116.00	0.01%
2008-09	1,696,132.18	1,072	58	267,075.40	15.75	1	232.00	0.01
2009-10	1,695,934.72	1,081	32	54,845.90	3.23	1	232.00	0.01
2010-11	1,715,486.82	1,460	23	30,041.51	1.75	2	1,289.50	0.08
2011-12	1,511,180.40	1,460	14	34,945.50	2.31	3	1,251.00	0.08
2012-13	1,509,458.52	1,453	4	696.00	0.05	2	348.00	0.02
2013-14	1,491,023.44	1,453	11	2,088.00	0.14	11	2,088.00	0.14

<sup>(1)</sup> Fiscal Year 2013-14 as of September 1, 2014.

<sup>(2)</sup> Parcels levied between Fiscal Year 2011-12 and 2012-13 were reduced by seven parcels due to such parcels being classified as exempt under the Rate and Method.

Source: Albert A. Webb Associates.

The County has adopted a Teeter Plan for the collection and payment of taxes pursuant to which it pays 100% of the amount levied to participating agencies without regard to the actual amount of collections. The Community Facilities District does not participate in the County's Teeter Plan and, as a result, the Community Facilities District receives only the Special Taxes actually collected. Penalties and interest received on the collection of delinquent Special Taxes are also pledged under the Indenture to repay the Series 2014 Bonds to the extent not needed to pay Administrative Expenses.

## Estimated Assessed Value-to-Lien Ratios

Table 5 below sets forth the net assessed value and the annual change in net assessed value for fiscal years 2007-08 through 2014-15.

**TABLE 5**  
**COMMUNITY FACILITIES DISTRICT NO. 03-1 (NEWPORT ROAD)**  
**OF THE COUNTY OF RIVERSIDE**  
**ANNUAL CHANGE IN ASSESSED VALUE**

<i>Fiscal Year</i>	<i>Taxable Parcels</i>	<i>Taxable Property Net Assessed Value<sup>(1)</sup></i>	<i>% Change</i>
2007-08	889	\$393,062,450	N/A
2008-09 <sup>(2)</sup>	1,072	369,696,351	-5.94%
2009-10	1,081	255,140,625	-30.99
2010-11	1,460	223,240,298	-12.50
2011-12	1,460	227,798,319	2.04
2012-13	1,453	233,340,879	2.43
2013-14	1,453	245,781,598	5.33
2014-15	1,463	295,421,928	20.20

<sup>(1)</sup> Net assessed values as of January 1 of each year from the County Assessor's Roll.

<sup>(2)</sup> Beginning in 2008, the County, much like the rest of the Country, experienced a severe real estate recession which lasted through 2011. As a result, assessed values declined significantly. See "SPECIAL RISK FACTORS — Risks of Real Estate Secured Investments Generally."

Source: Riverside County Assessor.

Table 6 below sets forth the estimated assessed value-to-lien ratios for various categories of property ownership within the Community Facilities District based upon ownership status as of June 30, 2014 and the assessed values included on the Fiscal Year 2014-15 County Assessor's roll. The assessed value of the taxable parcels within the Community Facilities District for Fiscal Year 2014-15 is \$295,421,928. The estimated assessed value-to-lien ratio of the property within the Community Facilities District based upon the principal amount of the Series 2014 Bonds, overlapping land secured debt payable from other special taxes and assessments levied on the property within the Community Facilities District, and the assessed values included on the 2014-15 Assessor's roll is approximately 6.60-to-1. Because a parcel's assessed value generally represents the lower of its acquisition cost and adjustments for inflation (but not more than 2% per year) or its current market value, it may not be indicative of the parcel's market value. No assurance can be given that any of the value-to-lien ratios in Table 6 will be maintained during the period of time that the Series 2014 Bonds are outstanding. The Community Facilities District does not have any control over future property values or the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which is made through the levy of a tax or an assessment with a lien on a parity with the Special Taxes. See "SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios."

Table 7 below sets forth the estimated value-to-lien ratios for parcels within the Community Facilities District by various ranges based upon the direct and overlapping debt information included in Table 1.

**TABLE 6**  
**COMMUNITY FACILITIES DISTRICT NO. 03-1 (NEWPORT ROAD)**  
**OF THE COUNTY OF RIVERSIDE**  
**ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS**  
**BY PROPERTY CLASSIFICATION**

<i>Classification</i>	<i>No. of Parcels</i>	<i>Acreage</i>	<i>Fiscal Year 2014-15 Assessed Value<sup>(1)</sup></i>	<i>% of Fiscal Year 2014-15 Assessed Value<sup>(1)</sup></i>	<i>Estimated Series 2014 Bonds<sup>(2)</sup></i>	<i>Other Overlapping Land Secured Bonded Debt</i>	<i>Aggregate Outstanding &amp; Proposed Land Secured Bonded Debt</i>	<i>Value-to- Lien Ratio</i>	<i>Current Maximum Special Tax</i>	<i>% of Maximum Special Tax</i>	<i>Projected Fiscal Year 2015-16 Special Tax<sup>(3)</sup></i>	<i>% of Projected Fiscal Year 2015-16 Special Tax</i>
Developed - Individually Owned <sup>(4)</sup>	919	145.50	\$ 237,624,566	80.44%	\$ 2,273,787	\$ 4,803,413	\$ 7,077,200	33.58:1	\$ 213,208	10.20%	\$ 213,208	15.80%
Developed - Developer Owned <sup>(4)</sup>	<u>428</u>	<u>63.00</u>	<u>16,173,030</u>	<u>5.47</u>	<u>1,058,956</u>	<u>2,237,063</u>	<u>3,296,019</u>	<u>4.91:1</u>	<u>99,296</u>	<u>4.75</u>	<u>99,296</u>	<u>7.36</u>
<b>Subtotal Developed Properties</b>	1,347	208.50	\$ 253,797,596	85.91%	\$ 3,332,743	\$ 7,040,475	\$ 10,373,218	24.47:1	\$ 312,504	14.95%	\$ 312,504	23.16%
Initial Taxable Property <sup>(5)</sup>	34	796.86	\$ 10,445,529	3.54%	\$ 4,605,707	\$ 9,729,633	\$ 14,335,340	0.73:1	\$ 739,486	35.38%	\$ 431,867	32.01%
Undeveloped Property	72	1,116.22	31,178,781	10.55	6,451,550	13,629,008	20,080,558	1.55:1	1,035,852	49.56	604,948	44.83
Taxable Public or POA Property	<u>10</u>	<u>2.51</u>	<u>22</u>	<u>0.00</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>N/A</u>	<u>2,329</u>	<u>0.11</u>	<u>0</u>	<u>0.00</u>
<b>TOTAL</b>	<u>1,463</u>	<u>2,124.09</u>	<u>\$ 295,421,928</u>	<u>100.00%</u>	<u>\$ 14,390,000</u>	<u>\$ 30,399,117</u>	<u>\$ 44,789,117</u>	<u>6.60:1</u>	<u>\$ 2,090,172</u>	<u>100.00%</u>	<u>\$ 1,349,319</u>	<u>100.00%</u>

<sup>(1)</sup> Reflects the assessed value based on ownership status as of January 1, 2014.

<sup>(2)</sup> Bond Allocation based on Fiscal Year 2015-16 Projected Special Tax for the total district of \$1,349,319.

<sup>(3)</sup> Projected Special Tax is based on bond sizing information provided by the Underwriter.

<sup>(4)</sup> From January 1, 2014 to June 1, 2014, an additional 31 completed homes were transferred to individual homeowners.

<sup>(5)</sup> Initial Taxable Property under the Rate and Method means undeveloped property that is in the exact same state as at the time of formation.

Source: Albert A. Webb Associates.

**TABLE 7  
COMMUNITY FACILITIES DISTRICT NO. 03-1 (NEWPORT ROAD)  
OF THE COUNTY OF RIVERSIDE  
ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS  
BY RANGES**

<i>Value-to-Lien</i>	<i>Parcels<sup>(1)</sup></i>	<i>% of Total Parcels</i>	<i>Fiscal Year 2014-15 Assessed Value<sup>(2)</sup></i>	<i>% of Fiscal Year 2014-15 Assessed Value</i>	<i>Aggregate Outstanding &amp; Proposed Land Secured Bonded Debt</i>	<i>% of Aggregate Outstanding &amp; Proposed Land Secured Bonded Debt</i>	<i>Projected Fiscal Year 2015-16 Special Tax<sup>(3)</sup></i>	<i>% of Projected Fiscal Year 2015-16 Special Tax</i>
Less than 1.00:1	46	3.17%	\$ 8,105,181	2.74%	\$ 17,851,804	39.86%	\$ 537,804	39.86%
Between 1.00 – 2.99:1	372	25.60	26,714,702	9.04	17,456,571	38.98	525,897	38.98
Between 3.00 – 4.99:1	4	0.28	1,812,495	0.61	477,449	1.07	14,384	1.07
Between 5.00 – 9.99:1	79	5.44	10,477,469	3.55	1,381,357	3.08	41,615	3.08
Between 10.00 – 19.99:1	16	1.10	5,822,773	1.97	413,820	0.92	12,467	0.92
Between 20.00 – 29.99:1	298	20.51	60,138,661	20.36	2,294,892	5.12	69,136	5.12
Greater than 29.99:1	<u>638</u>	<u>43.91</u>	<u>182,350,625</u>	<u>61.73</u>	<u>4,913,224</u>	<u>10.97</u>	<u>148,016</u>	<u>10.97</u>
Totals	<u>1,453</u>	<u>100.00%</u>	<u>\$ 295,421,906</u>	<u>100.00%</u>	<u>\$ 44,789,117</u>	<u>100.00%</u>	<u>\$1,349,319</u>	<u>100.00%</u>

<sup>(1)</sup> Total Parcel count does not include 10 parcels of Taxable POA or Public Property under the Rate and Method.

<sup>(2)</sup> Fiscal Year 2014-15 Equalized Roll Assessed Valuation, from the County Assessor's Office.

<sup>(3)</sup> Projected Special Tax is based on bond sizing information provided by the Underwriter.

Source: Albert A. Webb Associates.

## **SPECIAL RISK FACTORS**

The purchase of the Series 2014 Bonds involves significant investment risks and, therefore, the Series 2014 Bonds may not be suitable investments for many investors. The Series 2014 Bonds are not rated by any nationally recognized rating agency. 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 Series 2014 Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the Community Facilities District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the Community Facilities District to make full and punctual payments of debt service on the Series 2014 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Community Facilities District. See “SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios” and “— Limited Secondary Market” below.

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

The Owners of the Series 2014 Bonds will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the Community Facilities District, the supply of or demand for competitive properties in such area, and the market value of residential property or commercial buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; (iii) natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses; (iv) adverse changes in local market conditions; and (v) increased delinquencies due to rising mortgage costs and other factors.

### **Limited Obligations**

The Series 2014 Bonds and interest thereon are not payable from the general funds of the County. Except with respect to the Net Special Tax Revenues, neither the credit nor the taxing power of the Community Facilities District or the County is pledged for the payment of the Series 2014 Bonds or the interest thereon, and, except as provided in the Indenture, no Owner of the Series 2014 Bonds may compel the exercise of any taxing power by the Community Facilities District or the County or force the forfeiture of any County or Community Facilities District property. The principal of, premium, if any, and interest on the Series 2014 Bonds are not a debt of the County or a legal or equitable pledge, charge, lien or encumbrance upon any of the County’s or the Community Facilities District’s property or upon any of the County’s or the Community Facilities District’s income, receipts or revenues, except the Net Special Tax Revenues and other amounts pledged under the Indenture.

### **Insufficiency of Special Taxes**

The principal source of payment of principal of and interest on the Series 2014 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the Community Facilities District. The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the Series 2014 Bonds and Administrative Expenses. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.



The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the Series 2014 Bonds, and certainly not a direct relationship.

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

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

Except as set forth above under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Special Taxes — *Rate and Method of Apportionment of Special Taxes*” herein, the Indenture provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Special Taxes — *Proceeds of Foreclosure Sales*” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the Series 2014 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the Community Facilities District of the proceeds of sale if the Reserve Fund is depleted. See “SECURITY FOR THE SERIES 2014 BONDS — Special Taxes — *Proceeds of Foreclosure Sales*.”

In addition, the Rate and Method limits the increase of Special Taxes levied on parcels of Developed Property to cure delinquencies of other property owners in the Community Facilities District. See “SECURITY FOR THE SERIES 2014 BONDS — Special Taxes — *Rate and Method of Apportionment of Special Taxes*” herein.

### **Concentration of Ownership**

As of June 30, 2014, the top 20 largest taxpayers within the Community Facilities District were projected to be responsible for approximately 69.59% of the projected Fiscal Year 2015-16 Special Tax levy. The largest taxpayer, the Kathy Warner Separate Property Trust, is projected to be responsible for approximately 6.32% of the projected Fiscal Year 2015-16 Special Tax levy.

If a major owner is unwilling or unable to pay the Special Tax when due, a potential shortfall in the Special Tax Fund could occur, which would result in the depletion of the Reserve Fund prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Taxes and, consequently, a delay or failure in payments of the principal of or interest on the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Special Taxes” and “—Reserve Fund.”

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

### **Depletion of Reserve Fund**

The Reserve Fund is maintained in an amount equal to the Reserve Requirement. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Reserve Fund.” In addition to the Reserve Fund which will be funded from Series 2014 Bond proceeds at the Reserve Requirement. Funds in the Reserve Fund may be used to pay principal of and interest on the Series 2014 Bonds in the event the proceeds of the levy and the collection of the Special Taxes against the property in the Community Facilities District is not sufficient. If the Reserve Fund is depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay Administrative Expenses and principal and interest on the Series 2014 Bonds. However, no replenishment of the Reserve Fund from the proceeds of the Special Taxes can occur as long as the proceeds that are collected from the levy of the Special Taxes at the maximum tax rates, together with available funds, remain insufficient to pay all such amounts. Thus, it is possible that the Reserve Fund will be depleted and not replenished by the levy of the Special Taxes.

### **Natural Disasters**

*Geologic, Topographic and Climatic Conditions.* The value of the taxable property in the Community Facilities District in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on the parcels of taxable property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes and volcanic eruptions, topographic conditions such as earth movements, landslides, liquefaction, floods or fires, and climatic conditions such as tornadoes, droughts, and the possible reduction in water allocation or availability. If one or more of such conditions occur and results in damage to improvements of varying seriousness, such damage may entail significant repair or replacement costs and repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the taxable property may well depreciate or disappear. The eastern boundary of the Community Facilities District is approximately one mile from the Diamond Valley Lake. The Diamond Valley Lake West Dam and Saddle Dam was constructed to comply with applicable earthquake building standards and was substantially filled in October 2003. As required by the County General Plan and applicable Specific Plan, in certain cases, commercial uses and future homeowner’s associations are required to prepare disaster preparedness plans that include evacuation procedures in the event of a disaster, including failure of the Diamond Valley Lake West Dam and Saddle Dam. There are flood channels located within the Community Facilities District.

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

No assurance can be given regarding the extent to which any future natural disasters may impact property in the Community Facilities District.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the Community Facilities District. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the Community Facilities District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

### **Hazardous Substances**

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

In certain areas of the State developers conduct geotechnical investigations of proposed development sites, including investigation for subsurface methane gas monitoring. The area within the Community Facilities District is not expected to require methane gas monitoring.

The Community Facilities District has not independently verified and is not aware that the owner (or operator) has such a current liability with respect to any of the parcels of taxable property, except as expressly noted. However, it is possible that such liabilities do currently exist and that the Community Facilities District is not aware of them.

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

### **Endangered and Threatened Species**

It is illegal to harm or disturb species that have been listed as threatened or endangered by the United States Fish & Wildlife Service under the Federal Endangered Species Act or by the California Fish & Game Commission under the California Endangered Species Act without a permit. Thus, the presence of an endangered plant or animal could delay development of vacant property in the Community Facilities District or reduce the value of undeveloped property. Failure to develop the vacant property in the Community Facilities District or substantial delays in the completion of the development of the property may increase the amount of

Special Taxes to be paid by the owners of undeveloped property and affect the willingness and ability of the owners of property within the Community Facilities District to pay the Special Taxes when due.

Certain species covered by the Western Riverside County Multiple Species Habitat Conservation Plan (“MSHCP”) are present within the vacant property within the Community Facilities District. Development will proceed subject to compliance with the MSHCP and all other applicable federal and state requirements.

As required by applicable approvals, further development within the Community Facilities District is required to comply with certain mitigation measures. During the land review process, biological surveys and reports were completed for the portion of the development within the Specific Plans and the results are available for public review in the Riverside County Department of Planning and Land Use. Certain sensitive plant and animal species, including the Stephens’ kangaroo rat and golden eagles, were observed within the Community Facilities District and mitigation measures are required to be implemented in accordance with the applicable conditions of approval. For example, to the extent required by the environmental approvals, developers will be required to mitigate the impacts associated with loss of the Stephens’ kangaroo rat habitat, through payment of impact mitigation fees as required by the approved Habitat Conservation Plan for the Stephens’ kangaroo rat prior to the issuance of any grading permit on a project site. In September 2003, in connection with the Newport Road improvements, a pair of California gnatcatchers, listed as endangered species by the U.S. Fish and Wildlife Service, were found by County officials. Construction of the Newport Road improvements would result in “take” of these gnatcatchers and therefore “take” authorization is required before construction can be commenced. The MSHCP was approved by federal and state wildlife agencies and the MSHCP became effective June 22, 2004. At that time, “take” permits were issued authorizing take of certain covered species which include the California gnatcatcher.

The Community Facilities District cannot predict whether the likelihood of a listing of additional species affecting the development of the undeveloped property within the Community Facilities District. However, it should be noted that the MSHCP covers 146 sensitive and listed species. Thus any future listing of additional species may potentially be addressed by the MSHCP, thereby allowing affected projects to obtain take authorization for those species as well.

### **Parity Taxes and Special Assessments**

Property within the Community Facilities District is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within the Community Facilities District. See “THE COMMUNITY FACILITIES DISTRICT — Estimated Direct and Overlapping Indebtedness.”

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by the County and other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” below.

**Neither the County nor the Community Facilities District has control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within the Community Facilities District. In addition, the landowners within the Community Facilities District may, without the consent or knowledge of the County, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Any such special taxes, *ad valorem* taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within the Community Facilities District described herein.**

## **Disclosures to Future Purchasers**

The willingness or ability of an owner of a parcel to pay the Special Tax, even if the value of the parcel is sufficient, may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy, and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The County has caused a Notice of Special Tax Lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within the Community Facilities District or lending of money thereon.

The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

## **Special Tax Delinquencies**

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Series 2014 Bonds are derived, are customarily billed to the properties within the Community Facilities District on the *ad valorem* property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments.

See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Special Taxes — *Proceeds of Foreclosure Sales*,” for a discussion of the provisions which apply, and procedures which the Community Facilities District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special Taxes. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and assessments and limitations on the Community Facilities District’s ability to foreclose on the lien of the Special Taxes in certain circumstances.

## **Non-Cash Payments of Special Taxes**

Under the Act, the Board of Supervisors of the County as the legislative body of the Community Facilities District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Series 2014 Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Series 2014 Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Series 2014 Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Series 2014 Bond. Such a practice would decrease the cash flow available to the Community Facilities District to make payments with respect to other Series 2014 Bonds then outstanding; and, unless the practice was limited by the Community Facilities District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Series 2014 Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Series 2014 Bonds in payment of Special Taxes, the Indenture includes a covenant pursuant to which the Community Facilities District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of Series 2014 Bonds unless the Community Facilities District shall have first obtained a report of

an Independent Financial Consultant certifying that doing so would not result in the Community Facilities District having insufficient Net Special Tax Revenues to pay the principal of and interest on all Outstanding Series 2014 Bonds when due.

### **Payment of the Special Tax is not a Personal Obligation of the Owners**

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the Community Facilities District has no recourse against the owner.

### **Property Values; Value-to-Lien Ratios**

The value of the property within the Community Facilities District is a critical factor in determining the investment quality of the Series 2014 Bonds. If a property owner is delinquent in the payment of Special Taxes, the Community Facilities District's only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events may adversely impact the security underlying the Special Taxes. Although there has been no significant decline in assessed property values in the Community Facilities District during the downturn in the real estate market that began in 2007, there is no assurance that assessed values will not decline in the future. See "THE COMMUNITY FACILITIES DISTRICT — Estimated Assessed Value-to-Lien Ratios" herein.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the Riverside County Assessor, generally not to exceed an increase of more than 2% per fiscal year. No assurance can be given that a parcel could actually be sold for its assessed value.

No assurance can be given that the estimated value-to-lien ratios as set forth in Table 7 will be maintained over time. As discussed herein, many factors which are beyond the control of the Community Facilities District could adversely affect the property values within the Community Facilities District. The Community Facilities District does not have any control over the amount of additional indebtedness that may be issued by other public agencies, the payment of which through the levy of a tax or an assessment is on a parity with the Special Taxes. A decrease in the assessed values in the Community Facilities District or an increase in the indebtedness secured by taxes and amounts with parity liens on property in the Community Facilities District, or both, could result in a lowering of the value-to-lien ratio of the property in the Community Facilities District.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*"

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

The ability of the Community Facilities District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to parcels in which the FDIC, or other federal government entities such as Fannie Mae, Freddie Mac, the Drug Enforcement Agency, the Internal Revenue Service or other federal agency, has or obtains an interest.

In the case of FDIC, in the event that any financial institution making a loan which is secured by parcels is taken over by the FDIC and the applicable Special Tax is not paid, the remedies available to the 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-appealed. On August 28, 2001, the Ninth Circuit Court of Appeals issued a ruling favorable to the FDIC except with respect to the payment of pre-receivership liens based upon delinquent property tax.

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

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

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

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

## Bankruptcy and Foreclosure

Bankruptcy, insolvency and other laws generally affecting creditors rights could adversely impact the interests of Beneficial Owners of the Series 2014 Bonds. The payment of property owners' taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*" In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in prosecuting Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full.

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

The Bankruptcy Reform Act of 1994 (the "Bankruptcy Reform Act") included a provision which excepts from the Bankruptcy Code's automatic stay provisions, "the creation of a statutory lien for an *ad valorem* property tax imposed by . . . a political subdivision of a state if such tax comes due after the filing of the petition [by a debtor in bankruptcy court]." This amendment effectively makes the Glasply holding inoperative as it relates to *ad valorem* real property taxes. However, it is possible that the original rationale of the Glasply ruling could still result in the treatment of post-petition special taxes as "administrative expenses," rather than as tax liens secured by real property, at least during the pendency of bankruptcy proceedings.

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

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

The various legal opinions to be delivered concurrently with the delivery of the Series 2014 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.



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 foreclosure.

### **No Acceleration Provision**

The Series 2014 Bonds do not contain a provision allowing for the acceleration of the Series 2014 Bonds in the event of a payment default or other default under the Series 2014 Bonds or the Indenture.

### **Loss of Tax Exemption**

As discussed under the caption "LEGAL MATTERS — Tax Matters," the interest on the Series 2014 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2014 Bonds as a result of a failure of the Community Facilities District to comply with certain provisions of the Internal Revenue Code of 1986, as amended, or a change in legislation. Should such an event of taxability occur, the Series 2014 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of the Indenture.

### **Limitations on Remedies**

Remedies available to the Beneficial Owners of the Series 2014 Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Series 2014 Bonds or to preserve the tax-exempt status of the Series 2014 Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Series 2014 Bonds and of the Indenture to the extent that enforceability 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. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Beneficial Owners of the Series 2014 Bonds.

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the Series 2014 Bonds or, if a secondary market exists, that the Series 2014 Bonds can be sold at all or for any particular price. Although the Community Facilities District has committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to Beneficial Owners on a timely basis. See "CONTINUING DISCLOSURE." 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, 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.

### **Proposition 218**

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

Initiative have not yet been interpreted by the courts, although several lawsuits have been filed requesting the courts to interpret various aspects of the Initiative. The Initiative could potentially impact the Special Taxes available to the Community Facilities District to pay the principal of and interest on the Series 2014 Bonds as described below.

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Series 2014 Bonds.

It may be possible, however, for voters or the Board of Supervisors of the County acting as the legislative body of the Community Facilities District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Series 2014 Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Series 2014 Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the Community Facilities District will covenant in the Indenture that it will not initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Series 2014 Bonds. The Community Facilities District also will covenant in the Indenture that, if an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Series 2014 Bonds, the Community Facilities District will, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Series 2014 Bonds. However, no assurance can be given as to the enforceability of the foregoing covenants.

With respect to the approval of the Special Taxes, on August 1, 2014, the California Court of Appeal, Fourth Appellate District, Division One, issued its opinion in *City of San Diego v. Melvin Shapiro, et al.* (D063997) (the “San Diego Decision”). The case involved a Convention Center Facilities District (the “CCFD”) established by the City of San Diego (the “City”). The CCFD is a financing district much like a community facilities district established under the provisions of the Act. The CCFD is comprised of all of the real property in the entire City. However, the special tax to be levied within the CCFD was to be levied only on hotel properties located within the CCFD.

The election authorizing the special tax was limited to owners of hotel properties and lessees of real property owned by a governmental entity on which a hotel is located. Thus, the election was not a registered voter election. Such approach to determining who would constitute the qualified electors of the CCFD was modeled after Section 53326(c) of the Act, which generally provides that, if a special tax will not be

apportioned in any tax year on residential property, the legislative body may provide that the vote shall be by the landowners of the proposed district whose property would be subject to the special tax. The Court held that the CCFD special tax election was invalid under the California Constitution because Article XIII A, Section 4 thereof and Article XIII C, Section 2 thereof require that the electors in such an election be the registered voters within the district.

The facts of the San Diego Decision show that there were thousands of registered voters within the CCFD (viz., all of the registered voters in the City). The election held in the Community Facilities District had only six registered voters within the Community Facilities District at the time of the election to authorize the Special Tax. In the San Diego Decision, the Court expressly stated that it was not addressing the validity of landowner voting to impose special taxes pursuant to the Act in situations where there are fewer than 12 registered voters. Thus, by its terms, the Court's holding does not apply to the Special Tax election in the District. Moreover, Section 53341 of the Act provides that any "action or proceeding to attack, review, set aside, void or annul the levy of a special tax...shall be commenced within 30 days after the special tax is approved by the voters." Similarly, Section 53359 of the Act provides that any action to determine the validity of bonds issued pursuant to the Act be brought within 30 days of the voters approving the issuance of such bonds. Voters within the Community Facilities District approved the Special Tax and the issuance of bonds on July 29, 2003. Based on Sections 53341 and 53359 of the Act, therefore, the statute of limitations period to challenge the validity of the Special Tax has expired.

The interpretation and application of the Initiative will continue to 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. See "SPECIAL RISK FACTORS — Limitations on Remedies."

### **Ballot Initiatives**

Articles XIII C and XIII D were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. On March 6, 1995, in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. 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 County, or local districts to increase revenues or to increase appropriations or on the ability of the landowners within the Community Facilities District to complete the remaining proposed development. See "SPECIAL RISK FACTORS — Concentration of Ownership" herein.

### **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), by and between the Community Facilities District and the Trustee, the Community Facilities District will agree to provide, or cause to be provided, to the MSRB through its Electronic Municipal Market Access (EMMA) website, which can be found at [www.emma.msrb.org](http://www.emma.msrb.org), or other repository authorized under Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the "SEC"), certain annual financial information and operating data concerning the Community Facilities District. The Annual Report to be filed by the Community Facilities District is to be filed not later than April 1 of each year, beginning April 1, 2015, and is to include audited financial statements of the Community Facilities District, if any. The full text of the Continuing Disclosure Agreement is set forth in APPENDIX D — "FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE COMMUNITY FACILITIES DISTRICT."

Notwithstanding any provision of the Indenture, failure of the Community Facilities District to comply with the Continuing Disclosure Agreement shall not be considered an event of default under the Indenture. However, any holder of the Series 2014 Bonds may take such action as is necessary and

appropriate, including seeking mandate or a judgment for specific performance, to cause the Community Facilities District to comply with its obligations with respect to the Continuing Disclosure Agreement.

The Community Facilities District did not file the County's comprehensive annual financial report (the "CAFR") with the Community Facilities District's annual continuing disclosure report for Fiscal Year 2008-09 or Fiscal Year 2010-11. The Community Facilities District filed the County's CAFR for Fiscal Year 2008-09 and Fiscal Year 2010-11 separately to EMMA, approximately 853 days late and 122 days late, respectively. Other than as disclosed above, within the last five years, the Community Facilities District has not failed to comply in any material respect with any of its prior continuing disclosure obligations under Rule 15c2-12(b)(5).

However, during the last five years, the County and certain of its related entities have failed to comply in certain respects with continuing disclosure obligations related to outstanding indebtedness. Such failure to comply fell into two general categories: (i) failure to provide significant event notices with respect to changes in the ratings of outstanding indebtedness, primarily related to changes in the ratings of various bond insurers insuring the indebtedness of the County or its related entities; and (ii) missing, incomplete or late filing of annual reports with respect to a number of the bond issues. In almost every case with respect to obligations related to the County's General Fund, such information and reports were available on the County's website and/or available in other continuing disclosure filings made by the County.

Some specific examples of such failures include:

(a) The annual report and financial statements for fiscal year 2008-09, the first County filings which were required to be submitted to EMMA after the effective date of revisions to the Rule, were submitted to MSRB with significant delays with respect to each County issuance outstanding during the first quarter of the 2009-10 fiscal year, as the County had not yet updated its compliance procedures and filed its annual report and financial statement for such year in accordance with the previously-effective Rule requirements. The County has since submitted to EMMA the annual reports and financial statements for fiscal year 2008-09.

(b) With respect to the Housing Authority of the County of Riverside Refunding Revenue Bonds 1998 Series A (Corona Projects), no filings were submitted to the MSRB, and with respect to certain redevelopment issuances involving the Riverside County Public Financing Authority, no filings were made to the MSRB in fiscal years 2010-11, 2011-12 and 2012-13. The Housing Authority of the County of Riverside submitted to EMMA the financial statements of the Redevelopment Agency of the City of Corona for fiscal years 2008-09 through 2012-13.

The County and its related entities have internally reviewed their previous filings and have made additional filings to provide certain of the previously omitted information. With respect to notices or rating changes, the County and its related entities prepared and filed an omnibus corrective notice regarding bond insurer ratings and ratings of the County's general fund debt.

In order to ensure ongoing compliance by the County and its related entities with their continuing disclosure undertakings, (i) the County has instituted new procedures to ensure future compliance and coordination between the County and its related entities; and (ii) the County has contracted with a consultant to assist the County in filing accurate, complete and timely disclosure reports on behalf of the County.

The County has been advised by Bank of America Merrill Lynch ("BAML") and Stifel, Nicolaus & Company, Incorporated ("Stifel") that the County is being reported by each firm under the current Municipalities Continuing Disclosure Cooperation ("MCDC") initiative of the SEC. The reporting relates to the County of Riverside Asset Leasing Corporation Lease Revenue Bonds, 2012 Series A and 2012 Taxable Series B (County of Riverside Capital Projects) with respect to BAML, and relates to Stifel for the County's Tax and Revenue Anticipation Notes for 2010-2011, 2011-12 and 2012-13, the County of Riverside Asset Leasing Corporation Lease Revenue Bonds (2012 County Administrative Center Refunding Project), and the

County of Riverside Asset Leasing Corporation Lease Revenue Bonds, Series 2013A (Public Defender/Probation Building 60 and Riverside County Technology Solutions Center Project), all relating to statements in the official statements for those transactions that the County was in compliance with all continuing disclosure requirements. MCDC is a program allowing issuers and underwriters to voluntarily report non-compliance with disclosure obligations. The deadline for underwriting firms to report was September 10, 2014. The deadline for issuers to report is December 1, 2014. After evaluating whether to participate in MCDC, the County Board of Supervisors has determined to self-report on approximately 35 County issues.

## LEGAL MATTERS

### Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Community Facilities District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Series 2014 Bonds is less than the amount to be paid at maturity of such Series 2014 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2014 Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Series 2014 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2014 Bonds is the first price at which a substantial amount of such maturity of the Series 2014 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2014 Bonds accrues daily over the term to maturity of such Series 2014 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2014 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2014 Bonds. Beneficial owners of the Series 2014 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2014 Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Series 2014 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2014 Bonds is sold to the public.

Series 2014 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2014 Bonds. The

Community Facilities District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2014 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2014 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2014 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2014 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2014 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2014 Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2014 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. For example, Representative Dave Camp, Chair of the House Ways and Means Committee released draft legislation that would subject interest on the Series 2014 Bonds to a federal income tax at an effective rate of 10% or more for individuals, trusts, and estates in the highest tax bracket, and the Obama Administration proposed legislation that would limit the exclusion from gross income of interest on the Series 2014 Bonds to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2014 Bonds. Prospective purchasers of the Series 2014 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2014 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Community Facilities District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Community Facilities District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2014 Bonds ends with the issuance of the Series 2014 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Community Facilities District or the Beneficial Owners regarding the tax-exempt status of the Series 2014 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Community Facilities District and its appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Community Facilities District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2014 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the

Series 2014 Bonds, and may cause the Community Facilities District or the beneficial owners to incur significant expense.

The proposed form of Bond Counsel's opinion with respect to the Series 2014 Bonds is attached as APPENDIX E.

### **Litigation**

No litigation is pending or threatened concerning the validity of the Series 2014 Bonds, the pledge of Special Taxes to repay the Series 2014 Bonds, the powers or authority of the Community Facilities District with respect to the Series 2014 Bonds, or seeking to restrain or enjoin development of the land within the Community Facilities District and a certificate of the Community Facilities District to that effect will be furnished to the Underwriter at the time of the original delivery of the Series 2014 Bonds.

### **Legal Opinion**

The validity of the Series 2014 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX E hereto and will accompany the Series 2014 Bonds. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the County and the Community Facilities District by the County Counsel, and for the Community Facilities District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Stradling Yocca Carlson & Rauth, a Professional Corporation, expresses no opinion as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Series 2014 Bonds and expressly disclaims any duty to advise the Beneficial Owners of the Series 2014 Bonds as to matters related to this Official Statement.

### **No Rating**

The Community Facilities District has not made and does not contemplate making application to any rating agency for the assignment of a rating of the Series 2014 Bonds.

### **Underwriting**

The Series 2014 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Series 2014 Bonds at a price of \$14,348,692.55 (being \$14,390,000.00 aggregate principal amount thereof, less Underwriter's discount of \$98,193.50 plus net original issue premium of \$56,886.05). The purchase agreement relating to the Series 2014 Bonds provides that the Underwriter will purchase all of the Series 2014 Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the Series 2014 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

### **Financial Interests**

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel and Financial Advisor are contingent upon the issuance and delivery of the Series 2014 Bonds. From time to time, Bond Counsel and Disclosure Counsel represent the Underwriter on matters unrelated to the Series 2014 Bonds.

**Pending Legislation**

The Community Facilities District is not aware of any significant pending legislation which would have material adverse consequences on the Series 2014 Bonds or the ability of the Community Facilities District to pay the principal of and interest on the Series 2014 Bonds when due.

**Additional Information**

The purpose of this Official Statement is to supply information to prospective buyers of the Series 2014 Bonds. Quotations and summaries and explanations of the Series 2014 Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions.

The execution and delivery of this Official Statement by an authorized representative of the Community Facilities District has been duly authorized by the Board of Supervisors of the County acting in its capacity as the legislative body of the Community Facilities District.

COMMUNITY FACILITIES DISTRICT NO. 03-1  
(NEWPORT ROAD) OF THE COUNTY OF RIVERSIDE

By: /s/ Jay Orr  
County Executive Officer



## APPENDIX A

### RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

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#### RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR COMMUNITY FACILITIES DISTRICT NO. 03-1 (NEWPORT ROAD) COUNTY OF RIVERSIDE

A Special Tax (all capitalized terms are defined in Section A. Definitions below), shall be applicable to each Parcel of Taxable Property located within the boundaries of Community Facilities District No. 03-1 (Newport Road) of the County. The amount of Special Tax to be levied each Fiscal Year, commencing in Fiscal Year 2004-05 for a Parcel shall be determined by the Legislative Body of the County of Riverside, acting in its capacity as the legislative body of the CFD by applying the appropriate Special Tax for Developed Property, Undeveloped Property, and Public Property and/or Property Owner's Association Property that is not Exempt 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 such Assessor's Parcel Map, the land area shown on the applicable Final Map, parcel map, condominium plan, or other similar instrument.

“**Act**” means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 of Part 1 of Division 2 of Title 5 of the California Government Code.

“**Administrative Expenses**” means all actual or reasonably estimated costs and expenses of the County that are chargeable or allocable 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, Special Tax appeals, foreclosure, trustee fees, rebate compliance calculation fees, any litigation involving the CFD, continuing disclosure undertakings of the County as imposed by applicable laws and regulations, communication with bondholders and normal administrative expenses.

“**Administrator**” means the County Executive Officer of the County, or his or her designee.

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

“**Assigned Special Tax**” means the Special Tax rate set forth in accordance with Section C., below.

“**Backup Special Tax**” means the Special Tax rate set forth in Section C.1.b., below.

“**Bonds**” means any bonds or other debt (as defined in the Act) issued by the CFD and secured by the levy of Special Taxes.

“**CFD**” means Community Facilities District No. 03-1 (Newport Road) of the County established pursuant to the Act.

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

“**Developed Property**” means (i) with respect to any Parcel of Taxable Property, other than TOPO/GEO Challenged Parcels, each such Parcel created by a Final Map recorded prior to the January 1 preceding the Fiscal Year for which the Special Tax is being levied and (ii) with respect to any TOPO/GEO Challenged Parcel, each such Parcel for which a building permit issued prior to the January 1 preceding the Fiscal Year for which the Special Tax is being levied.

“**Exempt Property**” means any 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 Section 1352 that creates individual Parcels for which building permits may be issued without further subdivision.

“**Fiscal Year**” means the period starting on July 1 of any calendar year and ending on June 30 of the following calendar year, commencing July 1, 2004.

“**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.

“**Initial Assigned Special Tax**” means, for each Parcel of Initial Taxable Property, the rate as shown in column 5 of Exhibit A for said Parcel.

“**Initial Maximum Special Tax**” means, for each Parcel of Initial Taxable Property, the rate as shown in column 6 of Exhibit A for said Parcel.

“**Initial Taxable Acres**” means for each Parcel of Initial Taxable Property, the number of acres as set forth in column 4 of Exhibit A.

“**Initial Taxable Property**” means each parcel as listed in column 1 of Exhibit A.

“**Land Use Category**” means any of the land use categories listed in Table 1, below.

“**Legislative Body**” means the Board of Supervisor of the County acting ex officio as the Legislative Body of the CFD.

“**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.

“**Multifamily Property**” means any Parcel of Residential Property that consists of a building or buildings comprised of attached residential units that are under common management and are available for rental, but not purchase, by the general public.

“**Multiple Land Use Property**” means any Developed Property containing more than one Land Use Category (e.g. one structure containing Non-Residential Property on the ground floor and Residential Property on the 2nd floor).

**“Non-Residential Floor Area”** means, with regard to Multiple Land Use Property only, all of the square footage within the perimeter of all structures on a Parcel used in part for non-residential purposes, measured from outside wall to outside wall, exclusive of overhangs, porches, patios, carports, or similar spaces attached to the building but generally open on at least two sides, as determined by reference to the building permit(s) issued for said Parcel, or if these are not available, as otherwise determined by the Administrator. Once such determination has been made for a Parcel, it shall remain fixed in all future Fiscal Years.

**“Non-Residential Property”** means all Parcels of Developed Property for which a building permit may be issued for any type of non-residential use.

**“Parcel”** means a lot or parcel shown on an Assessor’s Parcel Map within the boundary of the CFD with an assigned parcel number valid at the time the Special Tax is enrolled for the Fiscal Year for which the Special Tax is being levied.

**“Property Owner’s Association Property”** means any Parcel which, as of the January 1 preceding the Fiscal Year for which the Special Tax is being levied, is owned by a property owner association, including any master or sub-association.

**“Proportionately”** means for: (i) Developed Property, that the ratio of the actual Special Tax levy to the Assigned or Backup Special Tax is the same for all Parcels of Developed Property, (ii) Initial Taxable Property, that the ratio of the Assigned or Maximum Special Tax is the same for all Parcels of Initial Taxable Property, (iii) Undeveloped Property, that is not Exempt Property pursuant to Section E., that the ratio of the actual Special Tax levy per taxable Acre to the Assigned or Maximum Special Tax per taxable Acre is the same for all such Property, and (iv) 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 taxable Acre to the Maximum Special Tax per taxable Acre is the same for all such Property.

**“Public Property”** means, for any Fiscal Year, any Parcel within the boundary of the CFD which, as of the January 1 preceding the Fiscal Year for which the Special Tax is being levied, is owned by, dedicated to, or irrevocably offered for dedication to the federal government, the State of California, the County, or any other public agency, provided, however, that any Parcel 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, with regard to Multiple Land Use Property only, all of the square footage within the perimeter of all structures on a Parcel used in part for residential purposes, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of the amount of Residential Floor Area shall be made by the Administrator with reference to the building permit(s) issued for said Parcel or, if these are not available, as otherwise determined by the Administrator. Once such determination has been made for a Parcel, it shall remain fixed in all future Fiscal Years.

**“Residential Property”** means all Parcels of Developed Property for which a building permit may be issued for purposes of constructing one or more residential dwelling units.

**“Single Family Property”** means any Parcel of Residential Property, other than Multifamily Property, for which a building permit may be issued for attached or detached residential units.

**“Special Tax”** means the special tax to be levied in any Fiscal Year on each Parcel of Taxable Property.

“**Special Tax Requirement**” means that amount required in any Fiscal Year 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 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 are not exempt from the Special Tax pursuant to law or Section E., below.

“**TOPO/GEO Challenged Acreage**” means, for any Parcel of Initial Taxable Property, the acreage within said Parcel that is identified as being within the TOPO/GEO Challenged Area, as shown in column 3 of Exhibit A for said Parcel.

“**TOPO/GEO Challenged Area**” means the area within the CFD identified in Exhibit B.

“**TOPO/GEO Challenged Parcel**” means a Parcel that is wholly within the boundaries of the TOPO/GEO Challenged Area.

“**Total Floor Area**” means for any Parcel identified as Multiple Land Use Property pursuant to Section C.1.c., below, the sum of the Residential Floor Area and Non-Residential Floor Area.

“**Undeveloped Property**” means all Taxable Property for which (i) a parcel map or lot line adjustment is recorded on one or more Parcel(s) of Initial Taxable Property and (ii) the total taxable Acreage of the resulting Parcel(s) does not equal the taxable Acreage as shown in column 4 of Exhibit A.

**B. ASSIGNMENT TO LAND USE CATEGORIES**

At the formation of the CFD, all Parcels shall be considered Initial Taxable Property. Each Fiscal Year in which the Special Tax is levied, all Parcels shall be categorized as either Developed Property, Initial Taxable Property, Undeveloped Property, Public Property or Property Owner’s Association Property, 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.

When a parcel map or lot line adjustment is recorded on one or more Parcel(s) of Initial Taxable Property, and if the Administrator determines that the total taxable Acreage of the resulting Parcel(s) equals the taxable Acreage as shown in column 4 of Exhibit A for the initial Parcel(s), then the resulting Parcel(s) shall be categorized as Initial Taxable Property. The Administrator shall update Exhibit A to reflect such changes.

When a parcel map or lot line adjustment is recorded on one or more Parcel(s) of Initial Taxable Property, and if the Administrator determines that the total taxable Acreage of the resulting Parcel(s) does not equal the taxable Acreage as shown in column 4 of Exhibit A for the initial Parcel(s), then the resulting Parcel(s) shall be categorized as Undeveloped Property.

When a Final Map records on any Parcel of Initial Taxable Property or Undeveloped Property, the Parcels created by the Final Map, other than TOPO/GEO Challenged Parcels, shall be categorized as Developed Property. Developed Property shall further be classified as Residential Property, Non-Residential Property or Multiple Land Use Property. Residential Property shall further be classified as Single Family Property or Multifamily Property.

C. **MAXIMUM SPECIAL TAX RATE**

**For any Parcel that has prepaid in full pursuant to Section H.1. below, the Maximum Special Tax for that Parcel shall be zero.**

**1. Developed Property**

The Maximum Special Tax for each Parcel of Single Family Property shall be the greater of: (i) the applicable Assigned Special Tax described in Table 1, below, or (ii) the amount derived by application of the Backup Special Tax.

The Maximum Special Tax and the Backup Special Tax for each Parcel of Non-Residential Property and Multifamily Property shall be the Assigned Special Tax described in Table 1, below; however, that for purposes of such calculation, the Acreage of any Parcel shall be reduced by the Acreage of such Parcel within the TOPO/GEO Challenged Area, as determined by the Administrator.

a. Assigned Special Tax

The Assigned Special Tax for each Parcel of Developed Property, except Multiple Land Use Property, is shown in Table 1, below.

**TABLE 1**

Assigned Special Taxes for Developed Property

<i>Land Use Category</i>	<i>Taxable Parcel/Acre</i>	<i>Assigned Special Tax Per Parcel/Acre</i>
1 – Single Family Property	Parcel	\$232
2 – Multifamily Property	Acre	\$928
3 – Non-Residential Property	Acre	\$928

b. Backup Special Tax

The Backup Special Tax for each Parcel of Single Family Property, other than TOPO/GEO Challenged Parcels that are categorized as Developed Property, created by a specific Final Map shall be determined by multiplying \$928 by the total Acreage of Taxable Property within said Final Map, excluding the Acreage associated with Multifamily Property, Multiple Land Use Property, Non-Residential Property, Public Property and/or Property Owner’s Association Property that is not Exempt Property pursuant to Section E. below, and the Acreage, if any, within the TOPO/GEO Challenged Area within such Final Map, and dividing such amount by the number of Parcels of Single Family Property within the specific Final Map.

Notwithstanding the foregoing, if the number of Parcels of Single Family Property in a specific Final Map is subsequently changed or modified by recordation of a lot line adjustment or similar instrument, then the Backup Special Tax will be recalculated for the Parcels within said Final Map.

The Backup Special Tax for each TOPO/GEO Challenged Parcel that is categorized as Developed Property shall be \$232.

c. Multiple Land Use Property

In some instances a Parcel of Developed Property may contain more than one Land Use Category. The Assigned Special Tax levied on such a Parcel shall be the sum of the Assigned Special Tax levies for all Land Use Categories located on that Parcel. The Backup Special Tax levied on a Parcel shall be the sum of the Backup Special Tax levies that can be imposed on all Land Use Categories located on that Parcel. The Maximum Special Tax levied on a Parcel shall be the sum of the Maximum Special Tax levies that can be imposed on all Land Use Categories located on that Parcel.

For purposes of calculating the Backup Special Tax (but not the Assigned Special Tax) for each Land Use Category under such circumstances, the Acreage assigned to each Land Use Category shall be based on the proportion of Residential Floor Area or Non-Residential Floor Area that is built for each Land Use Category as compared with the Total Floor Area built on the Parcel. The Administrator shall determine all allocations made under this section, and all such allocations shall be final.

**2. Initial Taxable Property**

a. Assigned Special Tax

The Assigned Special Tax for each Parcel of Initial Taxable Property shall be \$705 per Initial Taxable Acre as described in Exhibit A.

b. Maximum Special Tax

The Maximum Special Tax for each Parcel of Initial Taxable Property shall be \$928 per Initial Taxable Acre as described in Exhibit A.

**3. Undeveloped Property**

a. Assigned Special Tax

The Assigned Special Tax for each Parcel of Undeveloped Property shall be \$705 per Acre; provided, however, that for purposes of such calculation, the Acreage of any Parcel shall be reduced by the Acreage of such Parcel within the TOPO/GEO Challenged Area, as determined by the Administrator.

b. Maximum Special Tax

The Maximum Special Tax for each Parcel of Undeveloped Property shall be \$928 per Acre; provided, however, that for purposes of such calculation, the Acreage of any Parcel shall be reduced by the Acreage of such Parcel within the TOPO/GEO Challenged Area, as determined by the Administrator.

**4. Public Property and/or Property Owner's Association Property that is not Exempt Property pursuant to the provisions of Section E.**

The Maximum Special Tax for each Parcel, or portion thereof, of Public Property and/or Property Owner's Association Property that is not Exempt Property pursuant to the provisions of Section E., shall be \$928 per Acre; provided, however, that for purposes of such

calculation, the Acreage of any Parcel shall be reduced by the Acreage of such Parcel within the TOPO/GEO Challenged Area, as determined by the Administrator.

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

Commencing with Fiscal Year 2004-05 and for each following Fiscal Year, the Legislative Body shall levy the Special Tax on all Taxable Property until the amount of Special Taxes equals the Special Tax Requirement in accordance with the following steps:

First: The Special Tax shall be levied Proportionately on each Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax rate in Table 1, above, as needed to satisfy the Special Tax Requirement;

Second: If additional moneys are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Parcel of Initial Taxable Property at up to 100% of the Initial Assigned Special Tax and Proportionately on each Parcel of Undeveloped Property at up to 100% of the Assigned Special Tax as needed to satisfy the Special Tax Requirement;

Third: If additional moneys are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax as needed to satisfy the Special Tax Requirement;

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, the Special Tax to be levied on each Parcel of Initial Taxable Property up to the Initial Maximum Special Tax in Exhibit A as needed to satisfy the Special Tax Requirement;

Fifth: If additional moneys are needed to satisfy the Special Tax Requirement after the first four steps have been completed, the Special Tax 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 Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Parcel as needed to satisfy the Special Tax Requirement;

Sixth: If additional moneys are needed to satisfy the Special Tax Requirement after the first five steps have been completed, the Special Tax shall be levied Proportionately on each Parcel of Public Property and/or Property Owner's Association Property that is not Exempt Property pursuant to the provisions of Section E. at up to 100% of the Maximum Special Tax as needed to satisfy the Special Tax Requirement.

Notwithstanding the above, under no circumstances will the Special Taxes levied against any Parcel of Residential Property 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 the CFD.

**E. EXEMPTIONS**

Land other than the area identified in the TOPO/GEO Challenged Area, conveyed or irrevocably offered for dedication to a public agency after formation of the CFD and not otherwise shown as or not exempt pursuant to this Section E, shall be subject to the levy of Special Tax pursuant to Section 53317.3 or 53317.5 of the California Government Code. Parcels irrevocably offered for dedication to a public agency within the TOPO/GEO Challenged Area shall not be deducted from the acreage exemptions below.

Notwithstanding, the above, the Special Tax shall not be imposed upon any of the following:

- (1) The Legislative Body shall not levy Special Taxes on up to 447.36 Acres of Public Property which include, but not limited to, public streets, water and sewer facilities and/or flood control drainage channels.
- (2) The Legislative Body shall not levy Special Taxes on up to 53.58 Acres of Public Property that is owned by a public school district.
- (3) The Legislative Body shall not levy Special Taxes on up to 130.17 Acres of Public Property and/or Property Owner's Association Property that is property dedicated and restricted for the use of open space, park, or habitat reserve.

After the limit of Acres within each of the above has been reached, the Special Tax obligation for any additional Public Property and/or Property Owner's Association Property may prepay pursuant to the provision within Section H., below. Until the Special Tax obligation is prepaid as provided for in the preceding sentence, the Public Property and/or Property Owner's Association Property will be subject to the levy of the Special Tax as provided for in the sixth step of Section D. above.

**F. MANNER OF COLLECTION, PENALTIES, PROCEDURE & LIEN PRIORITY**

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 County 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**

Any owner of a Parcel claiming that the amount of application of the Special Tax is not correct and requesting a refund may file a written notice of appeal with the Administrator once the Special Tax in dispute has been paid but, not later than 12 months after the mailing of the property tax bill on which the Special Tax appears. The Administrator shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, convene the CFD Special Tax Review Board and decide the appeal. This procedure shall be exclusive and its exhaustion by any property owner shall be a condition precedent to any legal action by such owner.

**H. PREPAYMENT OF SPECIAL TAX**

The following definitions apply to this Section H:

“**CFD Public Facilities**” means \$15,018,067 expressed in 2002 dollars, which shall increase by the Construction Inflation Index on July 1, 2003, 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 of the CFD, or (ii) shall be determined by the Legislative Body concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment.

“**Construction Fund**” means a fund or an account specifically identified in the Indenture 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 the CFD Public Facilities minus public facility costs funded by Outstanding Bonds, and minus monies previously paid into the Construction Fund together with interest earnings on the Construction Fund actually earned prior to the date of prepayment.

“**Outstanding Bonds**” means all previously issued Bonds issued and secured by the levy of Special Taxes, 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 Special Taxes.

**1. Prepayment in Full**

The Maximum Special Tax obligation may only be prepaid and permanently satisfied by a Parcel of Developed Property, 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 the Parcel at the time of prepayment. An owner of a Parcel intending to prepay the Maximum Special Tax obligation shall provide the Administrator with written notice of intent to prepay, and within 10 business 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 business days of receipt of such non-refundable deposit, the Administrator shall notify such owner of the prepayment amount for such Parcel. Prepayment must be made not less than 60 business days prior to any redemption date, unless authorized by the Administrator, 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:

1. Confirm that no Special Tax delinquencies apply to such Parcel.
2. For Parcels of Developed Property, compute the Maximum Special Tax for the Parcel to be prepaid. For Parcels of Public Property and/or Property Owner’s Association Property to be prepaid, compute the Maximum Special Tax for that Parcel.

3. Divide the Maximum Special Tax computed pursuant to paragraph 2 by the total estimated Maximum Special Taxes for the entire CFD based on the Developed Property Special Tax which could be charged, less any Parcels which have been prepaid.
4. Multiply the quotient computed pursuant to paragraph 3 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "*Bond Redemption Amount*").
5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "*Redemption Premium*").
6. Compute the Future Facilities Costs.
7. Multiply the quotient computed pursuant to paragraph 3 by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "*Future Facilities Amount*").
8. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds on which Bonds can be redeemed from Special Tax prepayments.
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 Bond Redemption Amount less the Future Facilities Amount from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 8 and 9 and subtract the amount computed pursuant to paragraph 10 (the "*Defeasance Amount*").
12. Verify the administrative fees and expenses, 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 4, 5, 7, 11 and 12, less the amount computed pursuant to paragraph 13 (the "*Prepayment Amount*").

15. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 11, and 13 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by 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 Legislative Body 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 after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds plus projected annual Administrative Expenses.

## **2. Prepayment in Part**

The Maximum Special Tax on a Parcel of Developed Property may be partially prepaid in increments of \$5,000. 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:

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

These terms have the following meaning:

- PP = the partial prepayment  
PE = 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.  
A = the Administrative Fees and Expenses calculated according to Section H.1

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 percentage by which the Maximum Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if applicable, and within 10 business 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 business 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 business 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 13 of Section H.1, and (ii) indicate in the records 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**

Special Taxes shall be levied for the period necessary to satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2029-2030 or the stated maturity of the bonds, whichever is sooner.

**EXHIBIT A**

<i>Initial Taxable Property (1)</i>	<i>Acres (2)</i>	<i>TOPO/GEO Challenged Acreage (3)</i>	<i>Initial Taxable Acres (4)</i>	<i>Initial Assigned Special Tax (\$705) (5)</i>	<i>Initial Maximum Special Tax (\$928) (6)</i>
334250003-6	77.29	11.08	66.21	\$46,678.05	\$61,442.88
364190001-8	159.67	0.00	159.67	\$112,567.35	\$148,173.76
364190002-9	79.46	0.00	79.46	\$56,019.30	\$73,738.88
364200001-8	160	0.00	160	\$112,800.00	\$148,480.00
364200004-1	78.35	9.27	69.08	\$48,701.40	\$64,106.24
461150006-9	71.98	0.00	71.98	\$50,745.90	\$66,797.44
461150010-2	31.81	0.00	31.81	\$22,426.05	\$29,519.68
461150012-4	108.19	0.84	107.35	\$75,681.75	\$99,620.80
461150015-7	74.68	4.84	69.84	\$49,237.20	\$64,811.52
461160010-3	18.04	0.00	18.04	\$12,718.20	\$16,741.12
461160014-7	37.95	15.39	22.56	\$15,904.80	\$20,935.68
461160016-9	86.48	7.41	79.07	\$55,744.35	\$73,376.96
461160017-0	4.84	0.00	4.84	\$3,412.20	\$4,491.52
461160021-3	3.24	0.00	3.24	\$2,284.20	\$3,006.72
461160023-5	18.55	0.00	18.55	\$13,077.75	\$17,214.40
461160025-7	15.88	0.00	15.88	\$11,195.40	\$14,736.64
461160027-9	14.21	0.00	14.21	\$10,018.05	\$13,186.88
461160029-1	47.08	0.00	47.08	\$33,191.40	\$43,690.24
461170001-6	80.24	77.27	2.97	\$2,093.85	\$2,756.16
461170002-7	40	27.40	12.6	\$8,883.00	\$11,692.80
461170003-8	199	111.78	87.22	\$61,490.10	\$80,940.16
461180026-0	15.88	0.00	15.88	\$11,195.40	\$14,736.64
461180028-2	15.62	0.00	15.62	\$11,012.10	\$14,495.36
461180030-3	7.1	0.00	7.1	\$5,005.50	\$6,588.80
461180032-5	7.1	0.00	7.1	\$5,005.50	\$6,588.80
461180034-7	8.07	0.00	8.07	\$5,689.35	\$7,488.96
461180036-9	8.07	0.00	8.07	\$5,689.35	\$7,488.96
461180040-2	10.24	0.00	10.24	\$7,219.20	\$9,502.72
461180042-4	10.24	0.00	10.24	\$7,219.20	\$9,502.72
461180044-6	10.24	0.00	10.24	\$7,219.20	\$9,502.72
461180046-8	15.65	0.00	15.65	\$11,033.25	\$14,523.20
461180048-0	124.31	0.00	124.31	\$87,638.55	\$115,359.68
461190005-2	1.84	0.00	1.84	\$1,297.20	\$1,707.52
461190015-1	2.75	0.00	2.75	\$1,938.75	\$2,552.00
461190017-3	2.65	0.00	2.65	\$1,868.25	\$2,459.20
461190041-4	23.19	0.00	23.19	\$16,348.95	\$21,520.32
461190042-5	35.53	17.19	18.34	\$12,929.70	\$17,019.52
461190043-6	35.56	14.08	21.48	\$15,143.40	\$19,933.44
461190044-7	35.6	13.82	21.78	\$15,354.90	\$20,211.84
461190045-8	35.64	14.76	20.88	\$14,720.40	\$19,376.64
461190046-9	35.67	0.55	35.12	\$24,759.60	\$32,591.36
461190047-0	21.7	0.00	21.7	\$15,298.50	\$20,137.60
461190048-1	19.9	0.00	19.9	\$14,029.50	\$18,467.20
461190049-2	19.94	0.00	19.94	\$14,057.70	\$18,504.32

<i>Initial Taxable Property (1)</i>	<i>Acres (2)</i>	<i>TOPO/GEO Challenged Acreage (3)</i>	<i>Initial Taxable Acres (4)</i>	<i>Initial Assigned Special Tax (\$705) (5)</i>	<i>Initial Maximum Special Tax (\$928) (6)</i>
461190050-2	22.3	0.00	22.3	\$15,721.50	\$20,694.40
461190051-3	2.27	0.00	2.27	\$1,600.35	\$2,106.56
461190052-4	2.27	0.00	2.27	\$1,600.35	\$2,106.56
461190053-5	2.27	0.00	2.27	\$1,600.35	\$2,106.56
461200002-9	9.66	0.00	9.66	\$6,810.30	\$8,964.48
461200007-4	9.85	0.00	9.85	\$6,944.25	\$9,140.80
461200008-5	30.28	0.00	30.28	\$21,347.40	\$28,099.84
461200009-6	32.71	0.00	32.71	\$23,060.55	\$30,354.88
461200011-7	6.56	0.00	6.56	\$4,624.80	\$6,087.68
461200013-9	2.77	0.00	2.77	\$1,952.85	\$2,570.56
461200014-0	3.8	0.00	3.8	\$2,679.00	\$3,526.40
461200016-2	37.86	0.00	37.86	\$26,691.30	\$35,134.08
461200019-5	114.44	0.00	114.44	\$80,680.20	\$106,200.32
461210001-9	80	28.39	51.61	\$36,385.05	\$47,894.08
461210003-1	39.43	25.44	13.99	\$9,862.95	\$12,982.72
461210004-2	39.73	12.51	27.22	\$19,190.10	\$25,260.16
461210005-3	109.67	22.69	86.98	\$61,320.90	\$80,717.44
461210007-5	8.81	0.00	8.81	\$6,211.05	\$8,175.68
461210008-6	9.5	1.19	8.31	\$5,858.55	\$7,711.68
461210009-7	9.96	9.10	0.86	\$606.30	\$798.08
461210010-7	9.54	8.64	0.9	\$634.50	\$835.20
462050001-2	9.53	0.00	9.53	\$6,718.65	\$8,843.84
462050002-3	39.73	0.00	39.73	\$28,009.65	\$36,869.44
462060001-3	9.85	0.00	9.85	\$6,944.25	\$9,140.80
462060002-4	9.86	0.00	9.86	\$6,951.30	\$9,150.08
462060006-8	9.86	0.00	9.86	\$6,951.30	\$9,150.08
462060012-3	8.74	0.00	8.74	\$6,161.70	\$8,110.72
462060013-4	8.74	0.00	8.74	\$6,161.70	\$8,110.72
462060014-5	16.89	0.00	16.89	\$11,907.45	\$15,673.92
466340006-1	18.86	0.00	18.86	\$13,296.30	\$17,502.08
466340007-2	19.23	0.00	19.23	\$13,557.15	\$17,845.44
466340008-3	18.81	0.00	18.81	\$13,261.05	\$17,455.68
466340009-4	19.22	0.41	18.81	\$13,261.05	\$17,455.68
466340010-4	19.66	14.10	5.56	\$3,919.80	\$5,159.68
466340011-5	19.1	14.32	4.78	\$3,369.90	\$4,435.84
466340012-6	19.42	5.16	14.26	\$10,053.30	\$13,233.28
466340013-7	21.44	19.61	1.83	\$1,290.15	\$1,698.24
466340014-8	22.68	22.50	0.18	\$126.90	\$167.04
466340015-9	24.12	23.95	0.17	\$119.85	\$157.76
466340016-0	18.73	0.00	18.73	\$13,204.65	\$17,381.44
466340017-1	31.57	0.00	31.57	\$22,256.85	\$29,296.96
466340018-2	18.92	0.00	18.92	\$13,338.60	\$17,557.76
466340019-3	18.31	0.00	18.31	\$12,908.55	\$16,991.68
466340020-3	17.66	0.00	17.66	\$12,450.30	\$16,388.48
466350018-3	156.12	14.81	141.31	\$99,623.55	\$131,135.68



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## APPENDIX B

### GENERAL INFORMATION CONCERNING THE COUNTY OF RIVERSIDE

*The following information concerning the County of Riverside (the “County”) is presented as general background information. The Bonds are not general obligations of the County but are limited obligations of Community Facilities District No. 03-1 (Newport Road) of the County of Riverside (the “Community Facilities District”), as more fully described in this Official Statement, and the taxing the power of the County is not pledged to the payment of the Bonds.*

#### **Population**

According to the State Department of Finance, Demographic Research Unit, the County’s population was estimated at 2,279,967 as of January 1, 2014, representing an approximately 1.1% increase over the County’s population as estimated for the prior year. For the ten year period of January 1, 2004 to January 1, 2014, the County’s population grew by approximately 25.7%. During this period, the cities of Eastvale, Jurupa Valley, Menifee and Wildomar incorporated, and account for a total population of 274,393 as of January 1, 2014. The population growth in the County has slowed in recent years, during which period the County’s population has grown at a rate close to the statewide average.

The following table sets forth the annual population as of January 1 of each year for the cities within the County for the years 2010 through 2014.

**COUNTY OF RIVERSIDE  
POPULATION OF CITIES WITHIN THE COUNTY  
(As of January 1)**

<i>City</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
Banning	29,492	29,723	30,051	30,177	30,325
Beaumont	36,468	38,034	38,967	39,787	40,876
Blythe	20,882	20,063	20,440	19,609	18,992
Calimesa	7,847	7,910	8,022	8,096	8,231
Canyon Lake	10,550	10,606	10,721	10,771	10,826
Cathedral City	51,093	51,400	52,108	52,350	52,595
Coachella	40,508	41,339	42,030	42,795	43,633
Corona	151,858	153,047	154,986	156,864	159,132
Desert Hot Springs	25,856	27,277	27,721	27,835	28,001
Eastvale	–	54,090	55,770	57,266	59,185
Hemet	78,295	79,309	80,330	80,899	81,537
Indian Wells	4,947	4,990	5,050	5,083	5,137
Indio	75,263	76,817	78,299	81,415	82,398
Jurupa Valley	–	–	96,746	97,272	97,774
Lake Elsinore	51,448	52,294	53,183	55,444	56,718
La Quinta	37,044	37,688	38,190	38,412	39,032
Menifee	77,902	79,139	80,832	82,314	83,716
Moreno Valley	192,599	194,451	197,088	198,183	199,258
Murrieta	103,066	104,051	105,301	105,860	106,425
Norco	27,069	26,968	27,123	26,632	26,582
Palm Desert	48,215	48,920	49,619	49,962	50,417
Palm Springs	44,480	44,829	45,415	45,724	46,135
Perris	67,607	69,506	70,392	70,983	72,103
Rancho Mirage	17,165	17,399	17,556	17,643	17,745
Riverside	302,597	306,069	309,409	312,035	314,034
San Jacinto	43,881	44,421	44,938	45,229	45,563
Temecula	99,757	101,255	103,404	104,907	106,289
Wildomar	<u>32,393</u>	<u>32,414</u>	<u>32,818</u>	<u>33,182</u>	<u>33,718</u>
<b>TOTALS</b>					
Incorporated	1,678,312	1,754,009	1,876,509	1,896,729	1,916,377
Unincorporated	<u>501,380</u>	<u>451,722</u>	<u>357,700</u>	<u>358,924</u>	<u>363,590</u>
County-Wide	<u>2,179,692</u>	<u>2,205,731</u>	<u>2,234,209</u>	<u>2,255,653</u>	<u>2,279,967</u>
California	37,223,900	37,510,766	37,668,804	37,984,138	38,340,074

Source: State Department of Finance, Demographic Research Unit.

**Personal Income**

Personal Income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

The personal income of an area is the income that is received by, or on behalf of, all the individuals who live in the area; therefore, the estimates of personal income are presented by the place of residence of the income recipients.

Total personal income in Riverside County increased by 88% between 2000 and 2012. The following tables summarize personal income for Riverside County for 2000 through 2012.

**PERSONAL INCOME**  
**Riverside County**  
**2000-2012<sup>(1)</sup>**  
**(Dollars in Thousands)**

<i>Year</i>	<i>Riverside County</i>	<i>Annual Percent Change</i>
2000	\$38,529,959	--
2001	41,672,328	8.15%
2002	43,896,136	5.34
2003	47,545,905	8.31
2004	51,506,970	8.33
2005	55,776,492	8.29
2006	60,993,887	9.35
2007	64,062,308	5.03
2008	64,995,060	1.46
2009	63,184,275	(2.86)
2010	65,107,626	3.04
2011	69,522,078	6.78
2012	72,015,057	3.59

<sup>(1)</sup> 2013 County information is not yet available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The following table summarizes per capita personal income for Riverside County for the years 2000-2012, and for the State of California and the United States for the years 2000-2013. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

**PER CAPITA PERSONAL INCOME**  
**Riverside County, State of California and the United States**  
**2000-2013<sup>(1)</sup>**

<i>Year</i>	<i>Riverside County</i>	<i>California</i>	<i>United States</i>
2000	\$24,715	\$33,366	\$30,587
2001	25,777	34,063	31,524
2002	26,018	34,222	31,798
2003	26,837	35,298	32,676
2004	27,743	37,150	34,300
2005	28,873	38,969	35,888
2006	30,309	41,627	38,127
2007	30,871	43,157	39,804
2008	30,808	43,609	40,873
2009	29,433	41,569	39,357
2010	29,563	42,297	40,163
2011	31,074	44,666	42,298
2012	31,742	46,477	43,735
2013	n/a <sup>(1)</sup>	47,401	44,543

<sup>(1)</sup> 2013 County information is not yet available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## INDUSTRY AND EMPLOYMENT

The following table represents the Annual Average Labor Force and Industry Employment for the County for the period from 2008 through 2013.

### RIVERSIDE-SAN BERNARDINO-ONTARIO MSA INDUSTRY EMPLOYMENT & LABOR FORCE - BY ANNUAL AVERAGE

	2008	2009	2010	2011	2012	2013
Civilian Labor Force	1,776,000	1,775,700	1,799,900	1,795,000	1,812,800	1,818,300
Civilian Employment	1,629,500	1,541,900	1,541,700	1,551,500	1,594,900	1,633,400
Civilian Unemployment	146,500	233,800	258,200	243,500	217,900	184,900
Civilian Unemployment Rate	8.3%	13.2%	14.3%	13.6%	12.0%	10.2%
Total Farm	15,900	14,900	15,000	14,900	15,000	14,600
Total Nonfarm	1,242,800	1,162,800	1,144,200	1,147,300	1,179,200	1,226,400
Total Private	1,011,800	927,600	910,000	919,800	954,600	1,001,400
Goods Producing	198,800	157,800	145,800	145,200	150,500	157,300
Natural Resources and Mining	1,200	1,100	1,000	1,000	1,200	1,200
Construction	90,700	67,900	59,700	59,100	62,600	69,300
Manufacturing	106,900	88,700	85,100	85,100	86,700	86,800
Service Providing	1,044,000	1,005,000	998,400	1,002,200	1,028,800	1,069,100
Trade, Transportation and Utilities	292,900	271,900	270,700	276,300	288,200	299,300
Wholesale Trade	54,100	48,900	48,600	49,000	52,100	56,000
Retail Trade	168,600	156,200	155,500	158,500	162,300	164,800
Transportation, Warehousing and Utilities	70,200	66,800	66,600	68,800	73,800	78,600
Information	14,800	14,100	14,000	12,100	11,500	11,300
Financial Activities	46,100	42,500	41,000	39,900	40,800	42,000
Professional and Business Services	138,200	125,200	123,400	125,800	127,100	132,600
Educational and Health Services	149,300	155,000	154,000	157,600	167,200	182,000
Leisure and Hospitality	131,000	123,800	122,800	124,000	129,300	136,200
Other Services	40,800	37,300	38,200	39,100	40,100	40,800
Government	<u>231,000</u>	<u>235,200</u>	<u>234,300</u>	<u>227,500</u>	<u>224,600</u>	<u>225,000</u>
Total, All Industries	<u>1,258,800</u>	<u>1,177,600</u>	<u>1,159,300</u>	<u>1,162,200</u>	<u>1,194,200</u>	<u>1,241,000</u>

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to total due to independent rounding. The "Total, All Industries" data is not directly comparable to the employment data found in this Appendix B.

Source: State of California, Employment Development Department, March 2013 Benchmark.

The following table sets forth the major employers in the County and their respective product or service and number of employees as of 2013.

**COUNTY OF RIVERSIDE  
CERTAIN MAJOR EMPLOYERS<sup>(1)</sup>  
(2013)**

<i>Company Name</i>	<i>Product/Service</i>	<i>No. of Local Employees<sup>(2)</sup></i>
County of Riverside	Government	18,728
March Air Reserve Base	Military Reserve Base	9,000
Stater Brothers Market	Supermarket	6,900
Walmart	Retail Store	5,681
University of California, Riverside	University	5,497
Riverside Unified School District	School District	5,000
Corona-Norco Unified School District	School District	4,633
Kaiser Permanente Riverside Medical Center	Hospital	4,500
Moreno Valley Unified School District	School District	3,355
Hemet Unified School District	School District	3,270

<sup>(1)</sup> Certain major employers in the County may have been excluded because of the data collection methodology used by Riverside County Economic Development Agency.

<sup>(2)</sup> Includes employees within the County; excludes, under certain circumstances, temporary, seasonal and per diem employees.  
Source: Riverside County Economic Development Agency.

The following table summarizes the labor force, employment and unemployment figures over the past six years for County, the State and the nation as a whole.

**COUNTY OF RIVERSIDE,  
STATE OF CALIFORNIA AND UNITED STATES  
Average Annual Civilian Labor Force, Employment and Unemployment**

<i>Year and Area</i>	<i>Labor Force</i>	<i>Employment<sup>(1)</sup></i>	<i>Unemployment<sup>(2)</sup></i>	<i>Unemployment Rate (%)<sup>(3)</sup></i>
2007				
Riverside County	903,400	848,900	54,500	6.0%
California	17,921,000	16,960,700	960,300	5.4
United States <sup>(4)</sup>	153,124,000	146,047,000	7,078,000	4.6
2008				
Riverside County	912,900	835,200	77,800	8.5%
California	18,207,300	16,893,900	1,313,500	7.2
United States <sup>(4)</sup>	154,287,000	145,362,000	8,924,000	5.8
2009				
Riverside County	917,000	794,300	122,700	13.4%
California	18,220,100	16,155,000	2,065,100	11.3
United States <sup>(4)</sup>	154,142,000	139,877,000	14,265,000	9.3
2010				
Riverside County	938,400	802,300	136,200	14.5%
California	18,336,300	16,068,400	2,267,900	12.4
United States <sup>(4)</sup>	153,889,000	139,064,000	14,825,000	9.6
2011				
Riverside County	939,600	810,400	129,200	13.8%
State of California	18,417,900	16,249,600	2,168,300	11.8
United States <sup>(4)</sup>	153,617,000	139,869,000	13,747,000	8.9
2012				
Riverside County	944,500	828,800	115,600	12.3%
State of California	18,519,000	16,589,700	1,929,300	10.4
United States <sup>(4)</sup>	154,975,000	142,469,000	12,506,000	8.1
2013				
Riverside County	953,200	855,300	97,900	10.3%
State of California	18,596,800	16,933,300	1,663,500	8.9
United States <sup>(4)</sup>	155,389,000	143,929,000	11,460,000	7.4

(1) Includes persons involved in labor-management trade disputes.

(2) Includes all persons without jobs who are actively seeking work.

(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

(4) Not strictly comparable with data for prior years.

Source: California Employment Development Department, March 2013 Benchmark and U.S. Department of Labor, Bureau of Labor Statistics.

## Commercial Activity

Commercial activity is an important factor in the County's economy. Much of the County's commercial activity is concentrated in central business districts or small neighborhood commercial centers in cities. There are five regional shopping malls in the County: Galleria at Tyler (Riverside), Hemet Valley Mall, Westfield Palm Desert Shopping Center, Moreno Valley Mall and the Promenade at Temecula. There are also two factory outlet malls (Desert Hills Factory Stores and Lake Elsinore Outlet Center) and over 200 area centers in the County.

The tables below present taxable sales for the years 2006 through 2012 for the County.

### County of Riverside 2006-2012 (Dollars in Thousands)

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>
2006	43,672	\$29,816,237
2007	45,279	29,023,609
2008	46,272	26,003,595
2009	42,765	22,227,877
2010	45,688	23,152,780
2011	46,886	25,641,497
2012	48,316	28,096,009

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

## Building and Real Estate Activity

The two tables below set forth a summary of building permit valuations and new dwelling units authorized in the County (in both incorporated and unincorporated areas) from 2009 through 2013.

### COUNTY OF RIVERSIDE BUILDING PERMIT VALUATIONS<sup>(1)</sup> (In Thousands)

	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
RESIDENTIAL					
New Single-Family	\$ 891,825	\$ 914,058	\$ 651,747	\$ 854,814	\$ 1,134,158
New Multi-Family	76,717	71,152	115,064	99,578	136,501
Alterations and Adjustments	<u>85,148</u>	<u>94,429</u>	<u>119,684</u>	<u>84,517</u>	<u>94,422</u>
Total Residential	\$ 1,053,690	\$ 1,079,639	\$ 886,495	\$ 1,038,963	\$ 1,365,081
NON-RESIDENTIAL					
New Commercial	\$ 94,653	\$ 191,324	\$ 152,160	\$ 346,865	\$ 80,510
New Industry	12,278	6,686	10,000	3,767	140,972
New Other <sup>(1)</sup>	107,334	98,105	99,898	78,602	184,500
Alterations & Adjustments	<u>162,557</u>	<u>243,265</u>	<u>297,357</u>	<u>154,325</u>	<u>364,616</u>
Total Nonresidential	\$ 376,822	\$ 539,380	\$ 559,415	\$ 583,559	\$ 770,598
TOTAL ALL BUILDING	<u>\$ 1,430,512</u>	<u>\$ 1,619,019</u>	<u>\$ 1,445,910</u>	<u>\$ 1,602,522</u>	<u>\$ 2,135,679</u>

<sup>(1)</sup> Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings, photovoltaic systems and other non-residential buildings and structures.

Source: Construction Industry Research Board for 2009 through 2011, California Homebuilding Foundation for 2012 through 2013.



**COUNTY OF RIVERSIDE  
NUMBER OF NEW DWELLING UNITS**

	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Single Family	3,424	4,031	2,676	3,455	4,671
Multi-Family	<u>784</u>	<u>526</u>	<u>1,073</u>	<u>829</u>	<u>1,415</u>
TOTAL	<u>4,208</u>	<u>4,557</u>	<u>3,749</u>	<u>4,284</u>	<u>6,086</u>

Source: Construction Industry Research Board for 2009 through 2011, California Homebuilding Foundation for 2012 through 2013.

The following table sets forth the annual median housing prices for Los Angeles County, Riverside County, San Bernardino County and Southern California for the years 2008 through 2013.

**COUNTIES OF LOS ANGELES, RIVERSIDE, AND SAN BERNARDINO  
AND SOUTHERN CALIFORNIA  
MEDIAN HOUSING PRICES**

<i>Year</i>	<i>Los Angeles</i>	<i>Riverside</i>	<i>San Bernardino</i>	<i>Southern California<sup>(1)</sup></i>
2008	\$400,000	\$260,000	\$225,000	\$340,000
2009	320,000	190,000	150,000	270,000
2010	335,000	200,000	155,000	290,000
2011	315,000	195,000	150,000	280,000
2012	330,000	210,000	163,000	300,000
2013	412,000	259,000	205,000	370,000

<sup>(1)</sup> Southern California is comprised of Los Angeles, Orange, San Diego, Riverside, San Bernardino and Ventura Counties.  
Source: MDA DataQuick Information Systems.

The following table sets forth the home and condominium foreclosures recorded in Los Angeles County, Riverside County, San Bernardino County and Southern California for the years 2008 through 2013.

**COUNTIES OF LOS ANGELES, RIVERSIDE AND SAN BERNARDINO  
AND SOUTHERN CALIFORNIA  
HOME FORECLOSURES**

<i>Year</i>	<i>Los Angeles</i>	<i>Riverside</i>	<i>San Bernardino</i>	<i>Southern California<sup>(1)</sup></i>
2008	35,366	32,443	23,601	125,117
2009	29,943	25,309	19,560	100,106
2010	26,827	20,598	16,757	86,853
2011	25,597	17,383	14,181	77,105
2012	15,271	10,657	9,262	47,347
2013	6,469	4,191	4,088	19,470

<sup>(1)</sup> Southern California is comprised of Los Angeles, Orange, San Diego, Riverside, San Bernardino and Ventura Counties.  
Source: MDA DataQuick Information Systems.

## Agriculture

Agriculture is an important source of income in the County. Principal agricultural products are nursery stock, milk, table grapes, alfalfa, bell peppers, lemons, eggs, dates, avocados and grapefruit.

Four areas in the County account for the major portion of agricultural activity: the Riverside/Corona and San Jacinto/Temecula Valley Districts in the western portion of the County, the Coachella Valley in the central portion and the Palo Verde Valley near the County's eastern border.

The following table sets forth the value of agricultural production in the County for the years 2009 through 2013.

### COUNTY OF RIVERSIDE VALUE OF AGRICULTURAL PRODUCTION

	2009	2010	2011	2012	2013
Citrus Fruits	\$ 101,652,000	\$ 140,500,922	\$ 119,942,513	\$ 125,711,000	\$ 142,404,000
Trees and Vines	191,682,600	164,993,960	232,649,262	217,214,000	232,536,000
Vegetables, Melons, Misc.	221,286,700	292,002,337	278,628,295	286,234,000	340,407,000
Field and Seed Crops	69,699,800	81,328,229	149,198,052	147,352,000	154,582,000
Nursery	206,499,900	169,341,300	200,154,964	190,878,000	191,215,000
Apiculture	5,017,600	4,631,700	4,844,400	4,983,000	4,715,000
Aquaculture Products	<u>5,243,900</u>	<u>4,921,700</u>	<u>4,808,250</u>	<u>4,205,000</u>	<u>2,262,000</u>
Total Crop Valuation	\$ 801,082,500	\$ 857,720,148	\$ 990,225,736	\$ 976,577,000	\$1,068,121,000
Livestock and Poultry Valuation	<u>214,672,800</u>	<u>235,926,225</u>	<u>292,030,380</u>	<u>276,553,000</u>	<u>259,683,000</u>
Grand Total	\$1,015,755,300	\$1,093,646,373	\$1,282,256,116	\$1,253,130,000	\$1,327,804,000

Source: Riverside County Agricultural Commissioner.

## Transportation

Several major freeways and highways provide access between the County and all parts of Southern California. State Route 91 extends southwest through Corona and connects with the Orange County freeway network in Fullerton. Interstate 10 traverses most of the width of the County, the western-most portion of which links up with major cities and freeways in Los Angeles County and the southern part of San Bernardino County, with the eastern part linking to the County's desert cities and Arizona. Interstate 15 and 215 extend north and then east to Las Vegas, and south to San Diego. State Route 60 provides an alternate (to Interstate 10) east-west link to Los Angeles County.

Metrolink provides commuter rail service to Los Angeles, San Bernardino and Orange Counties from several stations in the County. Transcontinental passenger rail service is provided by Amtrak with stops in Riverside and Palm Springs. Freight service to major west coast and national markets is provided by two transcontinental railroads -- Union Pacific Railroad and the Burlington Northern and Santa Fe Railway Company. Truck service is provided by several common carriers, making available overnight delivery service to major California cities.

Transcontinental bus service is provided by Greyhound Lines. Intercounty, intercity and local bus service is provided by the Riverside Transit Agency to western County cities and communities. There are also four municipal transit operators in the western County providing services within the cities of Banning, Beaumont, Corona and Riverside. The SunLine Transit Agency provides local bus service throughout the Coachella Valley, service the area from Desert Hot Springs to Oasis and from Palm Springs to Riverside. The

Palo Verde Valley Transit Agency provides service in the far eastern portion of the County (City of Blythe and surrounding communities).

The County seat, located in the City of Riverside, is within 20 miles of the Ontario International Airport in neighboring San Bernardino County. This airport is operated by Los Angeles World Airports, a proprietary department of the City of Los Angeles. Four major airlines schedule commercial flight service at Palm Springs Regional Airport. County-operated general aviation airports include those in Thermal, Hemet, Blythe and French Valley. The cities of Riverside, Corona and Banning also operate general aviation airports. There is a military base at March Air Reserve Base, which converted from an active duty base to a reserve-only base on April 1, 1996. The March AFB Joint Powers Authority (the "JPA"), comprised of the County and the Cities of Riverside, Moreno Valley and Perris, is responsible for planning and developing joint military and civilian use. The JPA has constructed infrastructure improvements, entered into leases with private users and initialized a major business park project.

### **Education**

There are four elementary school districts, one high school district, eighteen unified (K-12) school districts and four community college districts in the County. Approximately 92% of all K-12 students attend schools in the unified school districts. The three largest unified school districts are Corona-Norco Unified School District, Riverside Unified School District and Moreno Valley Unified School District.

There are seven two-year community college campuses located in the communities of Riverside, Moreno Valley, Norco, San Jacinto, Menifee, Coachella Valley and Palo Verde Valley. There are also three universities located in the City of Riverside -- the University of California, Riverside, La Sierra University and California Baptist University.

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## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

#### **Definitions**

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

**“Additional Bonds”** means Bonds other than Series 2014 Bonds issued under the Indenture in accordance with the provisions thereof.

**“Administrative Expense Fund”** means the fund by that name established and held by the Trustee pursuant to the Indenture.

**“Administrative Expenses”** means costs related to the administration of the Community Facilities District, including but not limited to, the cost of administering the levy and collection of the Special Tax and all other administrative costs of the Community Facilities District, including, but not limited to, the fees and expenses of the Trustee (including any fees and expenses of its counsel), the expenses of the Community Facilities District or the County in carrying out the Community Facilities District’s duties under the Indenture including annual audits, the fees and expenses of its special tax consultants and its legal counsel, and costs incurred in the levying and collection of the Special Tax, the costs incurred in the foreclosure of parcels delinquent in the payment of Special Taxes or in connection with obtaining security for payment of Special Taxes in lieu of foreclosure, costs associated with the creation and dissemination of continuing disclosure, fees incurred in connection with the calculation of arbitrage rebate due to the federal government, amounts payable to the federal government as arbitrage rebate and all other costs of the Community Facilities District, the County or the Trustee incurred in connection with the discharge of their respective duties under the Indenture, including, in the case of the County, in any way reasonably related to the administration of the Community Facilities District (other than costs of any consultant or firm of financial consultants appointed by the Community Facilities District or the County incurred in connection with the prepayment of the Special Tax).

**“Administrator”** means, with respect to the Community Facilities District, the County Executive Officer, and any other Person designated as an Administrator of the Community Facilities District in a Written Certificate of the Community Facilities District filed with the Trustee.

**“Allocable Road and Bridge Benefit District Fees”** means a portion of the Road and Bridge Benefit District fees collected by the County in connection with the development of property that is within the boundaries of the Menifee Valley Road and Bridge Benefit District of the County of Riverside but is outside of the boundaries of the Community Facilities District, which portion is the portion thereof imposed for the purpose of paying the costs of improvements that constitute the Facilities that have been financed through the issuance of bonds of the Community Facilities District.

**“Annual Debt Service”** means, for each Bond Year, the sum of (a) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of mandatory sinking fund redemptions), and (b) the principal amount of the Outstanding Bonds due in such Bond Year (including by reason of mandatory sinking fund redemptions).

**“Auditor”** means the Auditor/Controller of the County.

**“Authorized Denominations”** means (a) with respect to the Series 2014 Bonds, \$5,000 and any integral multiple thereof, and (b) with respect to each Series of Additional Bonds, the authorized denominations for such Series of Additional Bonds specified in the Supplemental Indenture pursuant to which such Additional Bonds are issued.

**“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 of Supervisors”** means the Board of Supervisors of the County.

**“Bond Counsel”** means a firm of nationally recognized bond counsel selected by the Community Facilities District.

**“Bond Fund”** means the fund by that name established and held by the Trustee pursuant to the Indenture.

**“Bond Year”** means each twelve-month period beginning on September 2 in each year and extending to the next succeeding September 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date and end on September 1, 2015.

**“Bonds”** means the Community Facilities District No. 03-1 (Newport Road) of the County of Riverside Special Tax Refunding Bonds issued under the Indenture, and includes the Series 2014 Bonds and any Additional Bonds.

**“Book-Entry Bonds”** means the Bonds of a Series registered in the name of the Depository, or the Nominee thereof, as the registered owner thereof pursuant to the terms and provisions of the Indenture.

**“Business Day”** means a day which is not (a) a Saturday, Sunday or legal holiday in the State, (b) a day on which banking institutions in the State, or in any state in which the Office of the Trustee is located, are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.

**“Cede & Co.”** means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to a Series of Book-Entry Bonds.

**“Closing Date”** means the date upon which the Series 2014 Bonds are delivered to the Original Purchaser.

**“Code”** means the Internal Revenue Code of 1986.

**“Community Facilities District”** means Community Facilities District No. 03-1 (Newport Road) of the County of Riverside, a community facilities district organized and existing under the laws of the State, and any successor thereto.

**“Continuing Disclosure Agreement”** means the Continuing Disclosure Agreement, dated as of December 1, 2014, by and between the Community Facilities District and the Trustee, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

**“Costs of Issuance”** means all items of expense directly or indirectly payable by or reimbursable to the Community Facilities District or the County relating to the authorization, sale, issuance and delivery of the Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s acceptance fee and first annual administrative fee, fees, charges and disbursements of attorneys, financial advisors, accounting firms,

consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

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

**“County”** means the County of Riverside, and any successor thereto.

**“Defeasance Securities”** means (a) non-callable direct obligations of the United States of America (“United States Treasury Obligations”), and (b) evidences of ownership of proportionate interests in future interest and principal payments on United States Treasury Obligations 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 United States Treasury Obligations are not available to any Person claiming through the custodian or to whom the custodian may be obligated.

**“Depository”** means DTC, and its successors as securities depository for any Series of Book-Entry Bonds, including any such successor appointed pursuant to the Indenture.

**“DTC”** means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York.

**“Earnings Fund”** means the fund by that name established and held by the Trustee pursuant to the Indenture.

**“Event of Default”** means any event or circumstance specified in the Indenture.

**“Fiscal Year”** means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Community Facilities District.

**“Indenture”** means the Indenture, dated as of December 1, 2014, by and between the Community Facilities District and Wells Fargo Bank, National Association, as Trustee, as originally executed and as it may be amended or supplemented from time to time by any Supplemental Indenture.

**“Independent Consultant”** means any consultant or firm of such consultants selected by the Community Facilities District and who, or each of whom (a) is generally recognized to be qualified in the financial consulting field, (b) is in fact independent and not under the control of the Community Facilities District or the County, (c) does not have any substantial interest, direct or indirect, with or in the Community Facilities District or the County, or any owner of real property in the Community Facilities District, or any real property in the Community Facilities District, and (d) is not connected with the Community Facilities District or the County as an officer or employee thereof, but who may be regularly retained to make reports to the Community Facilities District or the County.

**“Interest Payment Dates”** means March 1 and September 1 of each year, commencing March 1, 2015, so long as any Bonds remain Outstanding.

**“Legislative Body”** means the Board of Supervisors, acting ex officio as the Legislative Body of the Community Facilities District.

**“Letter of Representations”** means the Letter of Representations from the Community Facilities District to the Depository, in which the Community Facilities District makes certain representations with respect to issues of its securities for deposit by the Depository.

**“Maximum Annual Debt Service”** means the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made.

**“Moody’s”** means Moody’s Investors Service, Inc., a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Community Facilities District.

**“Net Special Tax Revenues”** means Special Tax Revenues, less amounts required to pay Administrative Expenses.

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

**“Office of the Trustee”** means the designated corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the Community Facilities District by the Trustee in writing.

**“Ordinance”** means Ordinance No. 827 adopted by the Board of Supervisors on August 26, 2003, as originally adopted and as it may be amended from time to time.

**“Original Purchaser”** means the original purchaser of the Series 2014 Bonds from the Community Facilities District.

**“Outstanding”** means, when used as of any particular time with reference to Bonds, subject to the provisions of the Indenture, all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation, (b) Bonds with respect to which all liability of the Community Facilities District shall have been discharged in accordance with the Indenture, and (c) Bonds in lieu of which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

**“Owner”** means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.

**“Participant”** means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.

**“Participating Underwriter”** has the meaning ascribed to such term in the Continuing Disclosure Agreement.

**“Permitted Investments”** means the following, to the extent that such securities are otherwise eligible legal investments of the Community Facilities District:

- (1) Direct general obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America);
- (2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
  - Export-Import Bank
  - Rural Economic Community Development Administration
  - U.S. Maritime Administration



- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System;

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which at the time of deposit have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including a fund for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services;

(7) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(a) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1) or (2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal obligations rated "Aaa/AAA" at the time of purchase or general obligations of states with a rating at the time of purchase of "A2/A" or higher by both Moody's and S&P;

(9) 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 "Aa3" by Moody's and "AA-" by S&P; provided, that, by the terms of the investment agreement:

(a) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice;

(b) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

(c) the Trustee or the Community Facilities District receive the opinion of domestic counsel that such investment agreement is legal, valid and binding and enforceable against the provider in accordance with its terms and of foreign counsel (if applicable);

(d) the investment agreement shall provide that if during its term (i) the provider's rating by either Moody's or S&P falls below "Aa3" or "AA-," respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (A) 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 Trustee or a 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 Moody's and S&P to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (B) repay the principal of and accrued but unpaid interest, on the investment, and (ii) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A3" or "A-," respectively, the provider must, at the direction of the Community Facilities District or the Trustee, 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 Trustee;

(e) 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 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 collateral is in possession); and

(f) 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 Community Facilities District or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc., the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee.

(10) The Local Agency Investment Fund maintained by the Treasurer of the State; and

(11) The investment pool maintained by the Treasurer of the County.

**"Person"** means an individual, corporation, limited liability company, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**"Prepayment Account"** means the account by that name within the Redemption Fund established and held by the Trustee pursuant to the Indenture.

**"Rate and Method"** means the rate and method of apportionment of the Special Taxes approved by the qualified electors of the Community Facilities District.

**"RBBDF Account"** means the account by that name within the Redemption Fund established and held by the Trustee pursuant to the Indenture.

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

**“Rebate Requirement”** has the meaning ascribed to such term in the Tax Certificate.

**“Record Date”** means, with respect to interest payable on any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

**“Redemption Fund”** means the fund by that name established and held by the Trustee pursuant to the Indenture.

**“Redemption Price”** means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant to the Indenture.

**“Registration Books”** means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

**“Reserve Fund”** means the fund by that name established and held by the Trustee pursuant to the Indenture.

**“Reserve Requirement”** means, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds (excluding Bonds refunded with the proceeds of subsequently issued Bonds), (b) Maximum Annual Debt Service, and (c) 125% of Average Annual Debt Service.

**“S&P”** means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under the laws of the State of New York, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Community Facilities District.

**“Series”** means the initial series of Bonds executed, authenticated and delivered on the date of initial issuance of the Bonds and identified pursuant to the Indenture as the Series 2014 Bonds, and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

**“Series 2014 Bonds”** means the Community Facilities District No. 03-1 (Newport Road) of the County of Riverside Special Tax Refunding Bonds, Series 2014, issued under the Indenture.

**“Special Tax Fund”** means the fund by that name established and held by the Trustee pursuant to the Indenture.

**“Special Tax Revenues”** means the proceeds of the Special Taxes received by or on behalf of the Community Facilities District, including any prepayments thereof, interest and penalties thereon, proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes and proceeds of any security for payment of Special Taxes taken in lieu of foreclosure after payment of administrative costs and attorneys’ fees payable from proceeds of such redemption, sale or security.

**“Special Taxes”** means the special taxes levied within the Community Facilities District pursuant to the Act, the Ordinance and the Indenture.

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

**“Supplemental Indenture”** means any supplemental indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

**“Tax Certificate”** means the Tax Certificate executed by the Community Facilities District at the time of issuance of the Series 2014 Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

**“Trustee”** means Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States of America, or any successor thereto as Trustee under the Indenture, substituted in its place as provided in the Indenture.

**“Verification Report”** means, with respect to the deemed payment of Bonds pursuant to the Indenture, a report of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, deposited in connection with such deemed payment satisfy the requirements thereof.

**“Written Certificate”** and **“Written Request”** of the Community Facilities District mean, respectively, a written certificate or written request signed in the name of the Community Facilities District by an Administrator. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

## **The Bonds**

Transfer and Exchange of Bonds. Any Bond may be transferred upon the Registration Books by the Person in whose name it is registered, in person or by such Person’s duly authorized attorney, upon surrender of such Bond to the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds shall be so surrendered for transfer, the Community Facilities District shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds of the same Series and maturity in a like aggregate principal amount, in any Authorized Denomination. The Trustee shall require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same Series and maturity of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be obligated to make any transfer or exchange of Bonds of a Series pursuant to the Indenture during the period established by the Trustee for the selection of Bonds of such Series for redemption, or with respect to any Bonds of such Series selected for redemption.

Book-Entry System. (a) Prior to the issuance of a Series of Bonds, the Community Facilities District may provide that such Series of Bonds shall initially be issued as Book-Entry Bonds, and in such event, the Bonds of such Series for each maturity date shall be in the form of a separate single fully-registered Bond (which may be typewritten). Upon initial issuance, the ownership of each such Bond of such Series shall be registered in the Registration Books in the name of the Nominee, as nominee of the Depository. The Series 2014 Bonds shall initially be issued as Book-Entry Bonds.

Payment of principal of, and interest and premium, if any, on, any Book-Entry Bond registered in the name of the Nominee shall be made on the applicable payment date by wire transfer of New York clearing house or equivalent next day funds or by wire transfer of same day funds to the account of the Nominee. Such

payments shall be made to the Nominee at the address which is, on the Record Date, shown for the Nominee in the Registration Books.

(b) With respect to Book-Entry Bonds, the Community Facilities District and the Trustee shall have no responsibility or obligation to any Participant or to any Person on behalf of which such a Participant holds an interest in such Book-Entry Bonds. Without limiting the immediately preceding sentence, the Community Facilities District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Participant with respect to any ownership interest in Book-Entry Bonds, (ii) the delivery to any Participant or any other Person, other than an Owner as shown in the Registration Books, of any notice with respect to Book-Entry Bonds, including any notice of redemption, (iii) the selection by the Depository and its Participants of the beneficial interests in Book-Entry Bonds of a maturity to be redeemed in the event such Book-Entry Bonds are redeemed in part, (iv) the payment to any Participant or any other Person, other than an Owner as shown in the Registration Books, of any amount with respect to principal of, or premium, if any, or interest on Book-Entry Bonds, or (v) any consent given or other action taken by the Depository as Owner.

(c) The Community Facilities District and the Trustee may treat and consider the Person in whose name each Book-Entry Bond is registered in the Registration Books as the absolute Owner of such Book-Entry Bond for the purpose of payment of principal of, and premium, if any, and interest on such Bond, for the purpose of selecting any Bonds, or portions thereof, to be redeemed, for the purpose of giving notices of redemption and other matters with respect to such Book-Entry Bond, for the purpose of registering transfers with respect to such Book-Entry Bond, for the purpose of obtaining any consent or other action to be taken by Owners and for all other purposes whatsoever, and the Community Facilities District and the Trustee shall not be affected by any notice to the contrary.

(d) In the event of a redemption of all or a portion of a Book-Entry Bond, the Depository, in its discretion (i) may request the Trustee to authenticate and deliver a new Book-Entry Bond, or (ii) if the Depository is the sole Owner of such Book-Entry Bond, shall make an appropriate notation on the Book-Entry Bond indicating the date and amounts of the reduction in principal thereof resulting from such redemption, except in the case of final payment, in which case such Book-Entry Bond must be presented to the Trustee prior to payment.

(e) The Trustee shall pay all principal of, and premium, if any, and interest on the Book-Entry Bonds only to or “upon the order of” (as that term is used in the Uniform Commercial Code as adopted in the State) the respective Owner, as shown in the Registration Books, or such Owner’s respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the obligations with respect to payment of principal of, and premium, if any, and interest on the Book-Entry Bonds to the extent of the sum or sums so paid. No Person other than an Owner, as shown in the Registration Books, shall receive an authenticated Book-Entry Bond. Upon delivery by the Depository to the Owners, the Community Facilities District and the Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture shall refer to such nominee of the Depository.

(f) In order to qualify the Book-Entry Bonds for the Depository’s book-entry system, the Community Facilities District shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the Community Facilities District or the Trustee any obligation whatsoever with respect to Persons having interests in such Book-Entry Bonds other than the Owners, as shown on the Registration Books. Such Letter of Representations may provide the time, form, content and manner of transmission, of notices to the Depository. In addition to the execution and delivery of a Letter of Representations by the Community Facilities District, the Community Facilities District and the Trustee shall take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify Book-Entry Bonds for the Depository’s book-entry program.

(g) In the event the Community Facilities District determines that it is in the best interests of the Beneficial Owners that they be able to obtain certificated Bonds and that such Bonds should therefore be made available, and notifies the Depository and the Trustee of such determination, the Depository will notify the Participants of the availability through the Depository of certificated Bonds. In such event, the Trustee shall transfer and exchange certificated Bonds as requested by the Depository and any other Owners in appropriate amounts. In the event (i) the Depository determines not to continue to act as securities depository for Book-Entry Bonds, or (ii) the Depository shall no longer so act and gives notice to the Trustee of such determination, then the Community Facilities District shall discontinue the Book-Entry system with the Depository. If the Community Facilities District determines to replace the Depository with another qualified securities depository, the Community Facilities District shall prepare or direct the preparation of a new single, separate, fully registered Bond of the appropriate Series for each maturity date of such Book-Entry Bonds, registered in the name of such successor or substitute qualified securities depository or its nominee. If the Community Facilities District fails to identify another qualified securities depository to replace the Depository, then the Book-Entry Bonds shall no longer be restricted to being registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Bonds shall designate, in accordance with the provisions of the Indenture. Whenever the Depository requests the Community Facilities District to do so, the Community Facilities District shall cooperate with the Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Book-Entry Bonds to any Participant having Book-Entry Bonds credited to its account with the Depository, and (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Book-Entry Bonds.

(h) Notwithstanding any other provision of the Indenture to the contrary, if the Depository is the sole Owner of the Bonds of a Series, so long as any Book-Entry Bond of such Series is registered in the name of the Nominee, all payments of principal of, and premium, if any, and interest on such Book-Entry Bond and all notices with respect to such Book-Entry Bond shall be made and given, respectively, as provided in the Letter of Representations or as otherwise instructed by the Depository.

(i) In connection with any notice or other communication to be provided to Owners pursuant to the Indenture by the Community Facilities District or the Trustee, with respect to any consent or other action to be taken by Owners of Book-Entry Bonds, the Trustee shall establish a record date for such consent or other action and give the Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Community Facilities District, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of the same Series and maturity in a like principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and destroyed in accordance with the Trustee's retention policy then in effect. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee shall be given, the Community Facilities District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of the same Series and maturity in a like aggregate principal amount in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been selected for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The Community Facilities District may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under the provisions of the Indenture summarized in this paragraph and of the expenses which may be incurred by the Community Facilities District and the Trustee. Any Bond of a Series issued under the provisions of the Indenture summarized in this paragraph in lieu of any Bond of such Series alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Community Facilities District whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable.

by anyone, and shall be entitled to the benefits of the Indenture with all other Bonds of such Series secured by the Indenture.

Temporary Bonds. The Bonds of a Series may be issued in temporary form exchangeable for definitive Bonds of such Series when ready for delivery. Any temporary Bonds may be printed, lithographed or typewritten, shall be of such Authorized Denominations as may be determined by the Community Facilities District, shall be in fully-registered form without coupons and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond shall be executed by the Community Facilities District and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Community Facilities District issues temporary Bonds of a Series it shall execute and deliver definitive Bonds of such Series as promptly thereafter as practicable, and thereupon the temporary Bonds of such Series may be surrendered, for cancellation, at the Office of the Trustee and the Trustee shall authenticate and deliver in exchange for such temporary Bonds, an equal aggregate principal amount of definitive Bonds of such Series and maturities in Authorized Denominations. Until so exchanged, the temporary Bonds of such Series shall be entitled to the same benefits under the Indenture as definitive Bonds of such Series authenticated and delivered under the Indenture.

### **Additional Bonds**

Conditions for the Issuance of Additional Bonds. The Community Facilities District may at any time issue one or more Series of Additional Bonds (in addition to the Series 2014 Bonds) payable from Net Special Tax Revenues as provided in the Indenture on a parity with all other Bonds theretofore issued under the Indenture, but only subject to the following conditions, which are conditions precedent to the issuance of such Additional Bonds:

- (a) upon the issuance of such Additional Bonds, no Event of Default shall have occurred and be continuing under the Indenture;
- (b) the issuance of such Additional Bonds shall have been authorized under and pursuant to the Act and under and pursuant to the Indenture and shall have been provided for by a Supplemental Indenture which shall specify the following:
  - (i) the purposes for which the proceeds of such Additional Bonds are to be applied, which purposes may only include one or more of (A) providing funds to refund any Bonds previously issued under the Indenture, (B) providing funds to pay Costs of Issuance incurred in connection with the issuance of such Additional Bonds, and (C) providing funds to make any deposit to the Reserve Fund required pursuant to paragraph (viii) below;
  - (ii) the principal amount and designation of such Series of Additional Bonds and the interest rate to be borne by each maturity of such Additional Bonds;
  - (iii) that such Additional Bonds shall be payable as to interest on the Interest Payment Dates, except that the first installment of interest may be payable on either March 1 or September 1 and shall be for a period of not longer than twelve months;
  - (iv) the date, the maturity date or dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that each such maturity date and date on which a mandatory sinking fund redemption is to be made shall be a September 1 and, provided, further, that serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, shall be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates;

- (v) the Authorized Denominations of such Additional Bonds;
- (vi) the redemption premiums and terms, if any, for such Additional Bonds;
- (vii) the form of such Additional Bonds;

(viii) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Fund; provided, however, that the amount on deposit in the Reserve Fund at the time that such Additional Bonds become Outstanding shall be at least equal to the Reserve Requirement; and

(ix) such other provisions that are appropriate or necessary and are not inconsistent with the provisions of the Indenture; and

(c) Annual Debt Service in each Bond Year, calculated for all Bonds that will be Outstanding after the issuance of such Additional Bonds, will be less than or equal to Annual Debt Service in such Bond Year, calculated for all Bonds which are Outstanding immediately prior to the issuance of such Additional Bonds.

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

Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, such Additional Bonds shall be executed by the Community Facilities District for issuance under the Indenture and shall be delivered to the Trustee and thereupon shall be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

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

(b) a Written Request of the Community Facilities District as to the delivery of such Additional Bonds;

(c) a Written Certificate of the Community Facilities District stating that the conditions precedent to the issuance of such Additional Bonds specified in the provisions of the Indenture as described under the subcaption “– Conditions for the Issuance of Additional Bonds” have been satisfied;

(d) an opinion of Bond Counsel substantially to the effect that (i) the Indenture and all Supplemental Indentures have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Community Facilities District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State), (ii) such Additional Bonds constitute valid and binding special obligations of the Community Facilities District and are enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State), and (iii) the issuance of such Additional Bonds, in and of itself, will not adversely affect the exclusion of interest on the Bonds



Outstanding prior to the issuance of such Additional Bonds from gross income for federal income tax purposes;

(e) the proceeds of the sale of such Additional Bonds; and

(f) such further documents or money as are required by the provisions of the Indenture or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.

Additional Bonds. So long as any of the Bonds remain Outstanding, the Community Facilities District shall not issue any Additional Bonds or obligations payable from Special Tax Revenues, except pursuant to the provisions of the Indenture summarized under the subcaptions “Conditions for the Issuance of Additional Bonds” and “Procedure for the Issuance of Additional Bonds.”

### **Security for Bonds; Flow of Funds; Investments**

Pledge. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, in order to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act, the Community Facilities District pledges to the Owners, and grants thereto a lien on and a security interest in, all of the Net Special Tax Revenues and any other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund. Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the Community Facilities District, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, this Indenture, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

Special Tax Fund. (a) The Trustee shall establish and maintain a separate fund designated the “Special Tax Fund.” As soon as practicable after the receipt by the Community Facilities District of any Special Tax Revenues, the Community Facilities District shall transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; provided, however, that with respect to any such Special Tax Revenues that represent prepaid Special Taxes that are to be applied to the redemption of Bonds in accordance with the provisions of the Indenture, said prepaid Special Taxes shall be identified as such in a Written Certificate of the Community Facilities District delivered to the Trustee at the time such prepaid Special Taxes are transferred to the Trustee, the portion of such prepaid Special Taxes to be applied to the Redemption Price of the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Prepayment Account of the Redemption Fund and the portion of such prepaid Special Taxes to be applied to the payment of interest on the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District and shall be deposited by the Trustee in the Bond Fund.

(b) Upon receipt of a Written Request of the Community Facilities District, the Trustee shall withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the amount specified in such Written Request of the Community Facilities District as the amount necessary to be transferred thereto in order to have sufficient amounts available therein to pay Administrative Expenses.

(c) On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall make the following transfers in the following order of priority:

(i) *Bond Fund.* The Trustee shall withdraw from the Special Tax Fund and transfer to the Bond Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on

deposit in the Bond Fund to be equal to the principal and interest due on the Bonds on such Interest Payment Date; and

(ii) *Reserve Fund.* After having made any transfers required to be made pursuant to the preceding paragraph (i), the Trustee shall withdraw from the Special Tax Fund and transfer to the Reserve Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

Bond Fund. (a) The Trustee shall establish and maintain a separate fund designated the “Bond Fund.” The Trustee shall deposit in the Bond Fund from time to time the amounts required to be deposited therein pursuant to the Indenture. There shall additionally be deposited in the Bond Fund the portion, if any, of the proceeds of the sale of Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) In the event that, on the Business Day prior to an Interest Payment Date, amounts in the Bond Fund are insufficient to pay the principal, if any, of and interest on the Bonds due and payable on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds, the Trustee shall withdraw from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Bond Fund.

(c) On each Interest Payment Date, the Trustee shall withdraw from the Bond Fund for payment to the Owners of the Bonds the principal, if any, of and interest on the Bonds then due and payable, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds.

In the event that, on an Interest Payment Date, amounts in the Bond Fund are insufficient to pay the principal, if any, of and interest on the Bonds due and payable on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds, the Trustee shall apply available funds therein in accordance with the provisions of the Indenture summarized under the subcaption “Events of Default and Remedies – Application of Net Special Tax Revenues After Default.”

Redemption Fund. (a) The Trustee shall establish and maintain a special fund designated the “Redemption Fund.” Within the Redemption Fund, the Trustee shall establish and maintain a separate account designated the “Prepayment Account” and a separate account designated the “RBBDF Account.” As soon as practicable after the receipt by the Community Facilities District of prepaid Special Taxes, but in any event not later than ten Business Days after such receipt, the Community Facilities District shall transfer the portion of such prepaid Special Taxes to be applied to the Redemption Price of the Bonds to be redeemed from such prepaid Special Taxes to the Trustee for deposit in the Prepayment Account. As soon as practicable after the receipt by the Community Facilities District of Allocable Road and Bridge Benefit District Fees, but in any event not later than ten Business Days after such receipt the Community Facilities District shall transfer such Allocable Road and Bridge Benefit District Fees to the Trustee for deposit in the RBBDF Account. The Trustee shall deposit in the Redemption Fund amounts received from the Community Facilities District in connection with the Community Facilities District’s exercise of its rights to optionally redeem Series 2014 Bonds pursuant to the Indenture and any other amounts required to be deposited therein pursuant to the Indenture or pursuant to any Supplemental Indenture.

(b) Amounts in the Prepayment Account shall be disbursed therefrom for the payment the Redemption Price of Series 2014 Bonds redeemed pursuant to the provisions of the Indenture relating to mandatory redemption from Special Tax prepayments and to pay the Redemption Price of Additional Bonds redeemed under the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued. Amounts in the RBBDF Account shall be disbursed therefrom for the payment of the Redemption Price of Series 2014 Bonds redeemed pursuant to the Indenture and to pay the Redemption Price of Additional Bonds redeemed under the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued. Amounts in the Redemption Fund (other than amounts in

the Prepayment Account or the RBBDF Account) shall be disbursed therefrom for the payment of the Redemption Price of Series 2014 Bonds redeemed pursuant to the Indenture and to pay the Redemption Price of Additional Bonds redeemed under the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(c) In lieu of the redemption of Bonds otherwise to be redeemed pursuant to the Indenture from amounts on deposit in the RBBDF Account, amounts on deposit in the RBBDF Account may, no later than 45 days prior to the date on which such Bonds are to be so redeemed, be used and withdrawn by the Trustee, upon the Written Request of the Community Facilities District, for the purchase of such Bonds at public or private sale at a purchase price (including brokerage and other charges, but excluding accrued interest, which is payable from the Bond Fund) that shall not exceed the Redemption Price of such Bonds. In lieu of the optional redemption of Bonds otherwise to be redeemed pursuant to the Indenture from amounts on deposit in the Redemption Fund, amounts on deposit in the Redemption Fund (but not including any amounts in the RBBDF Account or the Prepayment Account) may, no later than 45 days prior to the date on which such Bonds are to be so redeemed, be used and withdrawn by the Trustee, upon the Written Request of the Community Facilities District, for the purchase of such Bonds at public or private sale at a purchase price (including brokerage and other charges, but excluding accrued interest, which is payable from the Bond Fund) that shall not exceed the Redemption Price of such Bonds.

Reserve Fund. (a) The Trustee shall establish and maintain a special fund designated the “Reserve Fund.” On the Closing Date, the Trustee shall deposit in the Reserve Fund the amount specified in the Indenture. The Trustee shall deposit in the Reserve Fund from time to time the amounts required to be deposited therein pursuant to the Indenture. There shall additionally be deposited in the Reserve Fund, in connection with the issuance of Additional Bonds, the amount required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) Except as otherwise provided in the provisions of the Indenture summarized under this subcaption (“– Reserve Fund”), all amounts deposited in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of (i) making transfers to the Bond Fund in accordance with the provisions of the Indenture summarized in paragraph (b) under the subcaption “– Bond Fund” in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of and interest on the Bonds, and (ii) redeeming Bonds in accordance with the provisions of the Indenture summarized under this subcaption.

(c) Whenever Bonds are to be redeemed pursuant to the provisions of the Indenture relating to optional redemption, mandatory redemption from Special Tax prepayments, or mandatory redemption from Allocable Road and Bridge Benefit District Fees or the corresponding provisions of a Supplemental Indenture, a proportionate share, determined as provided below, of the amount on deposit in the Reserve Fund shall, on the date on which amounts to redeem such Bonds are deposited in the Redemption Fund or otherwise deposited with the Trustee pursuant to the provisions of the Indenture summarized under the subcaption “Defeasance – Bonds Deemed To Have Been Paid,” be transferred by the Trustee from the Reserve Fund to the Redemption Fund or to such deposit held by the Trustee and shall be applied to the redemption of said Bonds; provided, however, that such amount shall be so transferred only if and to the extent that the amount remaining on deposit in the Reserve Fund will be at least equal to the Reserve Requirement (excluding from the calculation thereof said Bonds to be redeemed). Such proportionate share shall be equal to the largest integral multiple of the minimum Authorized Denomination for said Bonds that is not larger than the amount equal to the product of (i) the amount on deposit in the Reserve Fund on the date of such transfer, times (ii) a fraction, the numerator of which is the principal amount of Bonds to be so redeemed and the denominator of which is the principal amount of Bonds to be Outstanding on the day prior to the date on which such Bonds are to be so redeemed.

(d) Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due

upon redemption, the Trustee shall, upon receipt of a Written Request of the Community Facilities District, transfer the amount in the Reserve Fund to the Bond Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds.

(e) If as a result of the scheduled payment of principal of or interest on the Outstanding Bonds, the Reserve Requirement is reduced, the Trustee shall transfer to the Bond Fund an amount equal to the amount by which the amount on deposit in the Reserve Fund exceeds such reduced Reserve Requirement.

Rebate Fund. The Trustee shall establish and maintain a special fund designated the “Rebate Fund.” There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the Community Facilities District. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the provisions of the Indenture relating to defeasance or anything to the contrary contained in the Indenture, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the provisions summarized under this subcaption (“– Rebate Fund”) and by the Tax Certificate (which is incorporated in the Indenture by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Community Facilities District, and shall have no liability or responsibility to enforce compliance by the Community Facilities District with the terms of the Tax Certificate. The Trustee may conclusively rely upon the Community Facilities District’s determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Community Facilities District’s calculations.

Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described under this subcaption (“– Rebate Fund”), shall, upon receipt by the Trustee of a Written Request of the Community Facilities District, be withdrawn by the Trustee and remitted to the Community Facilities District.

On or before November 1 of each year, the Community Facilities District shall deliver to the Trustee a Written Certificate of the Community Facilities District specifying the amount of the then applicable Rebate Requirement. Any amount in the Rebate Fund in excess of the Rebate Requirement on November 1 of each year shall be withdrawn from the Rebate Fund by the Trustee and shall be deposited in the Earnings Fund.

Administrative Expense Fund. The Trustee shall establish and maintain a special fund designated the “Administrative Expense Fund.” The Trustee shall deposit in the Administrative Expense Fund the amounts transferred from the Special Tax Fund and required to be deposited therein pursuant to the Indenture.

The moneys in the Administrative Expense Fund shall be used and withdrawn by the Trustee from time to time to pay the Administrative Expenses upon submission of a Written Request of the Community Facilities District stating (a) the Person to whom payment is to be made, (b) the amount to be paid, (c) the purpose for which the obligation was incurred and that such purpose constitutes an Administrative Expense, (d) that such payment is a proper charge against the Administrative Expense Fund, and (e) that such amounts have not been the subject of a prior disbursement from the Administrative Expense Fund; in each case together with a statement or invoice for each amount requested thereunder.

To the extent moneys are not otherwise available therefor in the Earnings Fund, amounts in the Administrative Expense Fund shall, at the Written Request of the Community Facilities District, be transferred by the Trustee to the Rebate Fund.

Costs of Issuance Fund. (a) The Trustee shall establish and maintain a separate fund designated the “Costs of Issuance Fund.” On the Closing Date, the Trustee shall deposit in the Costs of Issuance Fund the amount required to be deposited therein pursuant to the Indenture. There shall be deposited in the Cost of

Issuance Fund the portion, if any, of the proceeds of the sale of any Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the Community Facilities District stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment is a proper charge against the Costs of Issuance Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Costs of Issuance Fund, in each case together with a statement or invoice for each amount requested thereunder. On the last Business Day that is no later than six months after the Closing Date, the Trustee shall transfer any amount remaining in the Costs of Issuance Fund to the Bond Fund and, upon making such transfer, the Costs of Issuance Fund shall be closed.

(c) If the Costs of Issuance Fund has been closed in accordance with the provisions of the Indenture, the Costs of Issuance Fund shall be reopened and reestablished by the Trustee in connection with the issuance of any Additional Bonds, if so provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Earnings Fund. The Trustee shall establish and maintain a special fund designated the “Earnings Fund.” The Trustee shall deposit in the Earnings Fund the amounts required to be deposited therein pursuant to the Indenture.

At least annually on or before November 1 of each year, if the amount on deposit in the Rebate Fund is less than the Rebate Requirement, the Community Facilities District shall deliver to the Trustee a Written Request of the Community Facilities District directing the Trustee to transfer from the Earnings Fund to the Rebate Fund the amount specified in such Written Request (which shall be an amount sufficient to cause the amount on deposit in the Rebate Fund to be equal to the Rebate Requirement), and the Trustee shall so transfer such amount. On November 2 of each year, after having made any requested transfer to the Rebate Fund, the Trustee shall transfer any amount in the Earnings Fund, first, to the Reserve Fund in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement and, second, to the Special Tax Fund.

Investment of Moneys. Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the Community Facilities District two Business Days prior to the making of such investment. Moneys in all funds and accounts held by the Trustee shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final maturity date of the Bonds and, provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final maturity date of the Bonds. Absent timely written direction from the Community Facilities District, the Trustee shall invest any funds held by it in Permitted Investments described in paragraph 6 of the definition thereof.

Subject to the provisions of the Indenture relating to the Rebate Fund, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture (other than the Reserve Fund) shall be retained therein. Any interest or profits or other income received with respect to investments held in the Reserve Fund shall be transferred to the Proceeds Account and, thereafter, be transferred to the Earnings Fund; provided, however, that, notwithstanding the foregoing, any such transfer shall be made from the Reserve Fund only if and to the extent that, after such transfer, the amount on deposit in the Reserve Fund is at least equal to the Reserve Requirement.

Permitted Investments acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. For the purpose of determining the amount in any fund or account, all Permitted Investments credited to such fund shall be valued by the Trustee at the market value thereof, such valuation to be performed not less frequently than semiannually on or before each February 15 and August 15.

The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the Community Facilities District, the Trustee shall sell or present for redemption any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments are credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to provisions of the Indenture summarized under this subcaption (“– Investment of Moneys”). For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

### **Covenants**

Collection of Special Tax Revenues. (a) The Community Facilities District shall comply with all requirements of the Act, the Ordinance and the Indenture so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes; provided, however, that the Community Facilities District shall have the right to waive delinquency penalties and redemption penalties in accordance with the provisions of subdivision (e) of Section 53340 of the Act.

(b) Prior to August 1 of each year, the Community Facilities District shall ascertain from the County Assessor the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year. The Community Facilities District shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 10, or otherwise such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within the Community Facilities District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Community Facilities District shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires in order to include the levy of the Special Taxes on the next real property tax roll.

(c) The Community Facilities District shall fix and levy the amount of Special Taxes within the Community Facilities District in each Fiscal Year in accordance with the Rate and Method and, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield Special Tax Revenues in the amount required for (i) the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, (ii) any necessary replenishment of the Reserve Fund, and (iii) the payment of Administrative Expenses estimated to be paid from such Special Tax Revenues, taking into account the balances in the funds and accounts established under the Indenture.

(d) The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property.

Foreclosure. Pursuant to Section 53356.1 of the Act, the Community Facilities District covenants with and for the benefit of the Owners that it will commence appropriate judicial foreclosure proceedings against parcels with total Special Tax delinquencies in excess of \$5,000 (not including interest and penalties thereon) by the October 1 following the close of each Fiscal Year in which the last of such Special Taxes were due and will commence appropriate judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an

amount which is less than 95% of the total Special Taxes levied in such Fiscal Year, and diligently pursue to completion such foreclosure proceedings; provided, however, that, notwithstanding the foregoing, the Community Facilities District may elect to accept payment from a property owner of at least the enrolled amount but less than the full amount of the penalties, interest, costs and attorneys' fees related to a Special Tax delinquency, if permitted by law. Notwithstanding the foregoing, in certain instances the amount of a Special Tax delinquency on a particular parcel is so small that the cost of appropriate foreclosure proceedings will far exceed the Special Tax delinquency and in such cases foreclosure proceedings may be delayed by the Community Facilities District until there are sufficient Special Tax delinquencies accruing to such parcel (including interest and penalties thereon) to warrant the foreclosure proceedings cost.

Compliance with Act. The Community Facilities District shall comply with all applicable provisions of the Act.

Punctual Payment. The Community Facilities District shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Special Tax Revenues and other assets pledged for such payment as provided in the Indenture and received by the Community Facilities District or the Trustee.

Extension of Payment of Bonds. The Community Facilities District shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this paragraph shall be deemed to limit the right of the Community Facilities District to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances; Defense of Pledge. The Community Facilities District shall not create, or permit the creation of, any pledge of, lien on, security interest in or charge or other encumbrance upon the assets pledged under the Indenture, except as permitted by the Indenture. The Community Facilities District shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of such assets, and the lien thereon and security interest therein created by the Indenture, against all claims and demands of all Persons whomsoever.

Tax Covenants. (a) The Community Facilities District shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Series 2014 Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Community Facilities District shall comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth in the Indenture. This covenant shall survive payment in full or defeasance of the Series 2014 Bonds.

(b) In the event that at any time the Community Facilities District is of the opinion that for purposes of the provisions of the Indenture summarized under this subcaption (“– Tax Covenants”) it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Indenture, the Community Facilities District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of the Indenture summarized under this subcaption (“– Tax Covenants”), if the Community Facilities District shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under the provisions of the Indenture summarized under this

subcaption is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2014 Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the provisions of the Indenture summarized under this caption and of the Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent.

Continuing Disclosure. Each of the Community Facilities District and the Trustee shall comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to it. Notwithstanding any other provision of the Indenture, failure of the Community Facilities District or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Series 2014 Bonds, and upon receipt of indemnification reasonably satisfactory to the Trustee, shall) or any Owner or Beneficial Owner of the Series 2014 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Non-Cash Payments of Special Taxes. The Community Facilities District shall not authorize owners of taxable parcels within the Community Facilities District to satisfy Special Tax obligations by the tender of Bonds unless the Community Facilities District shall have first obtained a report of an Independent Consultant certifying that doing so would not result in the Community Facilities District having insufficient Special Tax Revenues to pay the principal of and interest on all Outstanding Bonds when due.

Reduction in Special Taxes. The Community Facilities District shall not initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Bonds. If an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Bonds, the Community Facilities District shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Bonds.

Accounting Records. The Community Facilities District shall keep or cause to be kept appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Special Taxes, which records shall be available for inspection by the Trustee at reasonable hours and under reasonable conditions.

State Reporting. If at any time the Trustee fails to pay principal or interest due on any scheduled payment date for the Bonds, or if funds are withdrawn from the Reserve Fund to pay principal of or interest on the Bonds, the Trustee shall notify the Community Facilities District in writing of such failure or withdrawal, and the Community Facilities District shall notify the California Debt and Investment Advisory Commission of such failure or withdrawal within ten days of the failure to make such payment or the date of such withdrawal.

Annual Reports to the California Debt and Investment Advisory Commission. Not later than October 30 of each year, commencing October 30, 2015 and continuing until the October 30 following the final maturity of the Bonds, the Community Facilities District shall supply to the California Debt and Investment Advisory Commission the information required to be provided thereto pursuant to Section 53359.5(b) of the Act. Such information shall be made available to any Owner upon written request to the Community Facilities District accompanied by a fee determined by the Community Facilities District to pay the costs of the Community Facilities District in connection therewith. The Community Facilities District shall in no event be liable to any Owner or any other Person in connection with any error in any such information.

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



## Events of Default and Remedies

Events of Default. The following events shall be Events of Default:

- (a) failure to pay any installment of principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise;
- (b) failure to pay any installment of interest on any Bonds when and as the same shall become due and payable;
- (c) failure by the Community Facilities District to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Community Facilities District by the Trustee, or to the Community Facilities District and the Trustee by the Owners of not less than 5% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, that, if in the reasonable opinion of the Community Facilities District the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Community Facilities District within such 30 day period and the Community Facilities District shall thereafter diligently and in good faith cure such failure in a reasonable period of time; or
- (d) the commencement by the Community Facilities District or the County of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

Foreclosure. If an Event of Default shall occur under the provisions of the Indenture summarized in paragraphs (a) or (b) under the subcaption “– Events of Default” above, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, or at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefor, shall, commence foreclosure against any parcels of land in the Community Facilities District with delinquent Special Taxes, as provided in Section 53356.1 of the Act.

Other Remedies. If an Event of Default shall have occurred and be continuing, the Trustee shall have the right:

- (a) by mandamus, suit, action or proceeding, to compel the Community Facilities District and its officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Community Facilities District and the fulfillment of all duties imposed upon it by the Indenture and the Act;
- (b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the rights of the Trustee or the Owners; or
- (c) by suit, action or proceeding in any court of competent jurisdiction, to require the Community Facilities District and its officers and employees to account as if it and they were the trustees of an express trust.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

Application of Net Special Tax Revenues After Default. If an Event of Default shall occur and be continuing, all Net Special Tax Revenues and any other funds thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) to the payment of the principal and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

*First:* to the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

*Second:* to the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference.

(c) any remaining funds shall be transferred by the Trustee to the Special Tax Fund.

Power of Trustee to Enforce. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee; provided, however, that such direction shall not be otherwise than in accordance the provisions of the Indenture, the Act and other applicable law and, provided, further, that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

Limitation on Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bond, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default, (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name, (c) such Owner or said Owners shall have tendered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, and (d) the Trustee

shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners shall have any right in any manner whatever by such Owner's or Owners' action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners, or to enforce any right under the Bonds, the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners, subject to the provisions of the Indenture.

Absolute Obligation. Nothing in the Indenture or the Bonds contained shall affect or impair the obligation of the Community Facilities District, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Net Special Tax Revenues and other assets in the Indenture pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Owners, then in every such case the Community Facilities District, the Trustee and the Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Community Facilities District, the Trustee and the Owners shall continue as though no such proceedings had been taken.

No Waiver of Default. No delay or omission of the Trustee or of any Owner to exercise any right or power arising upon the occurrence of any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Owners may be exercised from time to time and as often as may be deemed expedient.

## **Trustee**

Duties and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Qualifications; Removal and Resignation; Successors. (a) The Trustee initially a party to the Indenture and any successor thereto shall at all times be a trust company, national banking association or bank having trust powers in good standing in or incorporated under the laws of the United States or any state thereof, having (or if such trust company, national banking association or bank is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by a federal or state agency. If such trust company, national banking association or bank publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of the provisions summarized in this paragraph the combined capital and surplus of such trust company, national banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) The Community Facilities District may, by an instrument in writing, upon at least 30 days' notice to the Trustee, remove the Trustee initially a party to the Indenture and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Indenture and any successor thereto if (i) at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing), or (ii) the Trustee shall cease to be eligible in accordance with paragraph (a) above, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee.

(c) The Trustee may at any time resign by giving written notice of such resignation by first-class mail, postage prepaid, to the Community Facilities District, and to the Owners at the respective addresses shown on the Registration Books. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of paragraph (a) above, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture described under this subcaption ("– Qualifications; Removal and Resignation; Successors").

(d) Upon removal or resignation of the Trustee, the Community Facilities District shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that any successor Trustee shall be qualified as provided in the Indenture as described in paragraph (a) above. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following notice of removal or notice of resignation as aforesaid, the removed or resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Community Facilities District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the Community Facilities District or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Indenture set forth. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the successor Trustee shall, within 15 days after such acceptance, mail, by first-class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to the Owners at the addresses shown on the Registration Books.

(e) Any trust company, national banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, national banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, national banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such trust company, national banking association or bank shall be eligible under paragraph (a) above, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. (a) The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the Community Facilities District, and the Trustee shall not assume responsibility for the correctness of the same or incur any responsibility in respect thereof, other than as expressly stated in the

Indenture in connection with the respective duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds.

(b) The Trustee makes no representations as to the validity or sufficiency of the Indenture or of any Bonds, or in respect of the security afforded by the Indenture and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to the issuance of the Bonds for value, the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or the application of any moneys paid to the Community Facilities District or others in accordance with the Indenture.

(c) The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct.

(d) No provision of the Indenture or any other document related to the Indenture shall require the Trustee to risk or advance its own funds.

(e) The Trustee may execute any of its powers or duties under the Indenture through attorneys, agents or receivers and shall not be answerable for the actions of such attorneys, agents or receivers if selected by it with reasonable care.

(f) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

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

(h) Before taking action under the provisions of the Indenture summarized under the captions "Events of Default and Remedies" or "Trustee" or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur.

(i) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(j) The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

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

(l) The Trustee shall not be liable for the failure to take any action required to be taken by it under the Indenture if and to the extent that the Trustee's taking such action is prevented by reason of an act of God, terrorism, war, riot, strike, fire, flood, earthquake, epidemic or other, similar occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care.

(m) The Trustee shall not be deemed to have knowledge of an Event of Default under the Indenture unless it has actual knowledge thereof.

Right to Rely on Documents and Opinions. (a) The Trustee shall be protected in acting upon any notice, requisition, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Whenever in the administration of the duties imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Written Certificate of the Community Facilities District, and such Written Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Written Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

(c) The Trustee may consult with counsel, who may be counsel to the Community Facilities 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 by it under the Indenture in good faith and in accordance therewith.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with prudent corporate trust industry standards, in which accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds, the Special Tax Revenues received by it and all funds and accounts established by it pursuant to the Indenture. Such books of record and account shall be available for inspection by the Community Facilities District during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the Community Facilities District a monthly statement with respect to the funds and accounts it holds under the Indenture; provided, however, that the Trustee shall not be obligated to deliver a statement for any fund or account that (a) has a balance of zero, and (b) has not had any activity since the last reporting date.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject during business hours and upon reasonable notice to the inspection of the Community Facilities District, the Owners and their agents and representatives duly authorized in writing.

Compensation and Indemnification. The Community Facilities District shall pay to the Trustee from time to time from Special Tax Revenues all reasonable compensation pursuant to a pre-approved fee letter for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees pursuant to a pre-approved fee letter and other disbursements pursuant to a pre-approved fee letter and those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture. The Community Facilities District shall, to the extent permitted by law, from Special Tax Revenues, indemnify and save the Trustee harmless from and against any costs, claims, damages, expenses and liabilities which it may incur in the exercise and performance of its powers and duties under the Indenture (including reasonable legal fees and expenses of counsel retained by the Trustee in connection with the performance of its duties under the Indenture), including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct. The duty of the Community Facilities District to indemnify the Trustee shall survive the resignation or removal of the Trustee and the termination and discharge of the Indenture.

## Supplemental Indentures

Supplemental Indentures. (a) The Indenture and the rights and obligations of the Community Facilities District, the Trustee and the Owners under the Indenture may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Community Facilities District and the Trustee may enter into when there are filed with the Trustee the written consents of the Owners of a majority of the aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the provisions of the Indenture relating to disqualified bonds. No such modification or amendment shall (i) extend the fixed maturity of any Bond, reduce the amount of principal thereof or the rate of interest thereon, extend the time of payment thereof or alter the redemption provisions thereof, without the consent of the Owner of each Bond so affected, (ii) permit any pledge of, or the creation of any lien on, security interest in or charge or other encumbrance upon the assets pledged under the Indenture prior to or on a parity with the pledge contained in, and the lien and security interest created by, the Indenture or deprive the Owners of the pledge contained in, and the lien and security interest created by, the Indenture, except as expressly provided in the Indenture, without the consent of the Owners of all of the Bonds then Outstanding, or (iii) modify or amend the provisions of the Indenture summarized under this subcaption (“– Supplemental Indentures”) without the prior written consent of the Owners of all Bonds then Outstanding.

(b) The Indenture and the rights and obligations of the Community Facilities District, the Trustee and the Owners under the Indenture may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Community Facilities District and the Trustee may enter into without the consent of any Owners for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Community Facilities District in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Community Facilities District in the Indenture;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture, provided that such modification or amendment does not materially adversely affect the rights or interests of the Owners under the Indenture;

(iii) to provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture summarized under the caption “Additional Bonds;”

(iv) to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect;

(v) to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and

(vi) in any other respect whatsoever as the Community Facilities District may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the rights or interests of the Owners under the Indenture.

(c) Promptly after the execution by the Community Facilities District and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the Community Facilities District), by first-class mail, postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the provisions of the Indenture summarized under the caption “Supplemental Indentures,” the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Community Facilities District, the Trustee and the Owners shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the effective date of any Supplemental Indenture pursuant to the provisions of the Indenture summarized under the caption “Supplemental Indentures” may and, if the Community Facilities District so determines, shall bear a notation by endorsement or otherwise in form approved by the Community Facilities District and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such effective date and presentation of such Bond for such purpose at the Office of the Trustee a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Community Facilities District and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Community Facilities District and authenticated by the Trustee and, in that case, upon demand of the Owner of any Bond Outstanding at the time of such effective date, and presentation of such Bond for such purpose at the Office of the Trustee, such a new Bond in equal principal amount of the same Series, interest rate and maturity shall be exchanged for such Owner’s Bond so surrendered.

Amendment of Particular Bonds. The provisions of the Indenture as described under the caption “Supplemental Indentures” shall not prevent any Owner from accepting any amendment or modification as to any particular Bond owned by it, provided that due notation thereof is made on such Bond.

## **Defeasance**

Discharge of Indenture. (a) If the Community Facilities District shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the principal thereof and the interest and premium, if any, thereon at the times and in the manner stipulated therein, then the Owners shall cease to be entitled to the pledge of the Net Special Tax Revenues and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Community Facilities District under the Indenture shall thereupon cease, terminate and become void and the Indenture shall be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Community Facilities District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Community Facilities District all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of and interest and premium, if any, on the Bonds.

(b) Subject to the provisions of paragraph (a) above, when any Bond shall have been paid and if, at the time of such payment, the Community Facilities District shall have kept, performed and observed all of the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by it or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bond and such Bond shall cease to be entitled to the pledge of the Net Special Tax Revenues and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Community Facilities District under the Indenture shall cease, terminate, become void and be completely discharged and satisfied as to such Bond.

(c) Notwithstanding the discharge and satisfaction of the Indenture or the discharge and satisfaction of the Indenture in respect of any Bond, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties and rights of the Trustee in connection with all of the foregoing, shall remain in effect and shall be



binding upon the Trustee and the Owners of such Bond, and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of and interest and premium, if any, on such Bond, and to pay to the Owner of such Bond the funds so held by the Trustee as and when such payment becomes due.

Bonds Deemed To Have Been Paid. (a) If moneys shall have been set aside and held by the Trustee for the payment or redemption of any Bond and the payment of the interest thereon to the maturity or redemption date thereof, such Bond shall be deemed to have been paid within the meaning and with the effect provided in the provisions of the Indenture summarized under the subcaption “– Discharge of Indenture” above. Any Outstanding Bond shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the provisions of the Indenture summarized under the subcaption “– Discharge of Indenture” if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Community Facilities District shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the Indenture, notice of redemption of such Bond on said redemption date, said notice to be given in accordance with the provisions of the Indenture, (ii) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient, or (B) Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, together with the money, if any, deposited therewith, will provide moneys which shall be sufficient to pay when due the interest to become due on such Bond on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and premium, if any, on such Bond, and (iii) in the event such Bond is not by its terms subject to redemption within the next succeeding 60 days, the Community Facilities District shall have given the Trustee, in form satisfactory to it, irrevocable instructions to mail as soon as practicable, a notice to the Owner of such Bond that the deposit required by clause (ii) above has been made with the Trustee and that such Bond is deemed to have been paid in accordance with the provisions of the Indenture summarized under this subcaption (“– Bonds Deemed To Have Been Paid”) and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and premium, if any, on such Bond.

(b) No Bond shall be deemed to have been paid pursuant to clause (ii) of paragraph (a) above unless the Community Facilities District shall have caused to be delivered to the Community Facilities District and the Trustee (i) an executed copy of a Verification Report with respect to such deemed payment, addressed to the Community Facilities District and the Trustee, in form and in substance acceptable to the Community Facilities District and the Trustee, (ii) a copy of the escrow agreement entered into in connection with the deposit pursuant to clause (ii)(B) of paragraph (a) above resulting in such deemed payment, which escrow agreement shall be in form and in substance acceptable to the Community Facilities District and the Trustee and which escrow agreement shall provide that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification Report and no reinvestment of Defeasance Securities shall be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, and (iii) a copy of an opinion of Bond Counsel, dated the date of such deemed payment and addressed to the Community Facilities District and the Trustee, in form and in substance acceptable to the Community Facilities District and the Trustee, to the effect that such Bond has been paid within the meaning and with the effect expressed in the Indenture, the Indenture has been discharged in respect of such Bond and all agreements, covenants and other obligations of the Community Facilities District under the Indenture as to such Bond have ceased, terminated, become void and been completely discharged and satisfied.

Unclaimed Moneys. Subject to the escheat laws of the State, any moneys held by the Trustee in trust for the payment and discharge of the principal of, or premium or interest on, any Bond which remain unclaimed for two years after the date when such principal, premium or interest has become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when such principal, premium or interest become payable, shall be repaid by the Trustee to the Community Facilities District as its absolute property free from trust, and the

Trustee shall thereupon be released and discharged with respect thereto and the Owner of such Bond shall look only to the Community Facilities District for the payment of such principal, premium or interest.

### **Miscellaneous**

Limitation of Rights. Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Trustee, the Community Facilities District and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Trustee, the Community Facilities District and the Owners of the Bonds.

Destruction of Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Community Facilities District of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds.

Evidence of Rights of Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Owners in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the Community Facilities District if made in the manner provided in the provisions of the Indenture summarized under this subcaption (“– Evidence of Rights of Owners”).

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Community Facilities District in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Community Facilities District, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Community Facilities District or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this paragraph if the pledgee shall establish to the satisfaction of the Trustee the pledgee’s right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Community Facilities District or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Community Facilities District shall specify in a certificate to the Trustee those Bonds disqualified pursuant to the provisions summarized in this paragraph and the Trustee may conclusively rely on such certificate.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Indenture relating to unclaimed moneys, but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with prudent corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish any such additional funds or accounts as it deems necessary to perform its obligations under the Indenture.

Business Days. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Indenture shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Indenture and, unless otherwise specifically provided in the Indenture, no interest shall accrue for the period from and after such nominal date.

Waiver of Personal Liability. No member, officer, agent or employee of the Community Facilities District or the County shall be individually or personally liable for the payment of the principal of or premium or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing in the Indenture contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by any applicable provision of law or by the Indenture.

Conflict with Act. In the event of any conflict between any provision of the Indenture and any provision of the Act, the provision of the Act shall prevail over the provision of the Indenture.

Conclusive Evidence of Regularity. Bonds issued pursuant to the Indenture shall constitute evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the Special Taxes.

Governing Laws. The Indenture shall be governed by and construed in accordance with the laws of the State.

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## APPENDIX D

### FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE COMMUNITY FACILITIES DISTRICT

**THIS CONTINUING DISCLOSURE AGREEMENT** (this “Disclosure Agreement”), dated as of December 1, 2014, is by and between the COMMUNITY FACILITIES DISTRICT NO. 03-1 (NEWPORT ROAD) OF THE COUNTY OF RIVERSIDE, a community facilities district organized and existing under and by virtue of the laws of the State of California (the “Community Facilities District”), and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as Trustee (the “Trustee”).

#### WITNESSETH:

**WHEREAS**, pursuant to the Indenture, dated as of December 1, 2014 (the “Indenture”), by and between the Community Facilities District and the Trustee, the Community Facilities District has issued the Community Facilities District No. 03-1 (Newport Road) of the County of Riverside Special Tax Refunding Bonds, Series 2014 (the “Series 2014 Bonds”), in the aggregate principal amount of \$14,390,000; and

**WHEREAS**, this Disclosure Agreement is being executed and delivered by the Community Facilities District and the Trustee for the benefit of the holders and beneficial owners of the Series 2014 Bonds and in order to assist the underwriters of the Series 2014 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

**NOW, THEREFORE**, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

**Section 1. Definitions.** Unless the context otherwise requires, the terms defined in this Section shall for all purposes of this Disclosure Agreement have the meanings herein specified. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture.

**“Annual Report”** means any Annual Report provided by the Community Facilities District pursuant to, and as described in, Sections 2 and 3 hereof.

**“Annual Report Date”** means the date in each year that is the first day of the month following the ninth month after the end of the Community Facilities District’s fiscal year, which date, as of the date of this Disclosure Agreement, is April 1.

**“Community Facilities District”** means Community Facilities District No. 03-1 (Newport Road) of the County of Riverside, a community facilities district organized and existing under the laws of the State, and any successor thereto.

**“Disclosure Representative”** means the County Executive Officer of the County of Riverside, or such other person as the Community Facilities District shall designate in writing to the Trustee from time to time.

**“Dissemination Agent”** means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Community Facilities District and which has filed with the Trustee a written acceptance of such designation.

**“Indenture”** means the Indenture, dated as of December 1, 2014, by and between the Community Facilities District and Wells Fargo Bank, National Association, as originally executed and as it may be amended or supplemented from time to time in accordance with its terms.

**“Listed Events”** means any of the events listed in subsection (a) or subsection (b) of Section 4 hereof.

**“MSRB”** means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

**“Official Statement”** means the Official Statement, dated November 20, 2014, relating to the Series 2014 Bonds.

**“Participating Underwriter”** means any of the original underwriters of the Series 2014 Bonds required to comply with the Rule in connection with the offering of the Series 2014 Bonds.

**“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.

**“Trustee”** means Wells Fargo Bank, National Association, as Trustee under the Indenture, or any successor thereto as Trustee thereunder, substituted in its place as provided therein.

**Section 2. Provision of Annual Reports.** (a) The Community Facilities District shall, or shall cause the Dissemination Agent to, provide to the MSRB an Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Annual Report Date, commencing with the report for the 2013-14 Fiscal Year. The Annual Report may include by reference other information as provided in Section 3 hereof; provided, however, that the audited financial statements of the Community Facilities District, if any, may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Community Facilities District’s fiscal year changes, it shall, or it shall instruct the Dissemination Agent to, give notice of such change in a filing with the MSRB.

(b) Not later than 15 business days prior to the date specified in subsection (a) of this Section for the providing of the Annual Report to the MSRB, the Community Facilities District shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Community Facilities District and the Dissemination Agent to determine if the Community Facilities District is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a) of this Section, the Trustee shall, in a timely manner, send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) provide any Annual Report received by it to the MSRB, as provided herein; and

(ii) file a report with the Community Facilities District and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided to the MSRB.

**Section 3. Content of Annual Reports.** The Community Facilities District's Annual Report shall contain or incorporate by reference the following:

(a) The Community Facilities District's audited financial statements, if any, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Community Facilities District's audited financial statements, if any, are not available by the time the Annual Report is required to be filed pursuant to subsection (a) of Section 2 hereof, the Annual Report shall contain unaudited financial statements, in a format similar to that used for the Community Facilities District's audited financial statements, and the audited financial statements, if any, shall be filed in the same manner as the Annual Report when they become available.

(b) The following information:

(i) The principal amount of Series 2014 Bonds Outstanding and the principal amount of Bonds Outstanding as of the September 30 next preceding the Annual Report Date.

(ii) The balance in the Reserve Fund, and a statement of the Reserve Requirement as of the September 30 next preceding the Annual Report Date.

(iii) The aggregate assessed value of all parcels within the Community Facilities District on which the Special Taxes are levied in each property classification under the Rate and Method, as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, the number of units in each property classification under the Rate and Method for the then current fiscal year, and a statement of assessed value-to-lien ratios therefor, either by individual parcel or by categories (e.g. "below 3:1", "3:1 to 4:1" etc.).

(iv) The Special Tax delinquency rate for all parcels within the Community Facilities District on which the Special Taxes are levied, as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, the number of parcels within the Community Facilities District on which the Special Taxes are levied and which are delinquent in payment of Special Taxes, as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, the amount of each delinquency, the length of time delinquent and the date on which foreclosure was commenced, or similar information pertaining to delinquencies deemed appropriate by the Community Facilities District; provided, however, that parcels with aggregate delinquencies of \$5,000 or less (excluding penalties and interest) may be grouped together and such information may be provided by category.

(v) The status of foreclosure proceedings for any parcels within the Community Facilities District on which the Special Taxes are levied and a summary of the results of any foreclosure sales as of the September 30 next preceding the Annual Report Date.

(vi) The identity of any property owner representing more than 5% of the annual Special Tax levy who is delinquent in payment of such Special Taxes, as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 30 next preceding the Annual Report Date.

(vii) A land ownership summary listing the ten property owners responsible for the greatest portion of the annual Special Tax levy, as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, a summary of the Special Taxes levied on the property within the Community Facilities District owned by such property owners, and the assessed value of such property, as shown on such assessment roll.

(c) In addition to any of the information expressly required to be provided under the preceding paragraphs (a) and (b), the Community Facilities District 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.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Community Facilities District or related public entities, which have been made available to the public on the MSRB's website. The Community Facilities District shall clearly identify each such other document so included by reference.

**Section 4. Reporting of Significant Events.** (a) Pursuant to the provisions of this Section, the Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2014 Bonds in a timely manner not later than ten business days after the occurrence of the event:

- (i) Principal and interest payment delinquencies.
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (iv) Substitution of credit or liquidity providers, or their failure to perform.
- (v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB).
- (vi) Tender offers.
- (vii) Defeasances.
- (viii) Rating changes.
- (ix) Bankruptcy, insolvency, receivership or similar event of the Community Facilities District.

For purposes of the event identified in paragraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section, the Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2014 Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

- (i) Unless described in paragraph (v) of subsection (a) of this Section, other material notices or determinations by the Internal Revenue Service with respect to the tax



status of the Series 2014 Bonds or other material events affecting the tax status of the Series 2014 Bonds.

- (ii) Modifications to rights of holders of the Series 2014 Bonds.
- (iii) Optional, unscheduled or contingent Series 2014 Bond calls.
- (iv) Release, substitution, or sale of property securing repayment of the Series 2014 Bonds.
- (v) Non-payment related defaults.
- (vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (vii) Appointment of a successor or additional Trustee or the change of name of a Trustee.

(c) The Trustee shall, within one business day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative and inform such person of the event.

(d) If a Listed Event described in subsection (b) of this Section occurs, the Community Facilities District shall determine if such event would be material under applicable Federal securities law.

(e) If a Listed Event described in subsection (a) of this Section occurs, or if the Community Facilities District determines that the occurrence of a Listed Event described in subsection (b) of this Section would be material under applicable Federal securities law, the Community Facilities District shall, or shall cause the Dissemination Agent to, file a notice of the occurrence of such Listed Event with the MSRB, within ten business days of such occurrence.

(f) Notwithstanding the foregoing, notices of Listed Events described in paragraph (vii) of subsection (a) of this Section and paragraph (iii) of subsection (b) of this Section need not be given any earlier than the notice (if any) of the underlying event is given to holders of affected Series 2014 Bonds pursuant to the Indenture.

**Section 5. Format for Filings with MSRB.** Any report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

**Section 6. Termination of Reporting Obligation.** The Community Facilities District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2014 Bonds. If such termination occurs prior to the final maturity of the Series 2014 Bonds, the Community Facilities District shall give notice of such termination in a filing with the MSRB.

**Section 7. Dissemination Agent.** The Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 30 days' written notice to the Community Facilities District and the Trustee (if the Trustee is not the Dissemination Agent). The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Community Facilities District in a timely manner and in a form suitable for

filing. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

**Section 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the Community Facilities District and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Community Facilities District; provided, however, that the Trustee shall not be obligated to enter into any amendment increasing or affecting its duties or obligations), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of subsection (a) of Section 2 hereof, Section 3 hereof or subsection (a) or (b) of Section 4 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2014 Bonds, or the type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Series 2014 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by Owners of the Series 2014 Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of Owners or Beneficial Owners of the Series 2014 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Community Facilities District shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Community Facilities District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**Section 9. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the Community Facilities District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Agreement, in addition to that which is required by this Disclosure Agreement. If the Community Facilities District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Agreement, the Community Facilities District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

**Section 10. Default.** In the event of a failure of the Community Facilities District, the Trustee or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of Outstanding Series 2014 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Trustee), or any Owner or Beneficial Owner of the Series 2014 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the

Community Facilities District, the Trustee 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 Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Community Facilities District, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

**Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. Neither the Trustee nor the Dissemination Agent shall be responsible for the form or content of any Annual Report or notice of Listed Event. The Dissemination Agent shall receive reasonable compensation for its services provided under this Disclosure Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement. To the extent permitted by law, the Community Facilities District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, and which are not due to its negligence or its willful misconduct. The obligations of the Community Facilities District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2014 Bonds.

**Section 12. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Trustee, the Dissemination Agent, the Participating Underwriter and the Owners and Beneficial Owners from time to time of the Series 2014 Bonds, and shall create no rights in any other person or entity.

**Section 13. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**IN WITNESS WHEREOF**, the parties hereto have executed this Disclosure Agreement as of the date first above written.

**COMMUNITY FACILITIES DISTRICT NO.  
03-1 (NEWPORT ROAD) OF THE COUNTY  
OF RIVERSIDE**

By: \_\_\_\_\_

**WELLS FARGO BANK, NATIONAL  
ASSOCIATION, AS TRUSTEE**

By: \_\_\_\_\_  
Authorized Signatory

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 03-1 (Newport Road) of the County of Riverside

Name of Bond Issue: Community Facilities District No. 03-1 (Newport Road) of the County of Riverside Special Tax Refunding Bonds, Series 2014

Date of Issuance: December 16, 2014

NOTICE IS HEREBY GIVEN that Community Facilities District No. 03-1 (Newport Road) of the County of Riverside (the "Community Facilities District") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of December 1, 2014, by and between the Community Facilities District and Wells Fargo Bank, National Association, as Trustee. [The Community Facilities District anticipates that the Annual Report will be filed by \_\_\_\_\_, 20\_\_.]

Dated: \_\_\_\_\_

Wells Fargo Bank, National Association, as Trustee, on behalf of the Community Facilities District No. 03-1 (Newport Road) of the County of Riverside

cc: Community Facilities District No. 03-1  
(Newport Road) of the County of Riverside

**APPENDIX E**

**FORM OF OPINION OF BOND COUNSEL**

*Upon the delivery of the Series 2014 Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Community Facilities District, proposes to render its final approving opinion with respect to the Series 2014 Bonds in substantially the following form:*

[Delivery Date]

Community Facilities District No. 03-1 (Newport Road)  
of the County of Riverside  
Riverside, California

Community Facilities District No. 03-1  
(Newport Road)  
of the County of Riverside  
Special Tax Refunding Bonds, Series 2014  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to Community Facilities District No. 03-1 (Newport Road) of the County of Riverside (the “Community Facilities District”) in connection with the issuance by the Community Facilities District of its Community Facilities District No. 03-1 (Newport Road) of the County of Riverside Special Tax Refunding Bonds, Series 2014 (the “Bonds”), in the aggregate principal amount of \$14,390,000, pursuant to the Indenture, dated as of December 1, 2014 (the “Indenture”), by and between the Community Facilities District and Wells Fargo Bank, National Association, as trustee (the “Trustee”). Capitalized undefined terms used herein have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate, opinions of counsel to the Community Facilities District and the Trustee, certificates of the Community Facilities District, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Community Facilities District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their

enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against governmental entities such as the Community Facilities District in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the plans, specifications, maps, financial report or other engineering or financial details of the proceedings, or upon the Rate and Method or the validity of the Special Tax levied upon any individual parcel. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special obligations of the Community Facilities District, payable, as provided in the Indenture, solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture.

2. The Indenture has been duly executed and delivered by, and constitutes a valid and binding obligation of the Community Facilities District. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Indenture creates a valid pledge of, lien on and security interest in all of the amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

## APPENDIX F

### BOOK ENTRY ONLY SYSTEM

*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. Reference made to [www.dtcc.com](http://www.dtcc.com) is presented as a link for additional information regarding DTC and is not a part of this Official Statement.*

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 certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal of such issue.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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 an issue 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).

Redemption proceeds, distributions, and dividend 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 Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the Community Facilities District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed



satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

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 Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical Bonds are required to be printed and delivered.

The Community Facilities District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Community Facilities District believes to be reliable, but the Community Facilities District takes no responsibility for the accuracy thereof.

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FOR ADDITIONAL BOOKS: [ELABRA.COM](http://ELABRA.COM) OR (888) 935-2272