

**BOND INDENTURE**

Between

**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)**

**and**

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,  
as Fiscal Agent**

**Relating To**

**\$ \_\_\_\_\_  
CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

**Dated as of July 1, 2013**

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## BOND INDENTURE

THIS BOND INDENTURE (the "Indenture") dated as of July 1, 2013, by and between City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) (the "District") and The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent (the "Fiscal Agent"), governs the terms of the City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Special Tax Refunding Bonds, Series 2013 (the "Bonds") issued in accordance herewith.

### RECITALS:

WHEREAS, the City Council (the "City Council") of the City of Escondido (the "City"), located in San Diego County, California (hereinafter sometimes referred to as the "legislative body of the District"), has heretofore undertaken proceedings and declared the necessity to issue bonds on behalf of the District pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the "Act"); and

WHEREAS, the District has previously issued its City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) 2001 Special Tax Bonds (the "Refunded Bonds") in the aggregate principal amount of \$3,085,000 pursuant to that certain Bond Indenture, dated as of October 1, 2001 (the "Prior Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as successor in interest to BNY Western Trust Company, as fiscal agent (the "Prior Fiscal Agent"), and the Refunded Bonds are the only bonds of the District outstanding; and

WHEREAS, the legislative body of the District intends to accomplish the refunding of the Refunded Bonds through the issuance of bonds in an aggregate principal amount of \$\_\_\_\_\_ designated as the "City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Special Tax Refunding Bonds, Series 2013" (the "Bonds") and to fund a deposit to the Reserve Account and pay certain costs related to the issuance of the Bonds; and

WHEREAS, the District has determined that the issuance of the Bonds will provide significant public benefits by reducing the total amount of Special Taxes to be levied for debt service on indebtedness of the District; and

WHEREAS, the Bonds are to be issued and sold in accordance with Resolution No. 2013-\_\_\_ of the City Council, acting in its capacity as the legislative body of the District, adopted on June 19, 2013, and with this Indenture; and

WHEREAS, the District has determined that all requirements of the Act for the issuance of the Bonds have been satisfied; and

WHEREAS, upon their issuance, the Bonds will be the only outstanding bonds of the District, and the District is covenanting herein not to issue any future obligation or security having a lien, charge, pledge or encumbrance on a parity with the Bonds upon the Special Taxes, except to refund the Bonds;

NOW, THEREFORE, in order to establish the terms and conditions upon and subject to which the Bonds are to be issued, and in consideration of the premises and of the mutual covenants contained herein and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the District does hereby covenant and agree, for the benefit of the Owners of the Bonds which may be issued hereunder from time to time, as follows:

## ARTICLE I

### DEFINITIONS

Section 1.1 Definitions. Unless the context otherwise requires, the following terms shall have the following meanings:

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

“Administrative Expense Requirement” means the amount of \$20,000, which amount shall escalate by 2% in each Bond Year, commencing in the Bond Year beginning on September 2, 2013, provided that the District may, in its sole discretion, fund additional Administrative Expenses, without limitation, from any other funds available to the District.

“Administrative Expenses” means the administrative costs with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Fiscal Agent and any Special Tax Consultant to the District, any costs related to the District’s compliance with state and federal laws requiring continuing disclosure of information concerning the Bonds and the District, and any other costs otherwise incurred by City staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District hereunder.

“Alternative Penalty Account” means the account by that name in the Rebate Fund created pursuant to Section 3.1 hereof.

“Annual Debt Service” means the principal amount of any Outstanding Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds in such Bond Year, if the Bonds are retired as scheduled.

“Authorized Investments” means any of the following investments, if and to the extent the same are at the time legal for investment of the District’s funds (provided that the Fiscal Agent is entitled to rely upon investment direction from the District as a conclusive certification to the Fiscal Agent that such investment is authorized under the laws of the State):

(a) Federal Securities;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided that such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- U.S. Export-Import Bank - Direct obligations or fully guaranteed certificates of beneficial ownership;
- Farmers Home Administration - Certificates of beneficial ownership;
- General Service Administration - Participation Certificates;
- Government National Mortgage Association (GNMA or "Ginnie Mae") GNMA - guaranteed mortgage-backed bonds, GNMA - guaranteed pass-through obligations;
- U.S. Maritime Administration - Guaranteed Title XI financing;
- U.S. Department of Housing and Urban Development (HUD), Project Notes, Local Authority Bonds, New Communities Debentures - U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds;
- Federal Housing Administration Debentures;

(c) Senior debt obligations rated "AAA" by Standard & Poor's and "Aaa" by Moody's issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;

(d) Money market funds registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and having a rating by Standard & Poor's of "AAAm-G" or better, including such funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services or for which the Fiscal Agent or an affiliate thereof serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that: (I) the Fiscal Agent or an affiliate thereof receives fees from funds for services rendered; (II) the Fiscal Agent collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds; and (III) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Fiscal Agent or an affiliate thereof;

(e) Certificates of deposit secured at all times by collateral described in clauses (a) and (b) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party or the Fiscal Agent and the Fiscal Agent on behalf of the Bond Owners must have a perfected first security interest in the collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by Federal Deposit Insurance Corporation;

(g) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (i.e., ratings on holding companies are not considered as the rating of the bank);

(h) Commercial Paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by Standard & Poor's;

(i) Repurchase agreements with financial institutions insured by the Federal Deposit Insurance Corporation; or any broker-dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC); or a bank or other financial institution rated in the top two rating categories by one or more Rating Agencies; provided that: (i) the over-collateralization is at one hundred two percent (102%), computed weekly, consisting of such securities as described in this section, items (a) through (c); (ii) a third party custodian, the Fiscal Agent or the Federal Reserve Bank shall have possession of such obligations; (iii) the Fiscal Agent shall have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent to liquidate the collateral;

(j) County or State-administered pooled investment funds in which the District is statutorily permitted or required to invest to the extent that any amounts are deposited by the Fiscal Agent into such funds and provided that the Fiscal Agent shall have direct access to such fund; and

(k) The local agency investment pool maintained by the San Diego County Treasurer's Money Market Investment Pool to the extent that deposits and withdrawals may be made directly by and in the name of the Fiscal Agent.

"Bond Counsel" means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

"Bond Fund" means the fund by that name created pursuant to Section 3.1.

"Bond Register" means the books which the Fiscal Agent shall keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds shall be recorded.

"Bond Year" means the twelve (12) month period commencing on September 2 of each year and ending on September 1 of the following year, and for the first Bond Year commencing on the Delivery Date and ending on September 1, 2013.

"Bondowner" or "Owner" means the person or persons in whose name or names any Bond or Parity Bond is registered.

"Bonds" means the City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Special Tax Refunding Bonds, Series 2013 issued in the original principal amount of \$ \_\_\_\_\_:

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

"Certificate of an Authorized Representative" means a written certificate executed by the Mayor of the City, the City Manager of the City, the Finance Director of the City, the City Clerk, or his or her written designee.

“City” means the City of Escondido, California.

“Code” means the Internal Revenue Code of 1986, together with any amendments thereto.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of July 1, 2013, by and between the District and Special District Financing & Administration, as dissemination agent thereunder.

“Corporate Trust Office” means the corporate trust office of the Fiscal Agent at 400 South Hope Street, Suite 400, Los Angeles, California 90071, Attention: Corporate Trust Services, Ref: City of Escondido, or such other office designated by the Fiscal Agent from time to time.

“Costs of Issuance” means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Fiscal Agent, legal fees and expenses, costs of printing the Bonds and the preliminary and final Official Statements, fees of the appraiser, financial consultants, special tax consultants and other fees and expenses set forth in a Certificate of an Authorized Representative.

“Costs of Issuance Fund” means the fund by that name created pursuant to Section 3.1.

“County” means the County of San Diego, California.

“Debt Service Account” means the account by that name in the Bond Fund created pursuant to Section 3.1 hereof.

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

“Depository” means the securities depository acting as Depository under Section 2.12 hereof.

“Dissemination Agent” means Special District Financing & Administration, and any successor thereto.

“District” means City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) established pursuant to the Act and the Resolution of Formation.

“Escrow Agreement” means the Escrow Agreement (2001 Bonds), dated as of July 1, 2013, by and between the Escrow Bank and the District.

“Escrow Bank” means The Bank of New York Mellon Trust Company, N.A.

“Escrow Fund” means the Escrow Fund established under the Escrow Agreement.

“Federal Securities” means any of the following:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in clause (2) below);

(2) Direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of the Treasury of the United States of America; or

(3) Obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Fiscal Agent” means The Bank of New York Mellon Trust Company, N.A., and any successor thereto.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next following June 30.

“Gross Taxes” means the amount of all Special Taxes received by the District from the Treasurer, together with the net proceeds collected from the sale of property pursuant to the foreclosure provisions of this Indenture, penalties and interest received by the District in connection with the delinquency of such Special Taxes and proceeds from any security for payment of Special Taxes taken in lieu of foreclosure after payment of administrative costs and attorneys’ fees payable from such proceeds to the extent not previously paid as an Administrative Expense.

“Indenture” means this Bond Indenture, together with any Supplemental Indenture approved pursuant to Article 6 hereof.

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

- (a) is in fact independent and not under the domination of the District or the City;
- (b) does not have any substantial interest, direct or indirect, in the District or the City; and
- (c) is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District or the City.

“Interest Payment Date” means each March 1 and September 1, commencing March 1, 2014; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

- (1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and
- (2) the interest payable on the aggregate principal amount of the Bonds Outstanding in such Bond Year if the Bonds are retired as scheduled.

“Moody’s” means “Moody’s Investor’s Service, Inc., or any successor thereto.

“Net Taxes” means Gross Taxes minus amounts set aside to pay the Administrative Expense Requirement.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.12 hereof.

“Ordinance” means, Resolution and Ordinance No. 2000-30 adopted by the legislative body of the District on October 4, 2000 providing for the levying of the Special Tax.

“Outstanding” or “Outstanding Bonds and Parity Bonds” means all Bonds and Parity Bonds theretofore issued by the District, except:

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with Section 10.1 hereof;

(2) Bonds and Parity Bonds for payment or redemption of which moneys shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in this Indenture or any applicable Supplemental Indenture for Parity Bonds; and

(3) Bonds and Parity Bonds which have been surrendered to the Fiscal Agent for transfer or exchange pursuant to Section 2.9 hereof or for which a replacement has been issued pursuant to Section 2.10 hereof.

Upon request of the Fiscal Agent, the District shall specify in a Certificate of an Authorized Representative those Bonds that are not Outstanding and the Fiscal Agent may conclusively rely on such Certificate.

“Parity Bonds” means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in this Indenture or any Supplemental Indenture, rank on a parity with the Bonds.

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

“Prior Fiscal Agent” means The Bank of New York Mellon Trust Company, N.A., as successor in interest to BNY Western Trust Company, as fiscal agent under the Prior Indenture.

“Prior Indenture” means the Bond Indenture, dated as of October 1, 2001, by and between the District and the Prior Fiscal Agent, pursuant to which the Refunded Bonds were issued.

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

“Rate and Method of Apportionment” means that certain Rate and Method of Apportionment of Special Taxes approved by the City Council of the City, acting as the legislative body of the District, as it may be amended from time to time in accordance with the Act and this Indenture.

“Rebatable Arbitrage” means the amount (determinable as of the last day of each fifth Bond Year and upon retirement of the Bonds) of arbitrage profits payable to the United States at all times and in the amounts specified in Section 148(f) of the Code and any applicable Regulations.

“Rebate Account” means the account by that name in the Rebate Fund created pursuant to Section 3.1 hereof.

“Rebate Fund” means the fund by that name created pursuant to Section 3.1.

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

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

“Redemption Account” means the account by that name in the Bond Fund created pursuant to Section 3.1 hereof.

“Refunded Bonds” means the City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) 2001 Special Tax Bonds issued pursuant to the Prior Indenture.

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

“Representation Letter” shall mean the Blanket Letter of Representations from the District to the Depository as described in Section 2.12 hereof.

“Reserve Account” means the account by that name in the Bond Fund created pursuant to Section 3.1 hereof.

“Reserve Requirement” means that amount as of any date of calculation equal to the lesser of: (i) 10% of the initial principal amount of the Bonds and Parity Bonds, if any; (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds.

“Resolution of Formation” means, Resolution No. 2000-241R adopted by the City Council of the City on September 20, 2000, pursuant to which the City formed the District.

“Resolution of Issuance” means Resolution No. 2013-\_\_ duly adopted by the City Council of the City, acting in its capacity as the legislative body of the District, on June 19, 2013, approving this Indenture, and any supplemental bond indenture approved pursuant to Article VI hereof.

“Sinking Fund Payment” means any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

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

“Special Taxes” means the taxes authorized to be levied by the District in accordance with the Ordinance, the Resolution of Formation, the Act and the Rate and Method of Apportionment.

“Special Tax Fund” means the fund by that name created pursuant to Section 3.1.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

“State” means the State of California.

“Supplemental Indenture” means any supplemental indenture amending or supplementing this Indenture.

“Surplus Fund” means the fund by that name created pursuant to Section 3.1.

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

“Term Bonds” means any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

“Taxable Property” means the area within the boundaries of the District which is not exempt from application of the Special Tax by operation of law or the Rate and Method of Apportionment.

“Treasurer” means the Treasurer-Tax Collector of the County of San Diego.

## ARTICLE II

### GENERAL AUTHORIZATION AND BOND TERMS

Section 2.1 Amount, Issuance, Purpose and Nature of Bonds and Parity Bonds. Under and pursuant to the Act, the Bonds in the aggregate principal amount of \$ \_\_\_\_\_ shall be issued for the purposes of refunding the Refunded Bonds, funding the Reserve Account and paying Costs of Issuance. The Bonds and any Parity Bonds shall be and are limited obligations of the District and shall be payable as to the principal thereof and interest thereon and any premiums upon the redemption thereof solely from the Net Taxes and the other amounts in the funds created hereunder, other than amounts in the Rebate Fund.

Section 2.2 Type and Nature of Bonds and Parity Bonds. Neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the City or general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Bond Fund, as more fully described herein. The District’s limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity Bonds from Net Taxes and amounts in the Bond Fund is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or

the City or the forfeiture of any of their property. The principal of and interest on the Bonds and any Parity Bonds and premiums upon the redemption thereof, if any, are not a debt of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds and any Parity Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District's property, or upon any of its income, receipts or revenues except the Net Taxes and other amounts in the Bond Fund which are, under the terms of this Indenture and the Act, set aside for and irrevocably pledged to the payment of the Bonds, any Parity Bonds and interest thereon, and neither the members of the legislative body of the District nor any persons executing the Bonds or any Parity Bonds are liable personally on the Bonds or any Parity Bonds by reason of their issuance.

Notwithstanding anything to the contrary contained in this Indenture, the District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds or Parity Bonds or for the performance of any covenants contained herein. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Section 2.3 Equality of Bonds and Parity Bonds and Pledge of Net Taxes. Pursuant to the Act and this Indenture, the Bonds and any Parity Bonds shall be equally payable from the Net Taxes and other amounts in the Bond Fund, without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption thereof shall be exclusively paid from the Net Taxes and other amounts in the Bond Fund, which are hereby set aside for and irrevocably pledged to the payment of the Bonds and any Parity Bonds. Such pledge constitutes a first lien on the Net Taxes and other amounts in the Bond Fund. Amounts in the Bond Fund shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by this Indenture or any Supplemental Indenture. Notwithstanding any provision contained in this Indenture to the contrary, Net Taxes deposited in the Rebate Fund shall no longer be considered to be pledged to the Bonds or any Parity Bonds, and neither the Rebate Fund nor the Costs of Issuance Fund shall be construed as a trust fund held for the benefit of the Owners.

Nothing in this Indenture or any Supplemental Indenture shall preclude: (i) subject to the limitations contained hereunder, the redemption prior to maturity of any Bonds or Parity Bonds subject to call and redemption and payment of said Bonds or Parity Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as hereafter amended, or under any other law of the State; or (ii) the issuance, subject to the limitations contained herein, of Parity Bonds which shall be payable from Net Taxes.

Section 2.4 Description of Bonds; Interest Rates. The Bonds and any Parity Bonds shall be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds and any Parity Bonds of each issue shall be numbered as desired by the Fiscal Agent. The Bonds shall be designated "CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01 (HIDDEN TRAILS) SPECIAL TAX REFUNDING BONDS, SERIES 2013." The Bonds shall be dated as of their Delivery Date and shall mature and be payable on September 1 in the years and in the aggregate principal amounts and shall be subject to and shall bear interest at the rates set forth in the table below payable on March 1, 2014 and each Interest Payment Date thereafter:

<i>Period Ending September 1</i>	<i>Principal</i>	<i>Interest Rate</i>
2014	\$	%
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
2030		
2031		

Interest shall be payable on each Bond and Parity Bond from the date established in accordance with Section 2.5 below on each Interest Payment Date thereafter until the principal sum of that Bond or Parity Bond has been paid; provided, however, that if at the maturity date of any Bond or Parity Bond (or if the same is redeemable and shall be duly called for redemption, then at the date fixed for redemption) funds are available for the payment or redemption thereof in full, in accordance with the terms of this Indenture, such Bonds and Parity Bonds shall then cease to bear interest. Interest due on the Bonds and Parity Bonds shall be calculated on the basis of a 360 day year comprised of twelve 30 day months.

Section 2.5 Place and Form of Payment. The Bonds and Parity Bonds shall be payable both as to principal and interest, and as to any premiums upon the redemption thereof, in lawful money of the United States of America. The principal of the Bonds and Parity Bonds and any premiums due upon the redemption thereof shall be payable upon presentation and surrender thereof at the Corporate Trust Office, or at the designated office of any successor Fiscal Agent. Interest on any Bond or Parity Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that Bond or Parity Bond, unless: (i) such date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication; (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of such Bond or Parity Bond, in which event interest shall be payable from the dated date of such Bond or Parity Bond, as applicable; provided, however, that if at the time of authentication of such Bond or Parity Bond, interest is in default, interest on that Bond or Parity Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment on that Bond or Parity Bond, interest on that Bond or Parity Bond shall be payable from its dated date. Interest on any Bond or Parity Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond or Parity Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Fiscal Agent

mailed by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the Bond Register. In addition, upon a request in writing received by the Fiscal Agent on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of the Bonds or of any issue of Parity Bonds, payment shall be made on the Interest Payment Date by wire transfer in immediately available funds to an account designated by such Owner.

Section 2.6 Form of Bonds and Parity Bonds. The definitive Bonds may be printed from steel engraved or lithographic plates or may be typewritten. The Bonds and the certificate of authentication shall be substantially in the form attached hereto as Exhibit A, which form is hereby approved and adopted as the form of such Bonds and of the certificate of authentication. Each issue of Parity Bonds and the certificate of authentication therefor shall be in the form provided in the Supplemental Indenture for such issue of Parity Bonds.

Until definitive Bonds or Parity Bonds, as applicable, shall be prepared, the District may cause to be executed and delivered in lieu of such definitive Bonds or Parity Bonds temporary bonds in typed, printed, lithographed or engraved form and in fully registered form, subject to the same provisions, limitations and conditions as are applicable in the case of definitive Bonds or Parity Bonds, except that they may be in any denominations authorized by the District. Until exchanged for definitive Bonds or Parity Bonds, as applicable, any temporary bond shall be entitled and subject to the same benefits and provisions of this Indenture as definitive Bonds and Parity Bonds. If the District issues temporary Bonds or Parity Bonds, it shall execute and furnish definitive Bonds or Parity Bonds, as applicable, without unnecessary delay and thereupon any temporary Bond or Parity Bond may be surrendered to the Fiscal Agent at the Corporate Trust Office, without expense to the Owner, in exchange for a definitive Bond or Parity Bond of the same issue, maturity, interest rate and principal amount in any authorized denomination. All temporary Bonds or Parity Bonds so surrendered shall be cancelled by the Fiscal Agent and shall not be reissued.

Section 2.7 Execution and Authentication. The Bonds and Parity Bonds shall be signed on behalf of the District by the manual or facsimile signature of the Mayor of the City and countersigned by the manual or facsimile signature of the City Clerk, or any duly appointed deputy clerk, in their capacity as officers of the District and attested by the signature of the City Clerk. In case any one or more of the officers who shall have signed any of the Bonds or Parity Bonds shall cease to be such officer before the Bonds or Parity Bonds so signed have been authenticated and delivered by the Fiscal Agent (including new Bonds or Parity Bonds delivered pursuant to the provisions hereof with reference to the transfer and exchange of Bonds or Parity Bonds or to lost, stolen, destroyed or mutilated Bonds or Parity Bonds), such Bonds or Parity Bonds shall nevertheless be valid and may be authenticated and delivered as herein provided, and may be issued as if the person who signed such Bonds or Parity Bonds had not ceased to hold such office.

Only such Bonds as shall bear thereon such certificate of authentication in the form set forth in Exhibit A hereto shall be entitled to any right or benefit under this Indenture, and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Fiscal Agent.

Section 2.8 Bond Register. The Fiscal Agent will keep or cause to be kept, at the Corporate Trust Office, sufficient books for the registration and transfer of the Bonds and any Parity Bonds which shall be open to inspection by the District during all regular business hours upon reasonable prior notice, and, upon presentation for such purpose, the Fiscal Agent shall, under such

reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds and any Parity Bonds as herein provided.

The District and the Fiscal Agent may treat the Owner of any Bond or Parity Bond whose name appears on the Bond Register as the absolute Owner of that Bond or Parity Bond for any and all purposes, and the District and the Fiscal Agent shall not be affected by any notice to the contrary. The District and the Fiscal Agent may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Bondowner to give written notice to the Fiscal Agent of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Section 2.9 Registration of Exchange or Transfer. Subject to the limitations of the following paragraph, the registration of any Bond or Parity Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond or Parity Bond for cancellation at the Corporate Trust Office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney.

Bonds or Parity Bonds may be exchanged at the Corporate Trust Office for a like aggregate principal amount of Bonds or Parity Bonds for other authorized denominations of the same maturity and issue. The Fiscal Agent shall not collect from the Owner any charge for any new Bond or Parity Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds or Parity Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds or a new Parity Bond or Parity Bonds, as applicable, of the same issue and maturity, for a like aggregate principal amount; provided that the Fiscal Agent shall not be required to register transfers or make exchanges of: (i) Bonds or Parity Bonds for a period of 15 days next preceding the date of any selection of the Bonds or Parity Bonds to be redeemed; or (ii) any Bonds or Parity Bonds chosen for redemption.

Section 2.10 Mutilated, Lost, Destroyed or Stolen Bonds. If any Bond or Parity Bond shall become mutilated, the District, at the expense of the Bondowner, shall execute, and the Fiscal Agent shall authenticate and deliver, a new Bond or Parity Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond or Parity Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Fiscal Agent shall be cancelled by the Fiscal Agent pursuant to Section 10.1 hereof. If any Bond or Parity Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if any indemnity satisfactory to the Fiscal Agent shall be given, the District, at the expense of the Bondowner, shall execute and the Fiscal Agent shall authenticate and deliver, a new Bond or Parity Bond, as applicable, of like tenor, maturity and issue, numbered and dated as the Fiscal Agent shall determine in lieu of and in substitution for the Bond or Parity Bond so lost, destroyed or stolen. Any Bond or Parity Bond issued in lieu of any Bond or Parity Bond alleged to be mutilated, lost, destroyed or stolen shall be equally and proportionately entitled to the benefits hereof with all other Bonds and Parity Bonds issued hereunder. The Fiscal Agent shall not treat both the original Bond or Parity Bond and any replacement Bond or Parity Bond as being Outstanding for the purpose of determining the principal amount of Bonds or Parity Bonds which may be executed,

authenticated and delivered hereunder or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding hereunder, but both the original and replacement Bond or Parity Bond shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Fiscal Agent may make payment with respect to such Bonds or Parity Bonds upon receipt of indemnification satisfactory to the Fiscal Agent.

Section 2.11 Validity of Bonds and Parity Bonds. The validity of the authorization and issuance of the Bonds and any Parity Bonds shall not be affected in any way by any defect in any proceedings taken by the District, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

Section 2.12 Book-Entry System. The Bonds shall be initially issued in the form of a separate single fully-registered Bond for each maturity (which may be typewritten). Upon initial issuance, the ownership of each such Bond shall be registered in the Bond Register maintained by the Fiscal Agent in the name of the Nominee, as nominee of the Depository. Except hereinafter as provided, all of the Outstanding Bonds shall be registered in the Bond Register maintained by the Fiscal Agent in the name of the Nominee.

With respect to the Bonds registered in the name of the Nominee, the District and the Fiscal Agent shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the District and the Fiscal Agent 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 the Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond Register maintained by the Fiscal Agent, of any notice with respect to the Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in the Bonds to be redeemed in the event that the District redeems the Bonds in part; or (iv) the payment to any Participant or any other person, other than an Owner as shown in the Bond Register maintained by the Fiscal Agent, of any amount with respect to principal of, premium, if any, or interest on the Bonds. The District and the Fiscal Agent may treat and consider the person in whose name each Bond is registered in the Bond Register maintained by the Fiscal Agent as the absolute Owner of such Bond for the purpose of payment of principal, premium, if any, and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Fiscal Agent shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owner, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner shall receive a Bond evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to this Indenture. Upon delivery by the Depository to the Owner, Fiscal Agent and the District 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 herein with respect to Record Dates, the term "Nominee" in this Indenture shall refer to such nominee of the Depository.

In order to qualify the Bonds and any Parity Bonds that the District elects to register in the name of the Nominee for the Depository's book-entry system, the District shall execute and deliver the Representation Letter to the Depository concurrently with the issuance and delivery of the Bonds and any such Parity Bonds to their respective original purchasers. The execution and delivery of the Representation Letter shall not in any other way limit the provisions of this Section or in any other way impose upon the District any obligation whatsoever with respect to persons having interests in the Bonds or Parity Bonds other than the Owners. In a separate agreement, the Fiscal Agent shall have agreed to take all action necessary to ensure compliance with all representations of the District in the Representation Letter with respect to the Fiscal Agent at all times. In addition to the execution and delivery of the Representation Letter, the District shall take such other actions, not inconsistent with this Indenture, as are reasonably necessary to qualify the Bonds and any Parity Bonds for the Depository's book-entry program.

In the event that: (i) the Depository determines not to continue to act as securities depository for the Bonds; or (ii) the Depository shall no longer so act and gives notice to the Fiscal Agent of such determination, then the District will discontinue the book-entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully-registered Bond and Parity Bond for each of the issues and maturities of the Bonds and Parity Bonds, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace the Depository, then the Bonds and Parity Bonds shall no longer be restricted to being registered in the Bond Register in the name of the Nominee, but shall be registered in whatever name or names Owners transferring or exchanging Bonds and Parity Bonds shall designate, in accordance with the provisions of Section 2.9 of this Indenture.

Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond or Parity Bond is registered in the name of the Nominee, all payments with respect to principal of, premium, if any, and interest on such Bond or Parity Bond and all notices with respect to such Bond or Parity Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

The initial Depository under this Section shall be The Depository Trust Company, New York, New York ("DTC"). The initial Nominee shall be Cede & Co., as Nominee of DTC.

Section 2.13 Issuance of Parity Bonds. The District may at any time after the issuance and delivery of the Bonds hereunder issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued hereunder or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or Parity Bonds then outstanding.

ARTICLE III

CREATION OF FUNDS AND APPLICATION OF PROCEEDS AND NET TAXES

Section 3.1 Creation of Funds.

(a) There are hereby created the following funds and accounts, which shall be maintained by the Fiscal Agent:

(i) The City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Bond Fund (the "Bond Fund"), in which there shall be created a Debt Service Account, a Redemption Account and a Reserve Account;

(ii) The City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Rebate Fund (the "Rebate Fund") in which there shall be created a Rebate Account and an Alternative Penalty Account;

(iii) The City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Costs of Issuance Fund (the "Costs of Issuance Fund"); and

(iv) The City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Surplus Fund (the "Surplus Fund").

The amounts on deposit in the foregoing funds and accounts shall be held by the Fiscal Agent and the Fiscal Agent shall invest and disburse the amounts in such funds and accounts in accordance with the provisions of this Article III and shall disburse investment earnings thereon in accordance with the provisions of Section 3.10 hereof.

(b) There is hereby created the City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Special Tax Fund (the "Special Tax Fund"), which shall be maintained by the District.

Section 3.2 Disposition of Bond Proceeds.

(a) The proceeds of the sale of the Bonds shall be received by the Fiscal Agent on behalf of the District and deposited as follows:

(1) \$\_\_\_\_\_ shall be transferred to the Escrow Bank for deposit into the Escrow Fund pursuant to the terms of the Escrow Agreement, together with \$\_\_\_\_\_ of moneys held by the Prior Fiscal Agent under the Prior Indenture, which the District shall direct the Prior Fiscal Agent to transfer to the Escrow Agent for deposit in the Escrow Fund pursuant to the Escrow Agreement;

(2) \$\_\_\_\_\_, representing Costs of Issuance with respect to the Bonds, shall be deposited in the Costs of Issuance Fund, and such amount shall be applied to the payment of Costs of Issuance for the Bonds; and

(3) \$\_\_\_\_\_ shall be deposited in the Reserve Account of the Bond Fund.

The Fiscal Agent may, in its discretion, establish temporary funds or accounts in its books and records to facilitate such deposits or transfers.

Section 3.3 Deposits to and Disbursements from Special Tax Fund and Bond Fund. The District covenants to and shall, on each date on which Special Taxes are apportioned to the District, deposit the Special Taxes in the Special Tax Fund. As the Special Taxes are received each Fiscal Year, the District may disburse from the Special Tax Fund an amount up to the Administrative Expense Requirement to pay Administrative Expenses. No other amounts shall be disbursed from the Special Tax Fund in a Fiscal Year until the District has transferred to the Fiscal Agent an amount sufficient: (i) to increase the amount on deposit in the Debt Service Account of the Bond Fund to an amount not less than the interest and principal due on the Bonds and Parity Bonds on the March 1 in such Fiscal Year and the September 1 of the following Fiscal Year (the “Required Debt Service Deposit”); and (ii) to maintain the balance in the Reserve Account of the Bond Fund in an amount equal to the Reserve Requirement. Not later than the last day of each month in which Special Taxes are apportioned to the District, the District shall transfer from the Special Tax Fund to the Fiscal Agent for deposit in the Bond Fund all Net Taxes in the Special Tax Fund until the amount in the Debt Service Account of the Bond Fund equals the Required Debt Service Deposit and the balance in the Reserve Account of the Bond Fund equals the Reserve Requirement. Except for Special Tax Prepayments, which shall be deposited in the Redemption Account of the Bond Fund, the Fiscal Agent shall, on each date on which the Net Taxes are received from the District, deposit the Net Taxes in the Bond Fund to be held in trust for the Owners. The Fiscal Agent shall transfer the Special Taxes on deposit in the Bond Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- (1) The Debt Service Account of the Bond Fund;
- (2) The Reserve Account of the Bond Fund;
- (3) The Rebate Fund; and
- (4) The Surplus Fund.

At the maturity of all Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Fiscal Agent have been paid in full, moneys in the Bond Fund and any accounts therein may be transferred to the District for use by the District for any lawful purpose.

Section 3.4 Debt Service Account of the Bond Fund. The principal or Sinking Fund Payment of, and interest on, the Bonds and Parity Bonds until maturity shall be paid by the Fiscal Agent from amounts transferred to the Debt Service Account of the Bond Fund. For the purpose of assuring that the payment of principal or Sinking Fund Payment of, and interest on, the Bonds and Parity Bonds will be made when due, the Fiscal Agent shall transfer from the Bond Fund to the Debt Service Account Net Taxes as received in each Fiscal Year until the amount in the Debt Service Account equals the Required Debt Service Deposit for such Fiscal Year. Moneys in the Debt Service Account shall be used for the payment of the interest, principal or Sinking Fund Payment of the Bonds and Parity Bonds as the same become due.

Section 3.5 Redemption Account of the Bond Fund.

(a) All Special Tax Prepayments shall be deposited to the Redemption Account of the Bond Fund. After making the deposit to the Debt Service Account of the Bond Fund pursuant to Section 3.4 above and in accordance with the District's election to call Bonds or Parity Bonds for optional redemption as set forth in Section 4.1 hereof or any Supplemental Indenture, the Fiscal Agent shall transfer from the Bond Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal of and interest on the Bonds called for redemption, and the premiums payable as provided in Section 4.1 hereof or any Supplemental Indenture on the Bonds or Parity Bonds called for optional redemption one (1) Business Day prior to the redemption date; provided, however, that Net Taxes may be applied to optionally redeem Bonds or Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(b) Special Tax Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to Section 4.1(c) hereof for the use of such Special Tax Prepayments to the payment of the principal of, premium, if any, and interest on the Bonds and Parity Bonds to be redeemed with such Special Tax Prepayments.

(c) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds; provided, however, that in lieu or partially in lieu of such call and redemption, upon receipt by the Fiscal Agent of written direction of the District to purchase Bonds, moneys deposited in the Redemption Account may be used to purchase Outstanding Bonds or Parity Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, or, in the case of purchases to be made from funds to be applied to a redemption pursuant to Section 4.1, par plus accrued interest, plus premium, if any, in the case of moneys set aside for an optional redemption. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Bond Fund for the payment of interest on the next following Interest Payment Date.

Section 3.6 Reserve Account of the Bond Fund. There shall be maintained in the Reserve Account of the Bond Fund an amount equal to the Reserve Requirement.

Moneys in the Reserve Account shall be used solely for the purposes of: (i) paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Debt Service Account of the Bond Fund are insufficient therefor; and (ii) making any required transfer to the Rebate Fund pursuant to Section 3.7 upon written direction from the District; provided, however, that amounts in the Reserve Account may be applied to pay the principal and interest due on any Bonds or Parity Bonds in the final Bond Year in which any Bonds or Parity Bonds are Outstanding. If the amounts in the Debt Service Account of the Bond Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds and any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw from the Reserve Account for deposit in the Debt Service Account of the Bond Fund or the Rebate Fund, as applicable, moneys necessary for such purposes. Following any transfer to the Debt Service Account of the

Bond Fund or to the Rebate Fund as described above, the District shall then take the steps necessary to cause to be deposited to the Reserve Account the amount needed to replenish the Reserve Account to the Reserve Requirement by transferring such amount from the Special Tax Fund or, if the District so elects, by including such amount in the next annual Special Tax levy to the extent of the permitted maximum Special Tax rates.

Notwithstanding anything herein to the contrary, whenever moneys are withdrawn from the Reserve Account, after making the required transfers pursuant to Sections 3.4 and 3.5 above, the Fiscal Agent shall transfer to the Reserve Account from available moneys in the Bond Fund the amount needed to restore the amount of such account to the Reserve Requirement. Moneys in the Bond Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Debt Service Account of the Bond Fund. In no event shall amounts in the Reserve Account be used to pay fees or expenses of the Fiscal Agent or its counsel.

In connection with a redemption of Bonds pursuant to Section 4.1(a) or (c), or a defeasance of Bonds in accordance with Section 9.1 hereof, amounts in the Reserve Account shall be applied to such redemption or defeasance so long as the amount on deposit in the Reserve Account following such redemption or any partial defeasance equals the Reserve Requirement. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to this Indenture to partially defease Bonds, and the Fiscal Agent shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

Notwithstanding any provision herein to the contrary, moneys in the Reserve Account in excess of the Reserve Requirement shall be withdrawn from the Reserve Account on the Business Day before each Interest Payment Date and transferred to the Debt Service Account to be applied to the interest on the Bonds on the next Interest Payment Date.

### Section 3.7 Rebate Fund.

(a) The Fiscal Agent shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. The District shall cause to be deposited in the Rebate Fund such amounts as required under the Tax Certificate. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Fiscal Agent in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by this Section 3.7 and the Tax Certificate.

Without limiting the generality of the foregoing, the District agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Regulations as may be applicable to the Bonds from time to time, which the District covenants to pay or cause to be paid to the United States at the times and in the amounts determined under the Tax Certificate. The Fiscal Agent agrees to comply with all instructions given to it by the District in accordance with this covenant. The Fiscal Agent shall conclusively be deemed to have complied with the provisions of this Section 3.7 if it follows the instructions of the District and shall not be required to take any actions hereunder in the absence of instructions from the District.

(b) Disposition of Unexpended Funds. Any funds remaining in the Accounts of the Rebate Fund with respect to the Bonds or Parity Bonds after payment in full of such issue and after making the payments required to comply with this Section 3.7 and the Tax Certificate may be withdrawn by the Fiscal Agent at the written direction of the District and utilized in any manner by the District.

(c) Survival of Defeasance and Final Payment. Notwithstanding anything in this Section or this Indenture to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance and final payment of the Bonds or Parity Bonds.

(d) Amendment Without Consent of Owners. This Section 3.7 may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or Parity Bonds issued on a tax exempt basis. Notwithstanding any provision of this Section, if the District shall provide to the Fiscal Agent an opinion of a nationally recognized bond or tax counsel that any specified action required under this Section 3.7 is no longer required or that some further or different action is required to maintain the tax-exempt status of interest on the Bonds or Parity Bonds, the Fiscal Agent and the District may conclusively rely on such opinion in complying with the requirements of this Section, and the covenants hereunder shall be deemed to be modified to that extent.

#### Section 3.8 Costs of Issuance Fund.

(a) The moneys in the Costs of Issuance Fund shall be applied exclusively to pay the Costs of Issuance for the Bonds. Amounts for Costs of Issuance shall be disbursed from the Costs of Issuance Fund by the Fiscal Agent only upon receipt of a sequentially numbered written requisition, substantially in the form of the Certificate of an Authorized Representative attached hereto as Exhibit B, or such other person as is designated in writing to the Fiscal Agent by the legislative body of the District. Each such Certificate of an Authorized Representative shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall have no duty to confirm the accuracy of such facts.

(b) Upon the receipt of a Certificate of an Authorized Representative that all or a specified portion of the amount remaining in the Costs of Issuance Fund is no longer needed to pay Costs of Issuance, the Fiscal Agent shall transfer all or such specified portion of the moneys remaining on deposit in such account to the Debt Service Account of the Bond Fund.

Section 3.9 Surplus Fund. After making the transfers required by Sections 3.4, 3.5, 3.6 and 3.7 hereof, as soon as practicable after each September 1, and in any event prior to each October 1, the Fiscal Agent shall transfer all remaining amounts in the Bond Fund (other than the Reserve Account) to the Surplus Fund, unless on or prior to such date, it has received a Certificate of an Authorized Representative directing that certain amounts be retained in the Bond Fund because the District has included such amounts as being available in the Bond Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to Section 5.2(b) hereof. Moneys deposited in the Surplus Fund will be transferred by the Fiscal Agent at the direction of an Authorized Representative of the District: (i) to the Debt Service Account or the Redemption Account of the Bond Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds; (ii) to the Reserve Account of the Bond Fund

in order to replenish the Reserve Account to the Reserve Requirement; or (iii) to the District for any lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Fiscal Agent in a Certificate of an Authorized Representative and the Fiscal Agent will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested at the written direction of the District in Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes. Such amounts shall be disbursed as directed by an Authorized Representative.

Section 3.10 Investments. Moneys held in any of the Funds and Accounts under this Indenture shall be invested by the Fiscal Agent at the written direction of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds and Accounts. Any loss resulting from such Authorized Investments shall be charged to the Fund or Account from which such investment was made, and any investment earnings on a Fund or Account shall be applied as follows: (i) investment earnings on all amounts deposited in the Costs of Issuance Fund shall be deposited in that Fund; (ii) investment earnings on all amounts in the Rebate Fund shall be deposited in that Fund; (iii) investment earnings on all amounts deposited in the Reserve Account of the Bond Fund shall be used to satisfy the Reserve Requirement and any investment earnings not needed to satisfy the Reserve Requirement shall be withdrawn from the Reserve Account one (1) Business Day before each Interest Payment Date and transferred to the Debt Service Account of the Bond Fund as provided in Section 3.6 hereof; and (iv) all other investment earnings shall be deposited in the Debt Service Account of the Bond Fund. Moneys in the Funds and Accounts held under this Indenture may be invested by the Fiscal Agent, upon the written direction of the District, from time to time, in Authorized Investments for which written direction shall be made in accordance with the following restrictions:

(a) Moneys in the Accounts within the Costs of Issuance Fund shall be invested in Authorized Investments which will by their terms mature, as close as practicable to the date that the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Costs of Issuance Fund.

(b) Moneys in the Debt Service Account of the Bond Fund shall be invested only in Authorized Investments which will by their terms mature or are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(c) One-half of the amount in the Reserve Account of the Bond Fund may be invested only in Authorized Investments which mature not later than six (6) months from their date of purchase by the Fiscal Agent, and one-half of such amount shall be invested in Authorized

Investments which mature not more than two (2) years from the date of purchase by the Fiscal Agent; provided that such amounts may be invested in an investment or repurchase agreement so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with Section 3.4 hereof; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds to which such amounts relate.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (a) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates that such amounts are needed to be paid to the United States Government pursuant to Section 3.7 hereof.

The Fiscal Agent, at the direction of the District, shall sell, or present for redemption, any Authorized Investments so purchased whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof at least semiannually on or before each Interest Payment Date. In making any valuations hereunder, the Fiscal Agent may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything herein to the contrary, the Fiscal Agent shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of this Indenture.

The Fiscal Agent may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee for making such investment. The Fiscal Agent may sell at the best market price obtainable, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the Fund or Account to which such Authorized Investment is credited, and, subject to the provisions of Section 7.4, the Fiscal Agent shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the Fiscal Agent may commingle the funds and accounts established hereunder, but shall account for each separately. In the absence of written investment direction the Fiscal Agent shall invest solely in Authorized Investments set forth in clause (d) of the definition thereof.

The District acknowledges that regulations of the Comptroller of the Currency grant the District the right to receive brokerage confirmations of security transactions to be effected by the Fiscal Agent hereunder as they occur. The District specifically waives the right to receive such confirmations to the extent permitted by applicable law and agrees that it will instead receive periodic cash transaction statements which shall include detail for the investment transactions effected by the Fiscal Agent hereunder; provided, however, that the District retains its right to receive brokerage confirmation on any investment transaction requested by the District.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.1 Redemption of Bonds.

(a) Optional Redemption. The Bonds are subject, at the option of the District, to call and redemption from any available source of funds prior to their stated maturity on any date, as a whole or in part, and by lot, at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

(b) [Reserved].

(c) Special Mandatory Redemption from Special Tax Prepayments. The Bonds are subject to special mandatory redemption from Special Tax Prepayments as a whole, or in part on a pro rata basis among maturities, on any Interest Payment Date, and shall be redeemed by the Fiscal Agent, from Special Tax Prepayments deposited to the Redemption Account pursuant to Section 3.5(b), plus amounts transferred from the Reserve Account pursuant to Section 3.6, at the following redemption prices, expressed as a percentage of the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

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

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

Section 4.2 Selection of Bonds for Redemption. If less than all of the Bonds Outstanding are to be redeemed (except with respect to mandatory sinking fund redemption, in which case

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

Section 4.3 Notice of Redemption. When Bonds are to be called for redemption under Section 4.1, and in the case of an optional redemption or special mandatory redemption, if the Fiscal Agent has received the required notice from the District, the Fiscal Agent shall give notice, in the name and at the expense of the District, of the redemption of such Bonds. Such notice of redemption shall: (a) specify the serial numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds subject to redemption, or all of the Bonds of one maturity are to be redeemed, the serial numbers thereof need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be surrendered for redemption; and (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed. Such notice shall further state that on the date fixed for redemption, there shall become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon shall cease to accrue and be payable. At least 30 days but no more than 60 days prior to the redemption date, the Fiscal Agent shall mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register. The actual receipt by the Owner of any Bond of notice of such redemption shall not be a condition precedent thereto, and neither the failure to receive such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Fiscal Agent that notice of such redemption has been given as herein provided shall be conclusive as against all parties, and the Owner shall not be entitled to show that he or she failed to receive notice of such redemption.

With respect to any notice of optional redemption of the Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Fiscal Agent, on or prior to the date fixed for such redemption, of moneys sufficient to pay the principal of, premium if any, and interest on the Bonds to be redeemed and upon other conditions set forth therein and that, if such moneys shall not have been so received and such other conditions shall not have been satisfied, said notice shall be of no force and effect and the Fiscal Agent shall not be required to redeem such Bonds. If any condition stated in the redemption notice for an optional redemption shall not have been satisfied on or prior to the redemption date: (i) the redemption notice shall be of no force and effect; (ii) the District shall not be required to redeem such Bonds; (iii) the redemption shall not be made; and (iv) the Fiscal Agent shall within a reasonable time thereafter give notice to the persons in the manner in which the conditional redemption notice was given that such condition or conditions were not met and that the redemption was canceled.

In addition to the foregoing notices, further notice shall be given by the Fiscal Agent as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

Each further notice of redemption shall be sent not later than the date that notice of redemption is mailed to the Bondowners pursuant to the first paragraph of this Section by registered or certified mail or overnight delivery service to the Depository and to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds and Parity Bonds as determined by the Fiscal Agent and to one or more of the national information services that the Fiscal Agent determines are in the business of disseminating notice of redemption of obligations such as the Bonds and Parity Bonds.

Upon the payment of the redemption price of any Bonds and Parity Bonds being redeemed, each check or other transfer of funds issued for such purpose shall to the extent practicable bear the CUSIP number identifying, by issue and maturity, the Bonds and Parity Bonds being redeemed with the proceeds of such check or other transfer.

Section 4.4 Partial Redemption of Bonds. Upon surrender of any Bond to be redeemed in part only, the District shall execute and the Fiscal Agent shall authenticate and deliver to the Bondowner, at the expense of the District, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity.

Section 4.5 Effect of Notice and Availability of Redemption Money. Notice of redemption having been duly given, as provided in Section 4.3, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(a) The Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in this Indenture, anything in this Indenture or in the Bonds to the contrary notwithstanding;

(b) Upon presentation and surrender thereof at the Corporate Trust Office of the Fiscal Agent, the redemption price of such Bonds shall be paid to the Owners thereof;

(c) As of the redemption date, the Bonds, or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Bonds, or portions thereof, shall cease to bear further interest; and

(d) As of the date fixed for redemption, no Owner of any of the Bonds, or portions thereof so designated for redemption, shall be entitled to any of the benefits of this Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

## ARTICLE V

### COVENANTS AND WARRANTY

Section 5.1 Warranty. The District shall preserve and protect the security pledged hereunder to the Bonds and any Parity Bonds against all claims and demands of all persons.

Section 5.2 Covenants. So long as any of the Bonds or Parity Bonds issued hereunder are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the

provisions of the Act and this Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Bond Fund:

(a) Punctual Payment; Against Encumbrances. The District covenants that it will receive all Gross Taxes in trust and will deposit the Gross Taxes in the Special Tax Fund and disburse them only as provided in Section 3.3. The District shall have no beneficial right or interest in Net Taxes deposited with the Trustee except as provided by this Indenture. All such Gross Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth herein, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued hereunder, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and Parity Bonds and in accordance with this Indenture to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created hereunder will be made, all in strict conformity with the terms of the Bonds and Parity Bonds and this Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and of the Bonds and Parity Bonds issued hereunder.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Gross Taxes, except as provided in this Indenture, and (except as set forth herein) will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds. Nothing herein shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Special Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

(b) Levy and Collection of Special Tax. Subject to the maximum Special Tax rates, the District will comply with all requirements of the Act so as to assure the timely collection of the Special Taxes, including without limitation, the enforcement of delinquent Special Taxes.

On or before each June 1, commencing June 1, 2014, the Fiscal Agent shall provide a written notice to the District stating the amounts then on deposit in the various funds and accounts established by the Fiscal Agent pursuant to this Indenture. The receipt of such notice by the District shall in no way affect the obligations of the District under the following paragraphs. Upon receipt of a copy of such notice, the District shall communicate with the Treasurer or other appropriate official of the County to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year.

The District shall retain an Independent Financial Consultant to assist in the levy of the Special Taxes each Fiscal Year, commencing Fiscal Year 2013-14, in accordance with the Ordinance, such that the computation of the levy is complete before the final date on which the Treasurer will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the next secured tax roll. Upon the completion of the computation of the amounts of the levy, and approval by the legislative body of the District, the District shall prepare or cause to be

prepared, and shall transmit to the Treasurer, such data as the Treasurer requires to include the levy of the Special Taxes on the next secured tax roll.

The District shall fix and levy the amount of Special Taxes within the District required for the payment of principal of and interest on Outstanding Bonds and Parity Bonds becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Account for the Bonds and Parity Bonds, an amount equal to the estimated Administrative Expenses and any additional amounts necessary for expenses incurred in connection with administration or enforcement of delinquent Special Taxes. The District further covenants that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and Parity Bonds are Outstanding, including the initiation of proceedings under the Act to reduce the Maximum Special Tax rates on Developed Property below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Outstanding Bonds and Parity Bonds. For purposes of this covenant, the terms "Maximum Special Tax" and "Developed Property" have the meanings set forth in the Rate and Method of Apportionment.

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

The fees and expenses of the Independent Financial Consultant retained by the District to assist in computing the levy of the Special Taxes hereunder and any reconciliation of amounts levied to amount received, as well as the costs and expenses of the District (including a charge for District staff time) in conducting its duties hereunder, shall be Administrative Expenses hereunder.

(c) Commence Foreclosure Proceedings. Pursuant to Section 53356.1 of the Act, the District hereby covenants with and for the benefit of the owner of the Bonds and Parity Bonds that it will order, and cause to be commenced as hereinafter provided and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the Superior Court of the County to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following two paragraphs.

On or about July 1st of each Fiscal Year, the District shall compare the amount of Special Taxes theretofore levied in the District to the amount of Special Taxes theretofore received by the District, and:

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

(B) Aggregate Delinquencies. If the District determines that both: (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year; and (ii) the balance on deposit in the Reserve Account of the Bond Fund is either: (a) less than the Reserve Requirement; or (b) is anticipated to be less than the Reserve Requirement as a result of such Special Tax delinquencies, the District shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

Special Taxes collected as a result of a foreclosure proceeding shall be deposited in the Special Tax Fund and only inure to the benefit of the Bonds and Parity Bonds in the manner provided in Section 3.3 hereof.

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

(e) Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the improvements constructed with the proceeds of bonded indebtedness issued by the District, the levy of the Special Tax and the deposits to the Bond Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Owners of not less than ten percent (10%) of the principal amount of the Bonds or the Owners of not less than ten percent (10%) of the principal amount of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

(f) Federal Tax Covenants. Notwithstanding any other provision of this Indenture, absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis will not be adversely affected, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(1) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other moneys or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "private activity bonds" within the meaning of Section 141 of the Code.

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

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

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

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

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

(7) Other Tax-Exempt Issues. The District will not use proceeds of other tax-exempt securities to redeem any Bonds or Parity Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis.

(g) Covenants to Defend. The District covenants that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in Section 5.2(b) above or to limit the power of the District to levy the Special Taxes for the purposes set forth in Section 5.2(b) above, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(h) Limitation on Right to Tender Bonds. The District hereby covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Tax unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due.

(i) Continuing Disclosure Covenant. The District hereby covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Agreement. Notwithstanding any other provision of this Indenture, failure of the District to comply with its obligations under the Continuing Disclosure Agreement shall not be considered an event of default under this Indenture, and the sole remedy, in the event of any failure of the District to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

(j) Opinions. In the event that an opinion is rendered by Bond Counsel as provided herein from a firm other than the firm which rendered the Bond Counsel opinion at closing,

such subsequent opinion by Bond Counsel shall also include the conclusions set forth in numbered paragraphs [1, 2, 3 and 4] of the original Bond Counsel opinion.

(k) Reduction of Maximum Special Taxes. The District hereby finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District hereby determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in this Section 5.2(k) would interfere with the timely retirement of the Bonds and Parity Bonds. The District determines it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District hereby does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that: (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than the Administrative Expense Requirement plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; (ii) based on the current development plan for parcels within the District, such changes do not reduce the maximum Special Taxes expected to be levied on Developed Property upon the buildout of such parcels in each year after buildout to an amount which is less than the Administrative Expense Requirement plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds.

Notwithstanding the foregoing, the District may modify, alter or amend the Rate and Method of Apportionment in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property (as defined in the Rate and Method of Apportionment) below an amount equal to the sum of the Administrative Expense Requirement in the last Fiscal Year in which any Bonds or Parity Bonds are due plus an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Bonds and Parity Bonds Outstanding as of the date of such amendment;

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

## ARTICLE VI

### AMENDMENTS TO INDENTURE

Section 6.1 Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt Supplemental Indentures for any of the following purposes:

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

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

(c) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds then Outstanding;

(d) to modify, alter or amend the Rate and Method of Apportionment in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property (as defined in the Rate and Method of Apportionment) below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Bonds Outstanding as of the date of such amendment;

(e) to modify, alter, amend or supplement this Indenture in any other respect which is not materially adverse to the Bondowners; provided that any amendment or supplement to this Indenture which will affect the Fiscal Agent's duties or protections set forth hereunder shall be effective only upon written consent of the Fiscal Agent; or

(f) to issue Parity Bonds in accordance with Section 2.13 hereof.

Section 6.2 Supplemental Indentures or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures set forth in Section 6.1, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture; provided, however, that nothing herein shall permit, or be construed as permitting: (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond or Parity Bond over any

other Bond or Parity Bond; or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of this Section 6.2 shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The Fiscal Agent shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the Corporate Trust Office for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by this Section 6.2. Whenever at any time within one year after the date of the first mailing of such notice, the Fiscal Agent shall receive an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Fiscal Agent, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of this Section 6.2, this Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

Section 6.3 Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds. After the effective date of any action taken as hereinabove provided, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of his Bond or Parity Bond for the purpose at the Corporate Trust Office or at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds or Parity Bonds. If the District shall so determine, new Bonds or Parity Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity Bonds shall be exchanged at the Corporate Trust Office or at such additional offices as the Fiscal Agent may select and designate for that purpose, without cost to each

Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

## ARTICLE VII

### FISCAL AGENT

Section 7.1 Fiscal Agent. The Bank of New York Mellon Trust Company, N.A., having a Corporate Trust Office in Los Angeles, California, is hereby appointed Fiscal Agent for the District for the purpose of receiving all money which the District is required to deposit with the Fiscal Agent hereunder and to allocate, use and apply the same as provided in this Indenture. In the event that the District fails to deposit with the Fiscal Agent any amount due hereunder when due, the Fiscal Agent shall provide telephonic notice to the District and shall confirm the amount of such shortfall in writing to the extent that such amount is known to the Fiscal Agent.

The Fiscal Agent is hereby authorized to and shall mail by first class mail, postage prepaid, or pay by wire transfer as provided in Section 2.5 hereof, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Fiscal Agent is hereby authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds and to provide for the authentication of Bonds and Parity Bonds, all as provided in this Indenture, and shall perform all other duties assigned to or imposed on it as provided in this Indenture. The Fiscal Agent shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it. The Fiscal Agent shall deliver to the District a monthly accounting of the Funds and Accounts that it holds under this Indenture; provided, however, that the Fiscal Agent shall not be obligated to deliver such accounting for any Fund or Account that has a balance of zero. The Fiscal Agent may establish such Funds and Accounts as it deems necessary or appropriate to perform its obligations hereunder.

The Fiscal Agent is hereby authorized to redeem the Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Fiscal Agent shall cancel all Bonds upon payment thereof in accordance with the provisions of Section 10.1 hereof.

The District shall from time to time, subject to any agreement between the District and the Fiscal Agent then in force, pay to the Fiscal Agent compensation for its services, reimburse the Fiscal Agent for all of its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties hereunder, and indemnify and save the Fiscal Agent, its officers, directors, employees and agents, harmless from and against costs, claims, expenses and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties hereunder. The obligations of the District under this Section shall survive the discharge of the Bonds and the resignation or removal of the Fiscal Agent.

Section 7.2 Removal of Fiscal Agent. The District may at any time at its sole discretion remove the Fiscal Agent initially appointed, and any successor thereto, by delivering to the Fiscal Agent a written notice of its decision to remove the Fiscal Agent and may appoint a successor or successors thereto; provided that any such successor shall be a bank, banking association or trust

company having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Fiscal Agent. If any bank, banking association or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section 7.2, the combined capital and surplus of such bank, banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Section 7.3 Resignation of Fiscal Agent. The Fiscal Agent may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the Bond Register. Upon receiving such notice of resignation, the District shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent. If no appointment of a successor Fiscal Agent shall be made pursuant to the foregoing provisions of this Section within thirty (30) days after the Fiscal Agent shall have given to the District and the Owners written notice, the Fiscal Agent, at the expense of the District, or the District may apply to any court of competent jurisdiction to appoint a successor Fiscal Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Fiscal Agent, which successor shall be acceptable to the District.

Section 7.4 Liability of Fiscal Agent. The recitals of fact and all promises, covenants and agreements contained herein and in the Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Fiscal Agent assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of this Indenture, the Bonds, or any Parity Bonds and shall incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth herein, in the Bonds and any Parity Bonds, or in the certificate of authentication assigned to or imposed upon the Fiscal Agent. The Fiscal Agent shall be under no responsibility or duty with respect to the issuance of the Bonds or any Parity Bonds for value. The Fiscal Agent shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

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

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

Whenever in the administration of its duties under this Indenture the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate shall be full warrant to the

Fiscal Agent for any action taken or suffered under the provisions of this Indenture upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

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

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

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

Section 7.5 Merger or Consolidation. Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Fiscal Agent without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

## ARTICLE VIII

### EVENTS OF DEFAULT; REMEDIES

Section 8.1 Events of Default. Any one or more of the following events shall constitute an "Event of Default":

(a) Default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) Default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same shall become due and payable; or

(c) Except as described in clauses (a) or (b), default by the District in the observance of any of the agreements, conditions or covenants on its part contained in this Indenture, the Bonds or any Parity Bonds, which default shall have continued for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Fiscal Agent or the Owners of twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

Section 8.2 Remedies of Owners. Following the occurrence of an Event of Default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

(a) By mandamus or other suit or proceeding at law or in equity to enforce its rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in this Indenture;

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

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

Nothing in this Article or in any other provision of this Indenture, the Bonds or Parity Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and Parity Bonds to the respective Owners thereof at the respective dates of maturity, as herein provided, out of the Net Taxes pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and Parity Bonds and in this Indenture. The principal of the Bonds and Parity Bonds shall not be subject to acceleration hereunder.

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

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

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

In case the moneys held by the Fiscal Agent after an Event of Default pursuant to Section 8.1(a) or (b) shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds and Parity Bonds, then all available amounts shall be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

## ARTICLE IX

### DEFEASANCE

Section 9.1 Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in this Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the

District to the Owner of such Bond or Parity Bond under this Indenture and any Supplemental Indenture relating to such Parity Bonds shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to this Section 9.1, upon payment of all amounts owed by the District to the Fiscal Agent hereunder, the Fiscal Agent shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent shall, after payment of amounts payable to the Fiscal Agent hereunder, pay over or deliver to the District's general fund all money or securities held by it pursuant to this Indenture which are not required for the payment of the interest due on and the principal of such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the first paragraph of this Section 9.1 if such Bond or Parity Bond is paid in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;

(b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the Bond Fund which are available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable; or

(c) by depositing with the Fiscal Agent, or another escrow bank appointed by the District, in trust, direct, noncallable Federal Securities, of the type defined in the definition thereof set forth in Section 1.1 hereof, in which the District may lawfully invest its money, in such amount as an Independent Financial Consultant shall determine will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Bond Fund which are available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable.

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under this Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in Section 5.2(f) relating to compliance with the Code. Notice of such election shall be filed with the Fiscal Agent not less than thirty (30) days prior to the proposed defeasance date. In connection with a defeasance under clauses (b) or (c) above, there shall be provided to the Fiscal Agent a certificate of a certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank to pay and discharge the principal of and interest on all Outstanding Bonds or Parity Bonds to be defeased in accordance with this Section 9.1, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bond being defeased have been legally defeased in accordance with this Indenture and any applicable Supplemental Indenture. Upon a defeasance, the Fiscal Agent, upon request of the District, shall release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under this Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance hereunder of all Outstanding

Bonds and Parity Bonds, the Fiscal Agent shall pay over or deliver to the District any funds held by the Fiscal Agent at the time of a defeasance which are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds when due and any fees and expenses of the Fiscal Agent remaining unpaid. The Fiscal Agent shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds and Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

Section 9.2 Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness. The District may at any time after the issuance and delivery of the Bonds hereunder issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Bond Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued hereunder or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding. Parity Bonds which may only be issued to effect a partial refunding may be issued subject to the following additional specific conditions, which are hereby made conditions precedent to the issuance of any such Parity Bonds:

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

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

(1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding;

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

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

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

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

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

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

(8) the form of such Parity Bonds; and

(9) such other provisions as are necessary or appropriate and not inconsistent with this Indenture.

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

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

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

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

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

(5) a certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding

following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds; and

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

## ARTICLE X

### MISCELLANEOUS

Section 10.1 Cancellation of Bonds and Parity Bonds. All Bonds and Parity Bonds surrendered to the Fiscal Agent for payment upon maturity or for redemption shall upon payment therefor and any Bond or Parity Bond purchased by the District as authorized herein shall be cancelled forthwith and shall not be reissued. The Fiscal Agent shall destroy such Bonds and Parity Bonds, as provided by law, and, upon written request from the District, furnish to the District a certificate of such destruction.

Section 10.2 Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, banking association, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds or Parity Bonds, shall be sufficient for the purposes of this Indenture (except as otherwise herein provided), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank, banking association or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his authority.

(b) As to any Bond or Parity Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond or Parity Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond or Parity Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Fiscal Agent shall be affected by any notice to the contrary.

Nothing contained in this Indenture shall be construed as limiting the Fiscal Agent or the District to such proof, it being intended that the Fiscal Agent or the District may accept any other evidence of the matters herein stated which the Fiscal Agent or the District may deem sufficient. Any request or consent of the Owner of any Bond or Parity Bond shall bind every future Owner of the same Bond or Parity Bond in respect of anything done or suffered to be done by the Fiscal Agent in pursuance of such request or consent.

Section 10.3 Unclaimed Moneys. Anything in this Indenture to the contrary notwithstanding and subject to the escheat laws of the State, any money held by the Fiscal Agent in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two (2) years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Fiscal Agent at such date, or for two (2) years after the date of deposit of such money if deposited with the Fiscal Agent after the said date when such Outstanding Bonds or Parity Bonds become due and payable, shall be repaid by the Fiscal Agent to the District, as its absolute property and free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds and Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Fiscal Agent shall, at the expense of the District, cause to be mailed to the registered Owners of such Outstanding Bonds and Parity Bonds at their addresses as they appear on the Bond Register of the Fiscal Agent a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Section 10.4 Provisions Constitute Contract. The provisions of this Indenture shall constitute a contract between the District and the Bondowners and the provisions hereof shall be construed in accordance with the laws of the State.

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

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

Section 10.5 Future Contracts. Nothing herein contained shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Net Taxes which is subordinate to the pledge hereunder, or which is payable from the general fund of the District or from taxes or any source other than the Net Taxes as defined herein.

Section 10.6 Further Assurances. The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in this Indenture.

Section 10.7 Severability. If any covenant, agreement or provision, or any portion thereof, contained in this Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of this Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and this Indenture, the Bonds and any Parity Bonds issued pursuant hereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State.

Section 10.8 Notices. Any notices required to be given to the District with respect to the Bonds or this Indenture shall be mailed, first class, postage prepaid or personally delivered to the City of Escondido, 201 North Broadway, Escondido, California 92025, Attention: Finance Director, and all notices to the Fiscal Agent shall be mailed, first class, or personally delivered to the Fiscal Agent at The Bank of New York Mellon Trust Company, N.A., 400 South Hope Street, Suite 400, Los Angeles, California 90071, Attention: Global Corporate Trust Services, Ref: City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Series 2013.

Section 10.9 Action on Next Business Day. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Indenture, is not a Business Day, such payment, with no interest accruing for the period from and after such nominal date, may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided therefore in this Indenture.

SIGNED AND APPROVED as of the day and year first written above by the Mayor of the City of Escondido, acting on behalf of CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01 (HIDDEN TRAILS), and attested to by the City Clerk, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., in token of its acceptance of the duties of the Fiscal Agent created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01 (HIDDEN TRAILS)

By: \_\_\_\_\_  
Mayor of the City of Escondido, acting on behalf of City of Escondido Community Facilities District No. 2000-01 (Hidden Trails)

ATTEST:

\_\_\_\_\_  
City Clerk of the City of Escondido, acting on behalf of City of Escondido Community Facilities District No. 2000-01

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**[FORM OF BOND]**

*UNLESS THIS BOND CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE DISTRICT OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.*

No. \_\_\_\_\_

\$ \_\_\_\_\_

**UNITED STATES OF AMERICA  
STATE OF CALIFORNIA  
COUNTY OF SAN DIEGO**

**§ \_\_\_\_\_  
CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

INTEREST RATE	MATURITY DATE	DATED DATE	CUSIP® NUMBER
_____ %	September 1, _____	July _____, 2013	_____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \_\_\_\_\_ AND NO/100 DOLLARS

CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01 (HIDDEN TRAILS) (the "District"), situated in the City of Escondido, located in the County of San Diego, State of California (the "City"), FOR VALUE RECEIVED, hereby promises to pay, solely from certain amounts held under the Indenture (as hereinafter defined), to the Registered Owner named above, or registered assigns, on the Maturity Date set forth above, unless redeemed prior thereto as hereinafter provided, the Principal Amount set forth above, and to pay interest on such Principal Amount from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication hereof to which interest has been paid or duly provided in full, unless: (i) the date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication; (ii) the date of authentication is after a Record Date (as hereinafter defined) but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest shall be payable from the Dated Date set forth above; provided, however, that if at the time of

authentication of this Bond, interest is in default, interest on this Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment, interest on this Bond shall be payable from the Dated Date set forth above. Interest will be paid semiannually on March 1 and September 1 (each, an "Interest Payment Date"), commencing March 1, 2014, at the Interest Rate set forth above, until the Principal Amount hereof is paid or made available for payment.

The principal of this Bond is payable to the Registered Owner hereof in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office of The Bank of New York Mellon Trust Company, N.A. (the "Fiscal Agent"). Interest on this Bond shall be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, or, upon request of any Registered Owner of at least \$1,000,000 of Bonds, by wire transfer to an account in the continental United States of the Registered Owner hereof prior to the Record Date as of the close of business on the fifteenth day of the month preceding an Interest Payment Date (the "Record Date") at such Registered Owner's address as it appears on the Bond Register maintained by the Fiscal Agent.

This Bond is one of a duly authorized issue of "City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Special Tax Refunding Bonds, Series 2013" (the "Bonds") issued in the aggregate principal amount of \$\_\_\_\_\_ pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311, *et seq.*, of the California Government Code (the "Act"), for the purpose of refunding the District's 2001 Special Tax Bonds, paying certain costs related to the issuance of the Bonds and funding a reserve account. The issuance of the Bonds and the terms and conditions thereof are provided for by a resolution adopted by the City Council of the City of Escondido, acting in its capacity as the legislative body of the District (the "Legislative Body") on June 19, 2013, and a Bond Indenture, dated as of July 1, 2013 (the "Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent, executed in connection therewith, and this reference incorporates the Indenture herein, and by acceptance hereof the Registered Owner of this Bond assents to said terms and conditions. The Indenture is executed under and this Bond is issued under, and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act and the Indenture, the principal of and interest on this Bond are payable solely from the portion of the annual special taxes authorized under the Act to be levied and collected within the District and which are pledged to the repayment of the Bonds (the "Special Taxes"). Any amounts for the payment hereof shall be limited to the Special Taxes pledged and collected or foreclosure proceeds received following a default in payment of the Special Taxes and other amounts on deposit in the Bond Fund, except to the extent that other provision for payment has been made by the legislative body of the District, as may be permitted by law. The District has covenanted for the benefit of the owners of the Bonds that under certain circumstances it will commence and diligently pursue to completion appropriate foreclosure proceedings in the event of delinquencies of Special Tax installments levied for payment of principal and interest on the Bonds.

The Bonds are subject, at the option of the District, to call and redemption from any available source of funds prior to their stated maturity on any Interest Payment Date, as a whole or in part, and by lot, at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

The Bonds are subject to special mandatory redemption from Special Tax Prepayments on any Interest Payment Date, in whole or in part, at the following redemption prices, expressed as a percentage of the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

Notice of redemption with respect to the Bonds to be redeemed shall be mailed to the Registered Owners thereof not less than 30 nor more than 60 days prior to the redemption date by first class mail, postage prepaid, to the addresses set forth in the Bond Register. Neither a failure of the Registered Owner hereof to receive such notice nor any defect therein will affect the validity of the proceedings for redemption. All Bonds or portions thereof so called for redemption will cease to accrue interest on the specified redemption date; provided that funds for the redemption are on deposit with the Fiscal Agent on the redemption date. Thereafter, the Registered Owners of such Bonds shall have no rights except to receive payment of the redemption price upon the surrender of the Bonds.

This Bond shall be registered in the name of the Registered Owner hereof, as to both principal and interest, and the District and the Fiscal Agent may treat the Registered Owner hereof as the absolute owner for all purposes and shall not be affected by any notice to the contrary.

The Bonds are issuable only in fully-registered form in the denomination of \$5,000 or any integral multiple of \$5,000 and may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same issue and maturity, all as more fully set forth in the Indenture. This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the corporate trust office of the Fiscal Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, upon surrender and cancellation of this Bond. Upon such transfer, a new registered Bond of authorized denomination or denominations for the same aggregate principal amount of the same issue and maturity will be issued to the transferee in exchange therefor.

The Fiscal Agent shall not be required to register transfers or make exchanges of: (i) any Bonds for a period of 15 days next preceding any selection of the Bonds to be redeemed; or (ii) any Bonds chosen for redemption.

The rights and obligations of the District and of the Registered Owners of the Bonds may be amended at any time, and in certain cases without notice to or the consent of the Registered Owners, to the extent and upon the terms provided in the Indenture.

The principal of this Bond is not subject to acceleration.

If the District shall pay or cause to be paid to the Owner of this Bond the interest due hereon and the principal hereof, at the times and in the manner stipulated herein and in the Indenture, or if there has been deposited with the Fiscal Agent moneys or investment securities, which together with the interest to accrue thereon without further investment, will be fully sufficient to pay and discharge the principal of, premium, if any, and interest on all Bonds Outstanding as and when the same shall become due and payable, then the Owner of this Bond shall cease to be entitled to the pledge of Net Taxes under the Indenture, and all covenants, agreements and other obligations of the District to the Owner of this Bond under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied.

THE BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE CITY OR OF THE DISTRICT FOR WHICH THE CITY OR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES REFERENCED HEREIN. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM THE PORTION OF THE SPECIAL TAXES PLEDGED UNDER THE INDENTURE BUT ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Fiscal Agent.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

IN WITNESS WHEREOF, City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) has caused this Bond to be dated as of the Dated Date, to be executed on behalf of the District by the Mayor of the City of Escondido by facsimile signature and attested by the facsimile signature of the City Clerk.

CITY OF ESCONDIDO COMMUNITY  
FACILITIES DISTRICT NO. 2000-01 (HIDDEN  
TRAILS)

By: \_\_\_\_\_  
Mayor of the City of Escondido, acting on  
behalf of City of Escondido Community  
Facilities District No. 2000-01 (Hidden Trails)

ATTEST:

\_\_\_\_\_  
City Clerk of the City of Escondido, acting as the  
legislative body of City of Escondido  
Community Facilities District No. 2000-01  
(Hidden Trails)

[FORM OF FISCAL AGENT'S CERTIFICATE  
OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within-defined Indenture.

Dated: July \_\_, 2013

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

[FORM OF LEGAL OPINION]

The following is a true copy of the opinion rendered by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, in connection with the issuance of, and dated as of the date of the original delivery of, the Bonds. A signed copy is on file in my office.

\_\_\_\_\_  
City Clerk of the City of Escondido, acting as the legislative  
body of City of Escondido Community Facilities District No.  
2000-01 (Hidden Trails)

[FORM OF ASSIGNMENT]

For value received, the undersigned do(es) hereby sell, assign and transfer unto

\_\_\_\_\_  
\_\_\_\_\_

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within Bond and do(es) hereby irrevocably constitute(s) and appoint(s)

\_\_\_\_\_  
attorney, to transfer the same on the registration books of the Fiscal Agent with full power of  
substitution in the premises.

Dated: \_\_\_\_\_

Signature Guarantee:

\_\_\_\_\_  
Notice: Signature(s) must be guaranteed by a  
qualified guarantor.

\_\_\_\_\_  
Notice: The signature on this assignment must  
correspond with the name(s) as written on the  
face of the within Bond in every particular  
without alteration or enlargement or any change  
whatsoever.

**EXHIBIT B**

**FORM OF REQUISITION FOR DISBURSEMENT OF  
COSTS OF ISSUANCE**

§ \_\_\_\_\_  
**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

The undersigned, a duly authorized representative of City of Escondido Community Facilities District No. 2000-01 (the "District"), hereby certifies to The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Fiscal Agent") for purposes of disbursing funds from the Costs of Issuance Fund to pay Costs of Issuance that:

(1) The Fiscal Agent is to pay to the payees set forth on Exhibit A hereto the amount set forth next to each payee's name for the item described on Exhibit A hereto;

(2) The conditions to the release of these amounts from the Costs of Issuance Fund have been satisfied; and

(3) There has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, stop notice or claim affecting the right to receive payment of, any of the moneys payable to any of the payees named on Exhibit A hereto which has not been released or will not be released simultaneously with the payment of such amounts, other than materialmen's or mechanic's liens accruing by mere operation of law.

Dated: \_\_\_\_\_

CITY OF ESCONDIDO COMMUNITY  
FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

*Payee*

*Amount Due*

*Purpose of Expenditure*

**ESCROW AGREEMENT (2001 BONDS)**

**By and Between**

**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)**

**and**

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,  
as Escrow Bank**

**Dated as of July 1, 2013**

**Relating to**

**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
2001 SPECIAL TAX BONDS**

## ESCROW AGREEMENT (2001 BONDS)

THIS ESCROW AGREEMENT (2001 BONDS), dated as of July 1, 2013 (the "Escrow Agreement"), by and between City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) (the "District") and The Bank of New York Mellon Trust Company, N.A., as escrow bank (the "Escrow Bank") and as Prior Fiscal Agent (as defined below), is entered into in accordance with Resolution No. 2013-\_\_\_ of the City Council of the City of Escondido, acting as the legislative body of the District, adopted on June 19, 2013 and a Bond Indenture, dated as of July 1, 2013 (the "Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent (the "Fiscal Agent"), to refund all of the outstanding bonds issued pursuant to the Bond Indenture, dated as of October 1, 2001 (the "Prior Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as successor in interest to BNY Western Trust Company, as Fiscal Agent (the "Prior Fiscal Agent").

### WITNESSETH:

WHEREAS, pursuant to the Prior Indenture, the District has previously issued its 2001 Special Tax Bonds (the "Refunded Bonds") in the aggregate principal amount of \$3,085,000, which are currently outstanding in the aggregate principal amount of \$2,505,000; and

WHEREAS, the District has determined to issue its Special Tax Refunding Bonds, Series 2013 in the aggregate principal amount of \$\_\_\_\_\_ (the "Bonds") for the purpose of providing moneys which will be used to optionally redeem all of the Refunded Bonds on September 1, 2013 (the "Redemption Date") at a redemption price equal to 100% of the outstanding aggregate principal amount thereof, together with interest accrued on the Refunded Bonds through the Redemption Date (the "Redemption Price"), as required under the Prior Indenture; and

WHEREAS, the District has taken action to cause to be issued or delivered to the Escrow Bank for deposit in or credit to the escrow fund established and maintained by it (the "Escrow Fund") moneys to be held uninvested as cash, in an amount necessary to refund all of the Refunded Bonds.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District and the Escrow Bank agree as follows:

#### SECTION 1. Deposit of Moneys.

(a) As used herein, the term "Investment Securities" means the Investment Securities set forth in Schedule B hereto, which constitute direct noncallable nonredeemable obligations issued by the United States Treasury. The District hereby deposits with the Escrow Bank \$\_\_\_\_\_, comprised of a portion of the net sale proceeds of the Bonds, and instructs the Prior Fiscal Agent to transfer to the Escrow Bank \$\_\_\_\_\_, consisting of moneys held under the Prior Indenture with respect to the Refunded Bonds, to be held in irrevocable escrow by the Escrow Bank separate and apart from all other securities, investments or moneys on deposit with the Escrow Bank, in a fund hereby created and established and to be known as the "Escrow Fund," and to be applied solely as provided in this Escrow Agreement. As described in the Verification Report (as defined below), such moneys are at least equal to an amount sufficient to purchase the principal amount of Investment Securities set forth in Schedule B hereto and to hold \$\_\_\_ uninvested as cash; and the aggregate principal amount of Investment Securities described in Schedule B hereto, together with all

interest due or to become due on such Investment Securities, and \$ \_\_\_ held as cash, will be sufficient to pay the Redemption Price of the Refunded Bonds on the Redemption Date.

(b) The Escrow Bank hereby acknowledges receipt of the written Verification Report of Causey Demgen & Moore P.C., Denver, Colorado, certified public accountants, dated July \_\_\_, 2013 relating to the redemption of the Refunded Bonds on the Redemption Date (the "Verification Report").

SECTION 2. Use and Investment of Moneys. The Escrow Bank acknowledges receipt of the moneys described in Section 1 and agrees:

(a) immediately to invest \$ \_\_\_\_\_ of the moneys described in Section 1(a) hereof in the Investment Securities set forth in Schedule B hereto and to deposit such Investment Securities in the Escrow Fund; and

(b) to make the payments required under Section 3 hereof at the times set forth in Section 3 hereof.

SECTION 3. Refunding of the Refunded Bonds. As the principal of the Investment Securities set forth in Schedule B hereto and the investment income and earnings thereon are paid, the Escrow Bank shall transfer from the Escrow Fund to the Prior Fiscal Agent for the Refunded Bonds amounts sufficient to pay on the Redemption Price of the Refunded Bonds on the Redemption Date. Such transfers shall constitute the respective payments of the principal and interest with respect to the Refunded Bonds and Redemption Price due from the District. The holders of the Refunded Bonds shall have a first lien on the moneys and Investment Securities in the Escrow Fund which are allowable and sufficient to pay the Refunded Bonds until such moneys and Investment Securities are used and applied as provided in this Escrow Agreement. Any cash or securities held in the Escrow Fund are irrevocably pledged only to the Refunded Bond holders. Upon deposit of the moneys set forth in Section 1 hereof with the Escrow Bank pursuant to the provisions of Section 1 hereof and the simultaneous purchase of the Investment Securities as provided in Section 2 hereof, the holders of the Refunded Bonds shall cease to be entitled to any lien, benefit or security under the Prior Indenture.

SECTION 4. Performance of Duties. The Escrow Bank agrees to perform the duties set forth herein.

SECTION 5. Reinvestment. Upon written direction of the District, the Escrow Bank shall reinvest any uninvested amounts held as cash under this Escrow Agreement in noncallable nonredeemable obligations which are direct obligations issued by the United States Treasury or obligations which are unconditionally guaranteed as to full and timely payment by the United States of America, provided that: (i) the amounts of and dates on which the anticipated transfers from the Escrow Fund to the Prior Fiscal Agent for the payment of the principal of, Redemption Price of and interest on the Refunded Bonds will not be diminished or postponed thereby; (ii) the Escrow Bank shall receive the unqualified opinion of nationally recognized bond counsel to the effect that such reinvestment will not adversely affect the exclusion from gross income of interest with respect to the Bonds or the Refunded Bonds; (iii) the Escrow Bank shall receive from an independent certified public accountant a certification that, immediately after such reinvestment, the principal of and interest on obligations in the Escrow Fund will, together with other cash on deposit in the Escrow Fund available for such purposes, be sufficient without reinvestment to pay, when due, the principal

or Redemption Price of and interest on the Refunded Bonds; and (iv) the Escrow Bank shall receive an opinion of nationally recognized bond counsel that such reinvestment is permissible under this Escrow Agreement. Except as provided in this Section 5 and Section 8 hereof, the Escrow Bank shall have no power or duty to invest any funds held under this Escrow Agreement or to sell, transfer or otherwise dispose of the moneys or Investment Securities held hereunder. In no event shall the Escrow Bank invest or reinvest moneys held under this Escrow Agreement in mutual funds or unit investment trusts. Notwithstanding any other provision of this Escrow Agreement, the Escrow Bank shall invest the amounts described in Schedule B as described in Schedule B.

SECTION 6. Indemnity. The District hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Bank and its respective successors, assigns, directors, agents, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Bank at any time (whether or not also indemnified against the same by the District or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Escrow Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds deposited therein, the purchase of the Investment Securities, the retention of the Investment Securities or the proceeds thereof and any payment, transfer or other application of moneys by the Escrow Bank in accordance with the provisions of this Escrow Agreement; provided, however, that the District shall not be required to indemnify the Escrow Bank against the Escrow Bank's own negligence or willful misconduct or the negligent or willful misconduct of the Escrow Bank's respective agents and employees or the breach by the Escrow Bank of the terms of this Escrow Agreement. In no event shall the District or the Escrow Bank be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section 6. The indemnities contained in this Section 6 shall survive the termination of this Escrow Agreement.

SECTION 7. Responsibilities of the Escrow Bank. The Escrow Bank and its respective successors, assigns, agents and servants shall not be held to any personal liability whatsoever, in tort, contract or otherwise, in connection with the execution and delivery of this Escrow Agreement, the establishment of the Escrow Fund, the acceptance of the moneys or securities deposited therein, the purchase of the Investment Securities, the retention of the Investment Securities or the proceeds thereof, the sufficiency of the Investment Securities to accomplish the defeasance of the Refunded Bonds or any payment, transfer or other application of moneys or obligations by the Escrow Bank in accordance with the provisions of this Escrow Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Bank made in good faith in the conduct of its duties. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the District, and the Escrow Bank assumes no responsibility for the correctness thereof. The Escrow Bank makes no representation as to the sufficiency of the Investment Securities to accomplish the refunding of the Refunded Bonds on the Redemption Date or to the validity of this Escrow Agreement as to the District and, except as otherwise provided herein, the Escrow Bank shall incur no liability with respect thereto. The Escrow Bank shall not be liable in connection with the performance of its duties under this Escrow Agreement except for its own negligence, willful misconduct or default, and the duties and obligations of the Escrow Bank shall be determined by the express provisions of this Escrow Agreement. The Escrow Bank may consult with counsel, who may or may not be counsel to the District, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection with respect to any action taken, suffered or

omitted by it in good faith in accordance therewith. Whenever the Escrow Bank shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Escrow Agreement, such matter may be deemed to be conclusively established by a certificate signed by an authorized officer of the District.

The liability of the Escrow Bank to make the payments required by this Escrow Agreement shall be limited to the moneys in the Escrow Fund.

No provision of this Escrow Agreement shall require the Escrow Bank to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder, or in the exercise of its rights or powers.

The Escrow Bank shall not be liable for the accuracy of any calculations provided herein.

Any company into which the Escrow Bank may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Escrow Bank may sell or transfer all or substantially all of its corporate trust business shall be the successor to the Escrow Bank without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

The District shall pay the Escrow Bank full compensation for its duties under this Escrow Agreement, including out-of-pocket costs such as publication costs, redemption or redemption expenses, legal fees and other costs and expenses relating hereto. Under no circumstances shall amounts deposited in the Escrow Fund be deemed to be available for said purposes.

The Escrow Bank may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care, and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed.

The Escrow Bank agrees to accept and act upon instructions or directions pursuant to this Escrow Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Escrow Bank shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Escrow Bank e-mail or facsimile instructions (or instructions by a similar electronic method) and the Escrow Bank in its discretion elects to act upon such instructions, the Escrow Bank's understanding of such instructions shall be deemed controlling. The Escrow Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Escrow Bank's reliance upon and compliance with such instructions notwithstanding that such instructions conflict or are inconsistent with a subsequent written instruction. The District agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Escrow Bank, including without limitation the risk of the Escrow Bank acting on unauthorized instructions, and the risk of interception and misuse by third parties.

**SECTION 8. Substitution of Investment Securities.** At the written request of the District and upon compliance with the conditions hereinafter set forth, the Escrow Bank shall have the power to sell, transfer, request the redemption or otherwise dispose of some or all of the Investment

Securities in the Escrow Fund and to substitute noncallable nonredeemable obligations (the "Substitute Investment Securities") constituting direct obligations issued by the United States Treasury or obligations which are unconditionally guaranteed as to full and timely payment by the United States of America as contemplated by Section 6.06 of the Prior Indenture. The foregoing may be effected only if: (i) the substitution of Substitute Investment Securities for the Investment Securities (or Substitute Investment Securities) occurs simultaneously; (ii) the amounts of and dates on which the anticipated transfers from the Escrow Fund to the trustee for the payment of the principal of and/or Redemption Price of and/or interest on the Refunded Bonds will not be diminished or postponed thereby; (iii) the Escrow Bank shall receive the unqualified opinion of nationally recognized bond counsel to the effect that such disposition and substitution would not adversely affect the exclusion from gross income of interest with respect to the Refunded Bonds or the Bonds, and that the conditions of this Section 8 as to the disposition and substitution have been satisfied and that the substitution is permitted by this Escrow Agreement; and (iv) the Escrow Bank shall receive from an independent certified public accountant a certification that, immediately after such transaction, the principal of and interest on the Substitute Investment Securities in the Escrow Fund will, together with other cash on deposit in the Escrow Fund available for such purpose, be sufficient without reinvestment to pay, when due, the principal or Redemption Price of and interest on the Refunded Bonds. Any cash from the sale of Investment Securities (including U.S. Treasury Securities) received from the disposition and substitution of Substitute Investment Securities pursuant to this Section 8 to the extent that such cash will not be required, in accordance with the Prior Indenture and this Escrow Agreement, and as demonstrated in the certification described in clause (iv) above, at any time for the payment when due of the principal or Redemption Price of or interest on the Refunded Bonds shall be paid to the District as received by the Escrow Bank free and clear of any trust, lien, pledge or assignment securing such Refunded Bonds or otherwise existing under this Escrow Agreement. In no event shall the Escrow Bank invest or reinvest moneys held under this Escrow Agreement in mutual funds or unit investment trusts.

SECTION 9. Irrevocable Instructions as to Notice. The Escrow Bank hereby acknowledges that upon the funding of the Escrow Fund as provided in this Escrow Agreement, the receipt of the Verification Report described in Section 1(b) of this Escrow Agreement and the Irrevocable Instructions and Request to Prior Fiscal Agent and Escrow Bank attached hereto as Schedule C, it is in receipt of the items constituting all of the conditions precedent to the redemption of the Refunded Bonds under the Prior Indenture, the Refunded Bonds shall be paid in accordance with the Prior Indenture and the Refunded Bonds shall cease to be entitled to any lien, benefit or security under the Prior Indenture. The Escrow Bank hereby agrees to provide to The Depository Trust Company the notice of defeasance attached as Exhibit Y to Schedule C within 30 days of receipt of such Irrevocable Instructions.

SECTION 10. Amendments. This Escrow Agreement is made for the benefit of the District and the holders from time to time of the Bonds and it shall not be repealed, revoked, altered or amended without the written consent of all such holders, the Escrow Bank and the District, as defined in the Indenture; provided, however, but only after the receipt by the Escrow Bank of an opinion of nationally recognized bond counsel that the exclusion from gross income of interest on the Bonds and the Refunded Bonds will not be adversely affected for federal income tax purposes, the District and the Escrow Bank may, without the consent of, or notice to, such holders, amend this Escrow Agreement or enter into such agreements supplemental to this Escrow Agreement as shall not adversely affect the rights of such holders and as shall not be inconsistent with the terms and provisions of this Escrow Agreement for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Escrow Agreement; (ii) to grant to, or confer upon, the

Escrow Bank for the benefit of the holders of the Refunded Bonds any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such holders or the Escrow Bank; and (iii) to include under this Escrow Agreement additional funds, securities or properties. The Escrow Bank shall be entitled to rely conclusively upon an unqualified opinion of nationally recognized bond counsel with respect to compliance with this Section 10, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the holders of the Refunded Bonds or that any instrument executed hereunder complies with the conditions and provisions of this Section 10.

SECTION 11. Term. This Escrow Agreement shall commence upon its execution and delivery and shall terminate on the later to occur of either: (i) the date upon which the Refunded Bonds have been paid in accordance with this Escrow Agreement; or (ii) the date upon which no unclaimed moneys remain on deposit with the Escrow Bank and all amounts owed to the Escrow Bank shall have been paid in full. Any unclaimed money which remains in the Escrow Fund for 2 years from the date upon which the Refunded Bonds have been paid in accordance with this Escrow Agreement shall be remitted by the Escrow Bank to the District.

SECTION 12. Compensation. The Escrow Bank shall receive its reasonable fees and expenses as previously agreed to; provided, however, that under no circumstances shall the Escrow Bank be entitled to any lien nor will it assert a lien whatsoever on any moneys or obligations in the Escrow Fund for the payment of fees and expenses for services rendered by the Escrow Bank under this Escrow Agreement.

SECTION 13. Resignation or Removal of Escrow Bank.

(a) The Escrow Bank may resign by giving 30 days prior written notice in writing to the District. The Escrow Bank may be removed: (1) by: (i) the filing with the District of an instrument or instruments executed by the holders of at least 51% in aggregate principal amount of the Refunded Bonds then remaining unpaid; and (ii) the delivery of a copy of the instruments filed with the District to the Escrow Bank; or (2) by a court of competent jurisdiction for failure to act in accordance with the provisions of this Escrow Agreement upon application by the District or the holders of 5% in aggregate principal amount of the Refunded Bonds then remaining unpaid.

(b) No resignation or removal of the Escrow Bank shall become effective until a successor Escrow Bank has been appointed hereunder and until the cash held under this Escrow Agreement is transferred to the new Escrow Bank. The District or the holders of a majority in principal amount of the Refunded Bonds then remaining unpaid may, by an instrument or instruments filed with the District, appoint a successor Escrow Bank who shall supersede any Escrow Bank theretofore appointed by the District. If no successor Escrow Bank is appointed by the District or the holders of such Refunded Bonds then remaining unpaid, within 45 days after notice of any such resignation or removal, the holder of any such Refunded Bonds or any retiring Escrow Bank may apply to a court of competent jurisdiction for the appointment of a successor Escrow Bank.

SECTION 14. Severability. If any one or more of the covenants or agreements provided in this Escrow Agreement on the part of the District or the Escrow Bank to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Escrow Agreement.

SECTION 15. Counterparts. This Escrow Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

SECTION 16. Governing Law. This Escrow Agreement shall be construed under the laws of the State of California.

SECTION 17. Holidays. 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 this Escrow Agreement, shall be a legal holiday or a day on which banking institutions in the city in which is located the principal office of the Escrow Bank are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are authorized by law to remain closed, with the same force and effect as if done on the nominal date provided in this Escrow Agreement, and no interest shall accrue for the period after such nominal date.

SECTION 18. Assignment. This Escrow Agreement shall not be assigned by the Escrow Bank or any successor thereto without the prior written consent of the District.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be executed by their duly authorized officers and attested as of the date and year first written above.

CITY OF ESCONDIDO COMMUNITY  
FACILITIES DISTRICT NO. 2000-01 (HIDDEN  
TRAILS)

By: \_\_\_\_\_  
Mayor of the City of Escondido, acting on  
behalf of City of Escondido Community  
Facilities District No. 2000-01 (Hidden Trails)

*[SIGNATURES CONTINUED ON NEXT PAGE.]*

*[SIGNATURE PAGE CONTINUED.]*

The BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Escrow Bank and as Prior  
Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

**SCHEDULE A**  
**REFUNDED BONDS**

<i>Maturity Date (September 1)</i>	<i>Interest Rate</i>	<i>Par Amount</i>	<i>Call Date</i>	<i>Call Price</i>
2013	5.70 %	\$ 75,000	N/A	N/A%
2014	5.80	80,000	September 1, 2013	100
2015	5.90	80,000	September 1, 2013	100
2016	6.00	85,000	September 1, 2013	100
2017	6.00	95,000	September 1, 2013	100
2018	6.05	100,000	September 1, 2013	100
2019	6.10	105,000	September 1, 2013	100
2020	6.10	110,000	September 1, 2013	100
2031*	6.20	1,775,000	September 1, 2013	100

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\* Term Bonds.

**SCHEDULE B**  
**INVESTMENT SECURITIES**

“Investment Securities” are defined to be United States Treasury Time Deposit Securities, State and Local Government Series, and shall be, as follows:

<i>Maturity Date</i>	<i>Par Amount</i>	<i>Rate</i>	<i>Type</i>
September 1, 2013	\$_____	_____%	_____

**SCHEDULE C**

**IRREVOCABLE INSTRUCTIONS AND REQUEST TO PRIOR FISCAL AGENT AND  
ESCROW BANK**

June \_\_, 2013

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

\$3,085,000  
CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
2001 SPECIAL TAX BONDS

Ladies and Gentlemen:

As Fiscal Agent under that certain Bond Indenture, dated as of October 1, 2001, and as Escrow Bank under that certain Escrow Agreement (2001 Bonds), dated as of July 1, 2013, you are hereby notified of the irrevocable election of City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) to defease all outstanding amounts with respect to the above-captioned bonds (the "Bonds").

You are hereby further irrevocably instructed to mail, as soon as practicable: (i) a notice to the registered owners of such Bonds (in the form attached hereto as Exhibit Y) that the deposit of investment securities and moneys has been made with you as such Escrow Bank and that the projected withdrawals from such escrow have been calculated to be adequate to pay the principal or redemption price of and the interest with respect to the Bonds; and (ii) a notice of redemption of such Bonds in the form attached hereto as Exhibit Z.

CITY OF ESCONDIDO COMMUNITY  
FACILITIES DISTRICT NO. 2000-01 (HIDDEN  
TRAILS)

By: \_\_\_\_\_  
Finance Director of the City of Escondido,  
acting on behalf of City of Escondido  
Community Facilities District No. 2000-01  
(Hidden Trails)

RECEIPT ACKNOWLEDGED AND CONSENTED TO:

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,  
as Prior Fiscal Agent and Escrow Bank

By: \_\_\_\_\_  
Its: Authorized Officer

EXHIBIT Y

NOTICE OF DEFEASANCE OF

\$3,085,000

CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
2001 SPECIAL TAX BONDS

Notice is hereby given to the owners of the outstanding City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) 2001 Special Tax Bonds described on Exhibit 1 attached hereto (collectively, the "Refunded Bonds"): (i) that there has been deposited with The Bank of New York Mellon Trust Company, N.A., as Escrow Bank, moneys and investment securities as permitted by the Bond Indenture, dated as of October 1, 2001 (the "Indenture"), by and between City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) (the "District") and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as fiscal agent (the "Fiscal Agent"), the principal of and the interest on which when due will provide moneys which, together with such other moneys deposited with the Escrow Bank, shall be sufficient and available to redeem the Refunded Bonds on September 1, 2013 at a redemption price equal to 100% aggregate principal amount of the Refunded Bonds; and (ii) that the Refunded Bonds are deemed to be paid and that the Indenture has been released in accordance with Section 6.06 the reof and all obligations of the District under the Indenture with respect to all Refunded Bonds shall cease, terminate and become void and discharged and satisfied.

All Refunded Bonds shall be surrendered at the following address:

First Class/Registered/Certified

**The Bank of New York Mellon**  
Global Corporate Trust  
P.O. Box 396  
East Syracuse, New York 13057

Express Delivery Only

**The Bank of New York Mellon**  
Global Corporate Trust  
111 Sanders Creek Parkway  
East Syracuse, New York 13057

By Hand Only

**The Bank of New York Mellon**  
Global Corporate Trust  
Corporate Trust Window  
101 Barclay Street, 1st Floor East  
New York, New York 10286

No representation is made as to the correctness of the CUSIP number either as printed on any Refunded Bond or as contained herein and any error in the CUSIP number shall not affect the validity of the proceedings for redemption of the Refunded Bonds.

At least 30 days, but not more than 45 days, prior to September 1, 2013 in accordance with the terms of the Indenture, the Fiscal Agent will mail a redemption notice for the Refunded Bonds.

Dated this \_\_\_\_ day of July, 2013.

CITY OF ESCONDIDO COMMUNITY  
FACILITIES DISTRICT NO. 2000-01 (HIDDEN  
TRAILS)

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A.,  
as Fiscal Agent

EXHIBIT 1  
REFUNDED BONDS

<i>Maturity Date (September 1)</i>	<i>Interest Rate</i>	<i>Par Amount</i>	<i>Call Date</i>	<i>Call Price</i>
2013	5.70 %	\$ 75,000	N/A	N/A%
2014	5.80	80,000	September 1, 2013	100
2015	5.90	80,000	September 1, 2013	100
2016	6.00	85,000	September 1, 2013	100
2017	6.00	95,000	September 1, 2013	100
2018	6.05	100,000	September 1, 2013	100
2019	6.10	105,000	September 1, 2013	100
2020	6.10	110,000	September 1, 2013	100
2031*	6.20	1,775,000	September 1, 2013	100

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\* Term Bonds.

NOTICE OF FULL REDEMPTION OF

\$3,085,000  
 CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
 (HIDDEN TRAILS)  
 2001 SPECIAL TAX BONDS

BASE CUSIP 29634S

NOTICE IS HEREBY GIVEN to the owners of the above-captioned bonds (the "Bonds") of City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) (the "District") pursuant to the Bond Indenture, dated as of October 1, 2001 (the "Indenture"), by and among the District and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as fiscal agent (the "Fiscal Agent"), that the outstanding Bonds in the amount of \$\_\_\_\_,000 have been called for redemption on September 1, 2013 (the "Redemption Date"). The Bonds to be called, which were originally issued on October 16, 2001, are as follows:

<u>CUSIP</u>	<u>MATURITY</u> <u>(September 1)</u>	<u>RATE</u>	<u>AMOUNT</u>	<u>PRICE</u>
AM3	2014	5.80 %	\$ 80,000	100%
AN1	2015	5.90	80,000	100
AP6	2016	6.00	85,000	100
AQ4	2017	6.00	95,000	100
AR2	2018	6.05	100,000	100
AS0	2019	6.10	105,000	100
AT8	2020	6.10	110,000	100
AV3	2031*	6.20	1,775,000	100

\* Term Bonds.

The Bonds will be payable on the Redemption Date at a redemption price of 100% of the principal amount plus accrued interest thereon to such date (the "Redemption Price"). The Redemption Price of the Bonds will become due and payable on the Redemption Date. Interest on the Bonds to be redeemed will cease to accrue on and after the Redemption Date, and such Bonds will be surrendered to the Fiscal Agent.

To receive payment on the Redemption Date, owners of the Bonds should present and surrender said Bonds on the Redemption Date at the address of the Fiscal Agent set forth below:

First Class/Registered/Certified

**The Bank of New York Mellon**  
 Global Corporate Trust  
 P.O. Box 396  
 East Syracuse, New York 13057

Express Delivery Only

**The Bank of New York Mellon**  
 Global Corporate Trust  
 111 Sanders Creek Parkway  
 East Syracuse, New York 13057

By Hand Only

**The Bank of New York Mellon**  
 Global Corporate Trust  
 Corporate Trust Window  
 101 Barclay Street, 1st Floor East  
 New York, New York 10286

If the Owner of any Bond subject to optional redemption fails to deliver such Bond to the Fiscal Agent on the Redemption Date, such Bond shall nevertheless be deemed redeemed on the

Redemption Date and the Owner of such Bond shall have no rights in respect thereof except to receive payment of the Redemption Price from funds held by the Fiscal Agent for such payment.

A form W-9 must be submitted with the Bonds. Failure to provide a completed form W-9 will result in 31% backup withholding pursuant to the Interest and Dividend Tax Compliance Act of 1983. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, 28% will be withheld if the tax identification number is not properly certified.

*Note: The District and the Fiscal Agent shall not be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness in the notice or as printed on any Bond. They are included solely for the convenience of the holders.*

By: THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Fiscal Agent  
for City of Escondido Community Facilities District No. 2000-01 (Hidden Trails)

DATED this 1st day of August, 2013.

§  
**CITY OF ESCONDIDO  
COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

**BOND PURCHASE AGREEMENT**

\_\_\_\_\_, 2013

City Council  
City of Escondido  
201 North Broadway  
Escondido, California 92025

City of Escondido  
Community Facilities District No. 2000-01  
(Hidden Trails)  
201 North Broadway  
Escondido, California 92025

Ladies and Gentlemen:

Stifel Nicolaus & Company, Incorporated, as underwriter (the “Underwriter”), acting not as a fiduciary or agent for you, but on behalf of itself, offers to enter into this Bond Purchase Agreement (this “Purchase Agreement”) with City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) (the “District”) established by the City of Escondido (the “City”), which upon acceptance will be binding upon the Underwriter and the District. The agreement of the Underwriter to purchase the Bonds (as hereinafter defined) is contingent upon the District satisfying all of the obligations imposed upon it under this Purchase Agreement. This offer is made subject to the District’s acceptance by the execution of this Purchase Agreement and its delivery to the Underwriter at or before \_\_\_\_ p.m., local time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the District at any time prior to the acceptance hereof by the District. All capitalized terms used herein, which are not otherwise defined, shall have the meanings provided for such terms in the Bond Indenture, dated as of July 1, 2013 (the “Indenture”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”).

1. Purchase, Sale and Delivery of the Bonds.

A. Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the District and the District hereby agrees to sell to the Underwriter all (but not less than all) of the \$\_\_\_\_\_ aggregate principal amount of the City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Special Tax Refunding Bonds, Series 2013 (the “Bonds”), dated the Closing Date (as hereinafter defined). The Bonds will be dated as of their date of delivery. Interest on the Bonds shall be payable semiannually on March 1 and September 1 in each year (each an “Interest Payment Date”) commencing March 1, 2014, and will bear interest at the rates and on the dates as set

forth in Exhibit A hereto. The purchase price for the Bonds shall be \$\_\_\_\_\_ (being 100% of the aggregate principal amount thereof, [plus/less] a net original issue [discount/premium] of \$\_\_\_\_\_ and less an Underwriter's discount of \$\_\_\_\_\_).

The Underwriter agrees to make a bona fide public offering of all of the Bonds initially at the public offering prices (or yields) set forth in Exhibit A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds, provided that the Underwriter shall not change the interest rates set forth in Exhibit A. The Bonds will be offered and sold to certain dealers at prices lower than such initial offering prices.

The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable from the Net Taxes as provided in the Indenture, the Preliminary Official Statement (as hereinafter defined), and the Mello-Roos Community Facilities Act of 1982, as amended (California Government Code section 53311 *et seq.*) (the "Act"). The issuance of the Bonds has been duly authorized by the City Council of the City (the "City Council") acting as the legislative body of the District pursuant to a resolution (the "Bond Resolution") adopted on June 19, 2013, by the City Council of the City, acting in its capacity as the legislative body of the District. The net proceeds of the Bonds, together with certain funds and other amounts held under the Indenture, will be used to: (i) refund all of the outstanding 2001 Special Tax Bonds (the "Refunded Bonds"); (ii) fund a Reserve Account for the Bonds; and (iii) pay the Costs of Issuance.

B. The District hereby acknowledges that the Underwriter is entering into this Purchase Agreement in reliance on the representations, warranties and agreements made by the District herein, and the District shall take all actions necessary to enforce its rights hereunder for the benefit of the Underwriter and shall immediately notify the Underwriter if it becomes aware that any representation, warranty or agreement made by the District herein is incorrect in any material respect.

The District acknowledges and agrees that: (i) the sale and purchase of the Bonds pursuant to this Purchase Agreement is an arm's-length commercial transaction between the District and the Underwriter; (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as a principal and is not acting as the agent or fiduciary of the District; (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the District with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the District on other matters); and (iv) the District has consulted its own legal, financial and other advisors to the extent that it has deemed appropriate.

C. Pursuant to the authorization of the District, the Underwriter has distributed copies of the Preliminary Official Statement dated \_\_\_\_\_, 2013, relating to the Bonds, which, together with the cover page, inside cover page and appendices thereto is herein called the "Preliminary Official Statement." By its acceptance of this Purchase Agreement, the District hereby ratifies the use by the Underwriter of the Preliminary Official Statement, and the District agrees to execute a final official statement relating to the Bonds (the "Official Statement") which will consist of the Preliminary Official Statement with such changes as may be made thereto, with the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, the District's bond counsel ("Bond Counsel") and the District's disclosure counsel ("Disclosure Counsel"), and the Underwriter, and to

provide copies thereof to the Underwriter as set forth in Section 2(O) hereof. The District hereby authorizes and requires the Underwriter to use and promptly distribute, in connection with the offer and sale of the Bonds, the Preliminary Official Statement, the Official Statement and any supplement or amendment thereto. The District further authorizes the Underwriter to use and distribute, in connection with the offer and sale of the Bonds, the Indenture, the Escrow Agreement (2001 Bonds) dated July 1, 2013 (the "Escrow Agreement"), by and between the District and The Bank of New York Mellon Trust, N.A. as the escrow bank (the "Escrow Bank"), this Purchase Agreement and all information contained herein, and all other documents, certificates and statements furnished by or on behalf of the District to the Underwriter in connection with the transactions contemplated by this Purchase Agreement.

D. To assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"), the District will undertake pursuant to the Continuing Disclosure Agreement, in the form attached to the Official Statement as Appendix E (the "Continuing Disclosure Agreement"), by and between the District and Special District Financing & Administration LLC as dissemination agent (the "Dissemination Agent"), to provide annual reports and notices of certain enumerated events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

E. Except as the Underwriter and the District may otherwise agree, the District will deliver to the Underwriter, at the offices of Bond Counsel in Newport Beach, California, or at such other location as may be mutually agreed upon by the Underwriter and the District, the documents hereinafter mentioned; and the District will deliver to the Underwriter through the facilities of The Depository Trust Company ("DTC") in New York, New York, the Bonds, in definitive form, duly executed by the District and authenticated by the Fiscal Agent in the manner provided for in the Indenture and the Act at 8:00 a.m. California time, on \_\_\_\_\_, 2013 (the "Closing Date"), and the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in paragraph (A) of this Section by wire transfer, payable in federal or other immediately available funds (such delivery and payment being herein referred to as the "Closing"). The Bonds shall be in fully registered book-entry form (which may be typewritten) and shall be registered in the name of Cede & Co., as nominee of DTC. CUSIP identification numbers shall be printed on the Bonds, but the failure to print such number on any Bond or any error with respect thereto shall not constitute cause for a failure or refusal of the Underwriter to accept delivery of, or pay for, the Bonds in accordance with the terms of this Purchase Agreement.

2. Representations, Warranties and Covenants of the District. The District represents, warrants and covenants to the Underwriter that:

A. The City is a municipal corporation of the State of California duly organized and validly existing under the Constitution and laws of the State of California. The City Council of the City is the legislative body of the District. The District is duly organized and validly existing as a community facilities district under the laws of the State of California. The District has, and at the Closing Date will have, full legal right, power and authority to: (i) enter into this Purchase Agreement; (ii) to issue, sell and deliver the Bonds to the Underwriter pursuant to the Bond Resolution and the Indenture and as provided herein; and (iii) carry out, give effect to and consummate the transactions on its part contemplated by this Purchase Agreement, the Bond Resolution, the Indenture, the Escrow Agreement, the Continuing Disclosure Agreement, and the Official Statement. The District has complied, and will at the Closing Date be in compliance, in all material respects, with the Bond Resolution, the Indenture, the Act and this Purchase Agreement.

This Purchase Agreement, the Indenture, the Escrow Agreement, the Continuing Disclosure Agreement, and the Official Statement are collectively referred to herein as the "District Documents."

B. The City Council has duly and validly: (i) held a public hearing and adopted resolutions forming the District, authorizing the levy of the Special Taxes and the incurrence of bonded indebtedness by the District; (ii) called, held, and conducted an election within the District to approve the levy of the Special Taxes on parcels of taxable property in the District; (iii) adopted a resolution authorizing the levying of the Special Taxes; (iv) adopted the Bond Resolution and approved and authorized the execution and delivery of the Bonds and the District Documents; and (v) authorized and approved the performance by the District of its obligations contained in, and the taking of any and all action on its part as may be necessary to carry out, give effect to and consummate the transactions on the part of the District contemplated by, each of said documents; and at the Closing Date, the Bonds, the Bond Resolution, the District Documents and any other applicable documents will constitute the valid, legal and binding obligations of the District and of the other parties thereto, enforceable as to the District in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer and other laws affecting the enforcement of creditors' rights generally and to the application of equitable principles and the exercise of judicial discretion in appropriate cases.

C. The information in the Preliminary Official Statement and in the Official Statement relating to the District, the City, and the Bonds (other than statements pertaining to the book-entry system, as to which no view is expressed), as of this date, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and, upon delivery and up to and including 25 days after the End of the Underwriting Period (as defined in paragraph (D) below), the Official Statement will be amended and supplemented so as to contain no misstatement of any material fact or omission of any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading.

D. Up to and including 25 days after the End of the Underwriting Period (as defined below), the District will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The District will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise materially affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds. As used herein, the term "End of the Underwriting Period" means the later of such time as: (i) the Bonds are delivered to the Underwriter; or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the End of the Underwriting Period shall be deemed to be the Closing Date. Any notice delivered pursuant to this provision shall be written notice delivered to the District at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the "End of the Underwriting Period."

E. As of the time of acceptance hereof and as of the Closing Date, except as otherwise disclosed in the Official Statement, the District is not, and as of the Closing Date, will not be, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the District is a party or is otherwise subject; and, to the District's knowledge, no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument which breach, default or event could have an adverse effect on the District's ability to perform its obligations under the District Documents; and, as of such times, except as disclosed in the Official Statement, the authorization, execution and delivery of the District Documents and compliance by the District with the provisions of each of such agreements or instruments does not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the District (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound; nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the District Documents.

F. At the time of acceptance hereof there is, and as of the Closing Date, there will be no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body (collectively and individually, an "Action") pending (notice of which has been served on the District) or to the best knowledge of the District threatened, in which any such Action: (i) in any way questions the corporate existence of the District or the titles of the officers of the District to their respective offices; (ii) affects, contests or seeks to prohibit, restrain or enjoin the issuance or delivery of any of the Bonds, or the payment or collection of the Special Taxes or any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contests or affects the validity of the District Documents or the consummation of the transactions on the part of the District contemplated thereby; (iii) contests the exclusion of the interest on the Bonds from federal or state income taxation or contests the powers of the District which may result in any material adverse change relating to the financial condition of the District; or (iv) contests the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserts that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and, as of the time of acceptance hereof, there is, and as of the Closing Date, there will be no known basis for any Action of the nature described in clauses (i) through (iv) of this sentence.

G. The District will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter and at the expense of the Underwriter as the Underwriter may reasonably request in order to: (i) qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; and (ii) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Bonds, provided; however, that the District will not be required to execute a special or general consent to service of

process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction.

H. The District Documents conform as to form and tenor to the descriptions thereof contained in the Official Statement. The District represents that the Bonds, when issued, executed and delivered in accordance with the Indenture and sold to the Underwriter as provided herein, will be validly issued and outstanding obligations of the District, entitled to the benefits of the Indenture. The Indenture creates a valid pledge of the moneys in certain funds and accounts established pursuant to the Indenture, subject in all cases to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

I. The issuance and sale of the Bonds is not subject to any transfer or other documentary stamp taxes of the State or any political subdivision thereof.

J. The District has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the District is a bond issuer whose arbitrage certifications may not be relied upon.

K. Any certificate signed by any authorized officer of the District and delivered to the Underwriter in connection with the issuance and sale of the Bonds shall be deemed to be a representation and covenant by the District to the Underwriter as to the statements made therein.

L. The District will apply the proceeds of the Bonds in accordance with the Indenture.

M. Between the date of this Purchase Agreement and the Closing Date, the District will not offer or issue any bonds, notes or other obligations for borrowed money not previously disclosed to the Underwriter.

N. Until such time as moneys have been set aside in an amount sufficient to pay all then outstanding Bonds at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest thereon and premium, if any, to maturity or to the date of redemption if redeemed prior to maturity, the District will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture.

O. The Preliminary Official Statement was deemed final by a duly authorized officer of the District prior to its delivery to the Underwriter, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of the Rule. The District hereby covenants and agrees that, within seven (7) business days from the date hereof, or upon reasonable written notice from the Underwriter within sufficient time to accompany any confirmation requesting payment from any customers of the Underwriter, the District shall cause a final printed form of the Official Statement to be delivered to the Underwriter in sufficient quantity to comply with paragraph (b)(4) of the Rule and Rules G-12, G-15, G-32 and G-36 of the Municipal Securities Rulemaking Board.

The District hereby approves the preparation and distribution of the Official Statement, consisting of the Preliminary Official Statement with such changes as are noted thereon and as may be made thereto, with the approval of Bond Counsel, and the Underwriter, from time to time prior to the Closing Date. Except as disclosed in the Preliminary Official Statement, the City has not failed

to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events in the last five years.

P. The District hereby ratifies any prior use of and authorizes the future use by the Underwriter, in connection with the offering and sale of the Bonds, of the Preliminary Official Statement, the Official Statement, this Purchase Agreement and all information contained herein, and all other documents, certificates and written statements furnished by the District to the Underwriter in connection with the transactions contemplated by this Purchase Agreement.

The execution and delivery of this Purchase Agreement by the District shall constitute a representation to the Underwriter that the representations and warranties contained in this Section 2 are true as of the date hereof.

3. [Reserved].

4. Conditions to the Obligations of the Underwriter. The obligation of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and warranties on the part of the District contained herein, to the accuracy in all material respects of the statements of the officers and other officials of the District made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the District of its obligations to be performed hereunder at or prior to the Closing Date and, to the following additional conditions:

A. At the Closing Date, the Bond Resolution and the District Documents shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and there shall have been taken in connection therewith, with the issuance of the Bonds, and with the transactions contemplated thereby, and by this Purchase Agreement, all such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate.

B. At the Closing Date, except as was described in the Preliminary Official Statement, the District shall not be, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the District is a party or is otherwise subject or bound, and the performance by the District of its obligations under the Bonds, the District Documents, the Bond Resolution, this Purchase Agreement and any other instruments contemplated by any of such documents, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the District is a party or is otherwise subject or bound, in any manner which would materially and adversely affect the performance by the District of its obligations under the District Documents, the Bonds or the Bond Resolution.

C. At the Closing Date, except as described in the Preliminary Official Statement, the District shall not be, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the District is a party or is otherwise subject or bound, and the performance of the conditions precedent to be performed hereunder will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the District is a party or is otherwise subject or bound, in any manner which would materially and adversely affect the performance of the conditions precedent to be performed by the District hereunder.

D. The information contained in the Official Statement is, as of the Closing Date and as of the date of any supplement or amendment thereto pursuant hereto, true and correct in all material respects and does not, as of the Closing Date or as of the date of any supplement or amendment thereto, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

E. Between the date hereof and the Closing Date, the market price or marketability, at the initial offering prices set forth on the cover page of the Official Statement, of the Bonds shall not have been materially adversely affected, in the judgment of the Underwriter (evidenced by a written notice to the District terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds), by reason of any of the following:

1. Legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America or recommended to the Congress by the President of the United States, the Department of the Treasury, the Internal Revenue Service, or any member of Congress, or favorably reported for passage to either House of Congress by any committee of such House to which such legislation had been referred for consideration, or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department of the United States of America or the Internal Revenue Service, with the purpose or effect, directly or indirectly, of imposing federal income taxation upon such interest as would be received by any owners of the Bonds beyond the extent to which such interest is subject to taxation as of the date hereof;

2. Legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the

issuance, offering or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise is or would be in violation of the federal securities laws as amended and then in effect;

3. A general suspension of trading in securities on the New York Stock Exchange, or a general banking moratorium declared by Federal, State of New York or State of California officials authorized to do so;

4. The introduction, proposal or enactment of any amendment to the Federal or California Constitution or any action by any Federal or California court, legislative body, or regulatory body materially adversely affecting the tax status of the District, its property, income, securities (or interest thereon), the validity or enforceability of Special Taxes;

5. Any event occurring, or information becoming known which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Preliminary Official Statement or in the Official Statement, or has the effect that the Preliminary Official Statement or the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

6. Any national securities exchange, the Comptroller of the Currency, or any other governmental agency, shall impose as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

7. There shall have occurred any material outbreak or escalation of hostilities or other calamity or crisis the effect of which on the financial markets of the United States is such as to make it impracticable, in the judgment of the Underwriter, following consultation with the District, to sell the Bonds; or

8. Any proceeding shall have been commenced or be threatened in writing by the Securities and Exchange Commission against the District.

F. At or prior to the Closing Date, the Underwriter shall have received a counterpart original or certified copy of the following documents, in each case satisfactory in form and substance to the Underwriter:

1. The Official Statement, executed on behalf of the District by the Mayor of the City or other authorized officer;

2. The Indenture, duly executed and delivered by the District and the Fiscal Agent;

3. The Bond Resolution, together with a certificate of the City Clerk of the City, dated as of the Closing Date, to the effect that such resolution is a true, correct and complete copy of the resolution duly adopted by the City Council;

4. The Escrow Agreement, duly executed and delivered by the District and the Escrow Bank;

5. The Continuing Disclosure Agreement duly executed and delivered by the District and Dissemination Agent;

6. An unqualified approving opinion for the Bonds, dated the Closing Date and addressed to the District, of Bond Counsel, to the effect that the Bonds are the valid, legal and binding obligations of the District and that the interest thereon is excluded from gross income for federal income tax purposes and exempt from personal income taxes of the State of California, in substantially the form included as Appendix B to the Official Statement, together with a letter of Bond Counsel, dated the Closing Date and addressed to the Underwriter, to the effect that such opinion addressed to the District may be relied upon by the Underwriter to the same extent as if such opinion was addressed to it;

7. A supplemental opinion or opinions, dated the Closing Date and addressed to the Underwriter, of Bond Counsel, to the effect that:

(i) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended;

(ii) the information contained in the Official Statement on the cover and under the captions "THE BONDS" (other than the caption "Debt Service Schedule" and information relating to the Deposition Trust Company ("DTC")), "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," "TAX EXEMPTION," "LEGAL INFORMATION" and in Appendix D to the Official Statement, is accurate insofar as such information purports to summarize certain provisions of the Bonds, the Indenture, the Escrow Agreement, Bond Counsel's final approving opinion, and the Act;

(iii) the Refunded Bonds have been legally defeased in accordance with the Indenture pursuant to which such Refunded Bonds were issued (the "Prior Indenture"), and the owners of the Refunded Bonds have ceased to be entitled to the pledge of Net Taxes, and all covenants, agreements and other obligations of the District, as applicable, to the owners of the Refunded Bonds and the under the Prior Indenture have ceased, terminated and become void and have been discharged and satisfied; the investment of the moneys deposited in the Escrow Fund under the Escrow Agreement will not adversely affect the exclusion from gross income of interest on the Refunded Bonds for purposes of federal income taxation.

8. A letter, dated the Closing Date and addressed to the Underwriter, of Disclosure Counsel, to the effect that Disclosure Counsel is not passing upon and has not undertaken to determine independently or to verify the accuracy or completeness of the statements contained in the Official Statement, and is, therefore, unable to make any representation to the Underwriter in that regard, but on the basis of its participation in conferences with representatives of the District, the City Attorney, Bond Counsel, Special District Financing & Administration LLC as the special tax consultant (the "Special Tax Consultant"), representatives of the Underwriter and others, during which conferences the content of the Official Statement and related matters were discussed, and its examination of certain documents, and, in reliance thereon and based on the information made available to it in its role as Disclosure Counsel and its understanding of applicable law, Disclosure Counsel advises the Underwriter as a matter of fact, but not opinion, that no information has come to the attention of the attorneys in the firm working on such matter which has led them to believe that the Official Statement (excluding therefrom the financial and statistical data, forecasts, charts,

numbers, estimates, projections, assumptions and expressions of opinion included in the Official Statement, information regarding DTC and its book entry system and the information set forth in Appendices A, B, C, D, E and F, as to all of which no opinion is expressed) as of its date and as of the Closing Date contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and advising the Underwriter that, other than reviewing the various certificates and opinions required by this Purchase Agreement regarding the Official Statement, Disclosure Counsel has not taken any steps since the date of the Official Statement to verify the accuracy of the statements contained in the Official Statement;

9. A certificate, dated the Closing Date and signed by the [Finance Director] of the City or other authorized officer, to the effect that: (i) the representations and warranties of the District contained herein are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; (ii) to the best knowledge of such officer, no event has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect; (iii) the District has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied under the District Documents and the Bond Resolution at or prior to the Closing Date; and (iv) all information in the Official Statement relating to the District (other than information therein provided by the Special Tax Consultant) is true and correct in all material respects as of the date of the Official Statement and as of the Closing Date;

10. [Reserved];

11. An opinion of the City Attorney of the City, as counsel to the District, dated the date of Closing and addressed to the Underwriter and the District, to the effect that:

(i) The City is a municipal corporation, duly organized and validly existing under the Constitution and laws of the State of California;

(ii) The District is a public body, corporate and politic, duly organized and validly existing as community facilities district under the laws of the State of California;

(iii) The Bond Resolution authorizing the Bonds and execution and delivery of the District Documents was duly adopted at a meeting of the governing body of the District, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the Bond Resolution is in full force and effect and has not been modified, amended, rescinded or repealed since the date of its adoption;

(iv) The District Documents have been duly authorized, executed and delivered by the District and (assuming due authorization, execution and delivery by and validity against the other parties thereto) constitute the legal, valid and binding obligations of the District enforceable against the District in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles where equitable remedies are sought and to the exercise of judicial discretion in appropriate cases;

(v) To the best knowledge of such counsel, the execution and delivery of the District Documents and compliance with the provisions thereof under the circumstances contemplated thereby: (a) do not in any material respect conflict with or constitute on the part of the District a breach of or default under any agreement or other instrument to which the District is a party or by which it is bound; and (b) do not and will not in any material respect or constitute on the part of the District a violation, breach of or default under any court order or consent decree to which the District is subject;

(vi) no authorization, approval, consent, or other order of the State of California or any other governmental body within the State of California is required for the valid authorization, execution and delivery of the District Documents or the consummation by the District of the transactions on its part contemplated therein, except such as have been obtained and except such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Bonds by the Underwriter; and

(vii) Except as may be stated in the Official Statement, there is no action, suit, proceeding or investigation before or by any court, public board or body pending (notice of which has been served on the District) or, to the City Attorney's knowledge, threatened wherein an unfavorable decision, ruling or finding would: (a) affect the creation, organization, existence or powers of the District, or the titles of its members and officers to their respective offices; (b) enjoin or restrain the collection of the Special Taxes or the pledge Net Taxes; (c) in any way question or affect any of the rights, powers, duties or obligations of the District with respect to the Net Taxes or the moneys and assets pledged or to be pledged to pay the principal of, premium, if any, or interest on the Bonds; (d) in any way affect, contest or seek to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds, or the validity or enforceability of the Bonds; or (e) in any way question or affect the District Documents or the transactions contemplated by the District Documents, or any activity regarding the Bonds; and

(viii) Based on the information made available to the City Attorney, and without having undertaken to determine independently or assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to the attention of the City Attorney as of the date of Closing which would lead the City Attorney to believe that the Official Statement as of its date and as of the date of Closing (excluding therefrom the financial and statistical data and forecasts included therein, as to which no opinion is expressed and information relating to the DTC and its book entry system) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ix) the District has been duly formed, and the Special Taxes have been duly and validly levied in accordance with the provisions of the Act and, except to the extent prohibited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other similar laws affecting creditors' rights generally, a lien to secure payment of the Special Taxes has been imposed on taxable property within the District; and

12. A transcript of all proceedings relating to the authorization, issuance, sale and delivery of the Bonds, including certified copies of the District Documents, the Bond Resolution and all other resolutions of the District relating thereto;

13. A certificate dated the Closing Date from the Special Tax Consultant addressed to the District and the Underwriter to the effect that: (i) the Special Taxes if collected in the maximum amounts permitted pursuant to the Rate and Method of Apportionment of Special Taxes of the District as of the Closing Date would generate from Net Taxes at least 110% of the maximum annual debt service payable with respect to the Bonds, based on such assumptions and qualifications as shall be acceptable to the Underwriter; and (ii) the statements in the Official Statement concerning Special Taxes and Net Taxes, and all information supplied by it for use in the Official Statement were as of the date of the Official Statement and are as of the Closing Date true and correct, and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

14. Certified copies of the general resolution of the Fiscal Agent authorizing the execution and delivery of certain documents by certain officers of the Fiscal Agent, which resolution authorizes the execution of the Indenture and the authentication of the Bonds;

15. A certificate of the Fiscal Agent and Escrow Bank, addressed to the Underwriter and the District dated the Closing Date, to the effect that: (i) the Fiscal Agent and the Escrow Bank are authorized to carry out corporate trust powers, and have full power to perform their respective duties under the Indenture and the Escrow Agreement; (ii) the Fiscal Agent and the Escrow Bank are duly authorized to execute and deliver the Indenture and the Escrow Agreement, to accept the obligations created by the Indenture and the Escrow Agreement, and to authenticate the Bonds pursuant to the terms of the Indenture; (iii) no consent, approval, authorization or other action by any governmental or regulatory agency having jurisdiction over the Fiscal Agent and the Escrow Bank that has not been obtained is or will be required for the authentication of the Bonds or the consummation by the Fiscal Agent and the Escrow Bank of the other transactions contemplated to be performed by the Fiscal Agent and the Escrow Bank in connection with the authentication of the Bonds and the acceptance and performance of the obligations created by the Indenture and the Escrow Agreement; and (iv) to the best of its knowledge, compliance with the terms of the Indenture and the Escrow Agreement will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Fiscal Agent and the Escrow Bank is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Fiscal Agent and the Escrow Bank or any of its activities or properties;

16. An opinion of counsel to the Fiscal Agent and the Escrow Bank, dated the Closing Date, addressed to the Underwriter and the District to the effect that each of the Fiscal Agent and the Escrow Bank is a national banking association duly organized and validly existing under the laws of the United States having full power and being qualified to enter into, accept and agree to the provisions of the Indenture and the Escrow Agreement, and that each of such documents has been duly authorized, executed and delivered by the Fiscal Agent or the Escrow Bank, as applicable, and, assuming due execution and delivery by the other parties thereto, constitutes the legal, valid and binding obligation of the Fiscal Agent or the Escrow Bank, as applicable, enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights in general and except as such enforceability may be limited by the application of equitable principles if equitable remedies are sought;

17. A certificate of the District dated the Closing Date, in a form acceptable to Bond Counsel and the Underwriter, that the Bonds are not arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;

18. A letter addressed to the District, dated the date of the Closing, from Causey Demgen & Moore P.C., Denver, Colorado, verifying the accuracy of the mathematical computations concerning the adequacy of the maturing principal amounts of the government obligations, together with other moneys, if any, to be deposited with the District, in the Escrow Fund for the Refunded Bonds to pay when due pursuant to the stated maturity or call for redemption the principal of and interest and premium with respect to the Refunded Bonds;

19. [Evidence as of the Closing Date satisfactory to the Underwriter that the Bonds have received, at a minimum, a rating of "A-" from [Standard & Poor's Rating, Services ("S&P"),] and that such rating has not been revoked or downgraded; and]

20. Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the material representations and warranties of the District contained herein, and of the statements and information contained in the Official Statement and the due performance or satisfaction by the District at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the District in connection with the transactions contemplated hereby and by the Indenture, the Escrow Agreement, the Continuing Disclosure Agreement, and the Official Statement.

If the District shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds contained in this Purchase Agreement, or if the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the District nor the Underwriter shall be under any further obligation hereunder, except that the respective obligations of the Underwriter and the District set forth in Section 6 hereof shall continue in full force and effect.

#### 5. Expenses.

A. Whether or not the Underwriter accepts delivery of and pays for the Bonds as set forth herein, it shall be under no obligation to pay, and the District shall pay out of the proceeds of the Bonds or any other legally available funds of the District, all expenses incidental to the performance of the District's obligations hereunder, including but not limited to the cost of printing and delivering the Bonds to the Underwriter; the costs of printing and shipping the Preliminary Official Statement and the Official Statement; the fees and disbursements of the District, the Fiscal Agent, the Escrow Bank, Bond Counsel, Disclosure Counsel, accountants and any other experts or consultants retained by the District in connection with the issuance and sale of the Bonds; and any other expenses not specifically enumerated in paragraph (A) of this Section incurred in connection with the issuance and sale of the Bonds.

B. Whether or not the Bonds are delivered to the Underwriter as set forth herein, the District shall be under no obligation to pay, and the Underwriter shall be responsible for and pay, CUSIP and CDIAAC fees and expenses to qualify the Bonds for sale under any "blue sky" laws; and all other expenses incurred by the Underwriter in connection with its public offering and distribution

of the Bonds not specifically enumerated in paragraph (A) of this Section, including the fees and disbursements of its counsel.

6. Undertakings of the District. The District agrees: (a) to inform the Underwriter, from time to time, upon the reasonable request of the Underwriter, of the amount then on deposit in Reserve Fund and all accounts thereunder; and (b) to make available to the Underwriter, upon reasonable request of the Underwriter, at the expense of the District, sufficient copies of its audited financial statements, if any, and any resolutions of its legislative body with respect to the Bond Resolution, the Bonds, the Indenture, the Escrow Agreement, the Official Statement, any amendments or supplements thereto, and other documents relating to the Bonds and pertaining to the District adopted or executed, as the case may be, after the Closing Date, to the extent that such documents are publicly available.

7. Notices. Any notice of other communication to be given to the District under this Purchase Agreement may be given by delivering the same in writing to the City of Escondido, One Civic Center Drive, Escondido, California 92069, Attention: [Finance Director]; any notice or other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to Stifel Nicolaus & Company, Incorporated, One Ferry Building, Suite 275, San Francisco, California 94111, Attention: Managing Director.

8. Parties In Interest. This Purchase Agreement is made solely for the benefit of the District and Underwriter (including any successors or assignees of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof.

9. Survival of Representations and Warranties. The representations and warranties of the District under this Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the District and regardless of delivery of and payment for the Bonds.

10. Execution in Counterparts. This Purchase Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

11. Effective. This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the District and shall be valid and enforceable as of the time of such acceptance.

12. No Prior Agreements. This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understanding among the parties hereto in relation to the sale of the Bonds by the District.

13. Governing Law. This Purchase Agreement shall be governed by the laws of the State of California.

14. Effective Date. This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the City and the District and shall be valid and enforceable as of the time of such acceptance.

Very truly yours,

STIFEL NICOLAUS & COMPANY, INC.

By: \_\_\_\_\_

Its: Authorized Officer

ACCEPTED AS OF \_\_\_\_\_, 2013 at \_\_\_\_\_ .m.:

CITY OF ESCONDIDO COMMUNITY  
FACILITIES DISTRICT NO. 2000-01 OF  
THE CITY OF ESCONDIDO (HIDDEN  
TRAILS)

By: \_\_\_\_\_

Finance Director of the City of  
Escondido, acting on behalf of the  
City of Escondido Community Facilities  
District No. 2000-01 (Hidden Trails)

**EXHIBIT A**

**§  
CITY OF ESCONDIDO  
COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

**Schedule of Bond Maturities, Principal Amounts and Interest Rates**

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>
	\$	%	%

PRELIMINARY OFFICIAL STATEMENT DATED JUNE \_\_, 2013

RATING: S&P: “ ”  
See the caption “RATING”

NEW ISSUE – BOOK-ENTRY ONLY

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

§ \_\_\_\_\_  
CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013

Dated: Delivery Date

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

The City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Special Tax Refunding Bonds, Series 2013 (the “Bonds”) are being issued by City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) (the “District”) to refund the District’s outstanding 2001 Special Tax Bonds (the “Refunded Bonds”), to fund a Reserve Account for the Bonds and to pay Costs of Issuance of the Bonds. See the caption “THE REFUNDING PLAN.” The 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 that certain Bond Indenture (the “Indenture”), dated as of July 1, 2013, by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”).

The Bonds are special obligations of the District payable from Net Taxes (as defined herein) derived from a certain annual Special Tax (as defined herein) to be levied on taxable land within the District and from certain other funds pledged under the Indenture, all as further described herein. The Special Tax is to be levied according to the rate and method of apportionment approved by the City Council of the City of Escondido (the “City”) and the qualified electors within the District. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and Appendix A.

The 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 of the Bonds may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable on March 1 and September 1 of each year, commencing March 1, 2014. Principal of and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the Beneficial Owners of the Bonds. See the caption “THE BONDS—General Provisions.”

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND OTHER AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

The Bonds are subject to optional redemption and special mandatory redemption from Special Tax prepayments as set forth under the caption “THE BONDS—Redemption of the Bonds.”

Investment in the Bonds involves risks that are not appropriate for certain investors. Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the caption “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 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.

MATURITY SCHEDULE  
(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the District with respect to the Bonds. Certain legal matters will be passed on for the City and the District by Jeffrey Epp, Esquire, City Attorney. Certain legal matters will be passed on by Best Best & Krieger LLP, San Diego, California, as counsel to the Underwriter. It is anticipated that the Bonds in book-entry form will be available for delivery on or about July 24, 2013.

[STIFEL LOGO]

Dated: June \_\_, 2013

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

\$ \_\_\_\_\_<sup>\*</sup>  
**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01**  
**(HIDDEN TRAILS)**  
**SPECIAL TAX REFUNDING BONDS, SERIES 2013**

**MATURITY SCHEDULE**

**BASE CUSIP<sup>®†</sup> \_\_\_\_\_**

<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>
2014	\$	%	%		
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					

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<sup>\*</sup> Preliminary; subject to change.

<sup>†</sup> CUSIP<sup>®</sup> is a registered trademark of the American Bankers Association. Copyright<sup>©</sup> 1999-2013 Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business. All rights reserved. CUSIP<sup>®</sup> data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP<sup>®</sup> numbers are provided for convenience of reference only. None of the City, the District or the Underwriter takes any responsibility for the accuracy of such numbers.

**CITY OF ESCONDIDO  
COUNTY OF SAN DIEGO  
STATE OF CALIFORNIA**

**MAYOR AND MEMBERS OF THE CITY COUNCIL**

Sam Abed, Mayor  
Olga Diaz, Deputy Mayor  
Michael Morasco, Member  
Ed Gallo, Member  
John Masson, Member

**STAFF**

Clay Phillips, City Manager  
Jeffrey Epp, Esq., City Attorney  
Gil Rojas, City Finance Director  
Kenneth Hugins, City Treasurer  
Ed Domingue, City Director of Public Works  
Diane Halverson, City Clerk

**SPECIAL SERVICES**

**Bond Counsel and Disclosure Counsel**

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

**Special Tax Consultant**

Special District Financing & Administration LLC  
Escondido, California

**Fiscal Agent/Escrow Agent**

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

**Verification Agent**

Causey Demgen & Moore P.C.  
Denver, Colorado

Except where otherwise indicated, all information contained in this Official Statement has been provided by the City and the District. No dealer, broker, salesperson or other person has been authorized by the City, the District, the Fiscal Agent or the Underwriter to give any information or to make any representations in connection with the offer or sale of the 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 City, the District, the Fiscal Agent 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 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 owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

The information and expressions of 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 City 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 City for further information in connection therewith.

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

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 hereto as Appendix E, neither the District nor the City plans to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

A wide variety of other information, including financial information, concerning the City, is available from publications and websites of the City 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.

**IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT 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 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

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[INSERT REGIONAL MAP]

[INSERT AERIAL MAP]

§ \_\_\_\_\_\*

**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) (the “District”) of its Special Tax Refunding Bonds, Series 2013 in the aggregate principal amount of \$ \_\_\_\_\_\* (the “Bonds”). The proceeds of the Bonds, together with certain existing funds of the District, will be used to defease all of the District’s outstanding 2001 Special Tax Bonds, originally issued in the aggregate principal amount of \$3,085,000 and now outstanding in the principal amount of \$2,505,000 (the “Refunded Bonds”). A portion of the proceeds of the Bonds will be used to fund a deposit to the Reserve Account of the Bond Fund and to pay Costs of Issuance of the Bonds. See the captions “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The 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 that certain Bond Indenture dated, as of July 1, 2013 (the “Indenture”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”). The Bonds are secured under the Indenture by a pledge of and lien upon Net Taxes (as defined herein) and all moneys in the Bond Fund as described in the Indenture.

The Bonds are being sold pursuant to a purchase contract between Stifel, Nicolaus & Company, Incorporated, as underwriter (the “Underwriter”) and the District. For more complete information, see the captions “THE BONDS—General Provisions” and “UNDERWRITING.”

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 and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined have the meanings set forth in Appendix D.

**The District**

The District was formed on September 20, 2000. The Bonds are being issued pursuant to the Act and the Indenture. The Act was enacted by the State of California (the “State”) 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 community facilities 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 community facilities district acts on behalf of such community facilities district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such community facilities district to repay such indebtedness.

Pursuant to the Act, subsequent to a noticed public hearing, on September 20, 2000, the City Council (the “City Council”) of the City of Escondido, California (the “City”), adopted Resolution No. 2000-241R (the

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\* Preliminary; subject to change.

“Resolution of Formation”), forming the District and authorizing the levy of a special tax on the taxable property within the District, and Resolution No. 2000-242 (the “Resolution to Incur Bonded Indebtedness”), stating its intention to incur bonded indebtedness in an aggregate principal amount not to exceed \$3,500,000 within the District for the purpose of financing the design, construction, expansion, acquisition, leasing and rehabilitation of certain public facilities within or serving the District and calling an election within the District on the proposition of incurring bonded indebtedness, levying a special tax and setting an appropriations limit.

On September 20, 2000, an election was held within the District in which the landowners eligible to vote approved the proposition authorizing the issuance of bonds in an amount not to exceed \$3,500,000 to finance the design, construction, expansion, acquisition, leasing and rehabilitation of certain public facilities within or serving the District, the levying of the special taxes and the appropriations limit of \$3,500,000. On October 4, 2000, the City Council, acting as the legislative body of the District, adopted Ordinance No. 2000-30 (the “Ordinance”) which provides for the rate and method of apportionment (the “Rate and Method”) and levying of the Special Tax. On October 4, 2001, an Amendment to Notice of Special Tax Lien was recorded in the office of the Recorder of the County of San Diego (the “County”) for the District.

### **Description of the Development**

The District consists of approximately 142 gross acres of taxable property. The District is located within the City approximately 5 miles east of its downtown area in a neighborhood historically referred to as East Grove, approximately 33 miles northeast of downtown San Diego and approximately 45 miles north of the United States/Mexico international border.

The property within the District was developed jointly by two related entities, East Grove, L.P., a Delaware limited partnership (“East Grove”) and William Lyon Homes, Inc., a California corporation (“Lyon” and, together with East Grove, the “Developer”). East Grove is a limited partnership with Lyon as its sole general partner and ORA Residential Investments I, L.P., a California limited partnership, as its sole limited partner. Lyon is a corporation wholly owned by William Lyon Homes, a Delaware corporation. The Developer commenced construction of the first units in May 2001. The last building permit in the District was issued on March 11, 2004 and the Developer has conveyed all of the units in the District to individual homeowners. All of the 290 completed homes, including one home the owners of which prepaid its Special Tax obligation in September 2008, are within Final Tract Map No. 13897 (Escondido Tract No. 795) recorded on December 16, 1999. As a result of the Special Tax prepayment described in the previous sentence, as well as the partial prepayment of the Special Tax obligation by another parcel owner in August 2009, Refunded Bonds were called for redemption in September 2008 and September 2010 in the aggregate principal amount of \$10,000 and \$10,000, respectively. See the caption “THE COMMUNITY FACILITIES DISTRICT.”

### **Forward-Looking Statements**

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

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

OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

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

As used in this Official Statement, the term “Special Tax” is that tax which has been authorized to be levied against certain land within the District pursuant to the Act and in accordance with the Rate and Method. See Appendix A. Under the Indenture, the principal of and interest on the Bonds are payable from Net Taxes and all amounts in the Bond Fund (including the Debt Service Account, the Redemption Account and the Reserve Account) established under the Indenture. The “Net Taxes” are the Special Tax proceeds, including all proceeds from foreclosure sales for delinquent Special Taxes, remaining after payment of the Administrative Expense Requirement (as defined below). The Bonds are secured only by the Net Taxes collected within the District. Amounts in the Surplus Fund are not pledged to the repayment of the Bonds.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND OTHER AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

The Net Taxes are the primary security for the repayment of the 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 Bonds are amounts held by the Fiscal Agent in certain funds under the Indenture, including amounts held in the Reserve Account of the Bond Fund. The District has covenanted for the benefit of the owners of the Bonds that it will, under certain circumstances described herein, commence, or cause to be commenced, and diligently prosecute to judgment (unless the delinquency is brought current) judicial foreclosure proceedings against assessor’s parcels with delinquent Special Taxes. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales.”

The District has covenanted not to issue additional indebtedness secured by the Special Taxes on a parity with the lien of the Bonds, except for bonds issued for the purpose of refunding all or a portion of outstanding Bonds or parity bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds.” Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes may also be levied on the property within the District. See the caption “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.”

EXCEPT FOR THE NET TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS.

### **Description of the Bonds**

The 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 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 Bonds. In the event that the book-entry system described herein is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Indenture. See Appendix F.

Principal of, premium, if any, and interest on the Bonds is payable by the Fiscal Agent 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. See Appendix F.

The Bonds are subject to optional redemption and special mandatory redemption from Special Tax prepayments as described herein. For a more complete descriptions of the Bonds and the basic documentation pursuant to which the Bonds are being sold and delivered, see the caption "THE BONDS" and Appendix D.

### **Tax Exemption**

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

Set forth in Appendix B is the form of the opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain other tax consequences incidental to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see the caption "TAX EXEMPTION."

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

The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, will act as Fiscal Agent under the Indenture and as Escrow Agent under the Escrow Agreement (as defined herein). Stifel, Nicolaus & Company, Incorporated is the Underwriter of the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel. Certain legal matters will be passed on for the City and the District by Jeffrey Epp, Esquire, City Attorney. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, San Diego, California. Other professional services have been performed by Special District Financing & Administration LLC, Escondido, California, as Special Tax Consultant and Causey Demgen & Moore P.C., as Verification Agent.

For information concerning whether certain of the above-mentioned professionals, advisors, counsel and consultants may have a financial or other interest in the offering of the Bonds, see the caption "FINANCIAL INTERESTS."

### **Continuing Disclosure**

The District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system available on the Internet at <http://emma.msrb.org> ("EMMA") certain annual financial information and operating data. The 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 the caption "CONTINUING DISCLOSURE" and Appendix E for a description of the specific nature of the annual reports to be filed by the District and notices of listed events to be provided by the District. Within the last five years, the District has not failed to timely comply with its prior continuing disclosure obligations under Rule 15c2-12(b)(5) in all material respects.

**Parity Bonds**

The District may, at any time after the issuance and delivery of the Bonds under the Indenture, issue Parity Bonds, solely for the purpose of refunding all or a portion of the Bonds, payable from the Net Taxes and other amounts deposited in the Bond Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds."

**Bondowners' Risks**

Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the caption "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 Bonds. The purchase of the Bonds involves risks, and the Bonds may not be appropriate investments for some types of investors.

**Other Information**

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

Brief descriptions of the 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 Bonds and the Constitution and laws of the State as well as the proceedings of the City Council, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Indenture. Capitalized terms not otherwise defined herein have the meanings set forth in the Indenture.

Copies of the Indenture and other documents and information are available for inspection and (upon request and payment to the District of a charge for copying, mailing and handling) for delivery from the City at 201 North Broadway, Escondido, California 92025, Attention: Finance Director.

**ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the expected sources and uses of Bond proceeds, together with prior funds on hand.

<b>Sources of Funds<sup>(1)</sup></b>	
Principal Amount of Bonds	\$
Plus/Less Net Original Issue Discount/Premium	
Less Underwriter's Discount	
Prior Funds <sup>(2)</sup>	
<b>Total Sources</b>	<b>\$ _____</b>
<b>Uses of Funds<sup>(1)</sup></b>	
Escrow Fund to Redeem Refunded Bonds	\$
Reserve Account of the Bond Fund	
Costs of Issuance Fund <sup>(3)</sup>	
<b>Total Uses</b>	<b>\$ _____</b>

<sup>(1)</sup> Rounded to the nearest dollar.

<sup>(2)</sup> Includes moneys held in funds and accounts established in connection with the Refunded Bonds.

<sup>(3)</sup> Includes certain fees of Bond Counsel, Disclosure Counsel, the Special Tax Consultant, the Verification Agent, S&P and the Fiscal Agent, printing costs and other miscellaneous costs of issuance.

## THE REFUNDING PLAN

### General

The Refunded Bonds, which are currently outstanding in the aggregate principal amount of \$2,505,000, were issued by the District pursuant to Bond Indenture, dated as of October 1, 2001 (the "2001 Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as successor in interest to BNY Western Trust Company, as fiscal agent (the "2001 Fiscal Agent"). The District plans to apply a portion of the proceeds of the Bonds, together with certain moneys on deposit with the 2001 Fiscal Agent, to pay all principal of and interest on the 2001 Bonds pursuant to an early call for redemption on September 1, 2013 (the "Redemption Date") at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the Redemption Date (the "Redemption Price").

Under an Escrow Agreement (2001 Bonds), dated as of July 1, 2013 (the "Escrow Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent") and as 2001 Fiscal Agent, the District will deliver a portion of the proceeds of the Bonds to the Escrow Agent for deposit in the escrow fund (the "Escrow Fund") established under the Escrow Agreement on or about the date of issuance of the Bonds. In addition, the 2001 Fiscal Agent will transfer certain moneys held in connection with the Refunded Bonds to the Escrow Agent for deposit in the Escrow Fund on or about the date of issuance of the Bonds. The Escrow Agent will invest a portion of the amounts so deposited in the Escrow Fund in Investment Securities (as described in the Escrow Agreement). From the maturing principal of the Investment Securities and related investment income and any uninvested moneys on deposit in the Escrow Fund, the 2001 Fiscal Agent will pay the Redemption Price of the Refunded Bonds on the Redemption Date in accordance with the Escrow Agreement.

Sufficiency of the deposits in the Escrow Fund for such purposes will be verified by Causey Demgen & Moore P.C. (the "Verification Agent"). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the Escrow Agreement, the Refunded Bonds will be defeased pursuant to the provisions of the 2001 Indenture as of the date of issuance of the Bonds 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.

The portion of the proceeds of the Bonds deposited with the 2001 Fiscal Agent is pledged solely to the payment of the Refunded Bonds and will not be available for the payments of principal of and interest on the Bonds.

### Verification

Upon the issuance of the Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to: (a) the adequacy of the maturing principal of and interest on the Investment Securities to pay when due the Redemption Price of the Refunded Bonds on the Redemption Date; and (b) the computations of yield of the Bonds and the Investment Securities which support Bond Counsel's opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes.

## THE BONDS

### Authority for Issuance

The Bonds in the aggregate principal amount of \$\_\_\_\_\_ \* are authorized to be issued by the District under and subject to the terms of the Indenture, the Act and other applicable laws of the State of California.

### Purpose of the Bonds

The Bonds are being issued to provide funds to: (i) defease the Refunded Bonds; (ii) fund the Reserve Account of the Bond Fund; and (iii) pay Costs of Issuance of the Bonds. See the captions "ESTIMATED SOURCES AND USES OF FUNDS" and "THE REFUNDING PLAN."

### General Provisions

The Bonds will be issued and delivered in the aggregate principal amount of \$\_\_\_\_\_ \* initially in book-entry form and will bear interest at the rates per annum and mature on the dates set forth on the inside front cover page hereof. Individual purchases of the Bonds may be made in principal amounts of \$5,000 and any integral multiple thereof. The Bonds will be dated the Delivery Date and interest will be payable thereon on March 1 and September 1 of each year, commencing March 1, 2014 (individually, an "Interest Payment Date"). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication of such Bond, unless: (i) the date of authentication is an Interest Payment Date, in which event it will bear interest from such date; (ii) the date of authentication is after the 15th day of the month, regardless of whether such day is a Business Day, but prior to the immediately succeeding Interest Payment Date (a "Record Date"), in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the Delivery Date; provided, however, that if at the time of authentication of such Bond, interest is in default, interest on such Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment, or if no interest has been paid or made available for payment on such Bond, interest on such Bond will be payable from the Delivery Date.

The Bonds are issued as fully-registered bonds and will be registered in the name of Cede & Co., as Nominee of DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 and any integral multiple thereof. See Appendix F.

### Debt Service Schedule

The Special Tax is to be levied against the property within the District and collected according to the Rate and Method. See Appendix A. The District has covenanted to levy the Special Tax each year in time to have it placed on the secured property tax roll of the County. Actual collections of the Special Tax will depend on the Special Tax delinquencies.

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\* Preliminary; subject to change.

**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
DEBT SERVICE SCHEDULE**

<i>Period Ending September 1</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Debt Service</i>
2013	\$	\$	\$
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
Totals	\$	\$	\$

Source: Underwriter.

**Redemption of the Bonds**

**Optional Redemption.** The Bonds are subject, at the option of the District, to call and redemption from any available source of funds prior to their stated maturity on any date, as a whole or in part, and by lot, at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

**Special Mandatory Redemption from Special Tax Prepayments.** The Bonds are subject to special mandatory redemption as a whole, or in part, on a pro rata basis among maturities, on any Interest Payment Date, and will be redeemed by the Fiscal Agent, from Special Tax Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account (see the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Reserve Account"), at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

Special Tax Prepayments and amounts released from the Reserve Account in connection with Special Tax Prepayments will be allocated to the redemption of the Bonds as nearly as practicable on a proportionate basis based on the outstanding principal amount of the Bonds.

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

**Selection of Bonds for Redemption**

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

**Notice of Redemption**

When Bonds are to be called for redemption under the Indenture, and in the case of an optional redemption or special mandatory redemption, if the Fiscal Agent has received the required notice from the District, the Fiscal Agent will give notice, in the name and at the expense of the District, of the redemption of such Bonds. Such notice of redemption will: (a) specify the serial numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds subject to redemption, or all of the Bonds of one maturity are to be redeemed, the serial numbers thereof need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be surrendered for redemption; and (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed. Such notice will further state that on the date fixed for redemption, there will become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon will cease to accrue and be payable. At least 30 days but no more than 60 days prior to the redemption date, the Fiscal Agent will mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register. The actual receipt by the Owner of any Bond of notice of such redemption is not a condition precedent thereto, and neither the failure to receive such notice nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Fiscal Agent that notice of such redemption has been given as provided in the Indenture will be conclusive as against all parties, and the Owner will not be entitled to show that he or she failed to receive notice of such redemption.

With respect to any notice of optional redemption of the Bonds, such notice may state that such redemption is conditional upon the receipt by the Fiscal Agent, on or prior to the date fixed for such

redemption, of moneys sufficient to pay the principal of, premium if any, and interest on the Bonds to be redeemed and upon other conditions set forth therein and that, if such moneys have not been so received and such other conditions have not been satisfied, said notice will be of no force and effect and the Fiscal Agent will not be required to redeem such Bonds. If any condition stated in the redemption notice for an optional redemption has not been satisfied on or prior to the redemption date: (i) the redemption notice will be of no force and effect; (ii) the District will not be required to redeem such Bonds; (iii) the redemption will not be made; and (iv) the Fiscal Agent will within a reasonable time thereafter give notice to the persons in the manner in which the conditional redemption notice was given that such condition or conditions were not met and that the redemption was canceled.

In addition to the foregoing notices, further notice will be given by the Fiscal Agent as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

Each further notice of redemption will be sent not later than the date that notice of redemption is mailed to the Bondowners pursuant to the Indenture by registered or certified mail or overnight delivery service to the Depository and to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds as determined by the Fiscal Agent and to one or more of the national information services that the Fiscal Agent determines are in the business of disseminating notice of redemption of obligations such as the Bonds.

Upon the payment of the redemption price of any Bonds being redeemed, each check or other transfer of funds issued for such purpose will to the extent practicable bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

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

Upon cessation of the book-entry system, the registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the Corporate Trust Office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney. Bonds may be exchanged at the Corporate Trust Office of the Fiscal Agent for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Fiscal Agent will not collect from the Bondowner any charge for any new Bond issued upon any exchange or transfer, but will require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bond is surrendered for registration of transfer or exchange, the District will execute and the Fiscal Agent will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount; provided that the Fiscal Agent is not required to register transfers or make exchanges of: (i) Bonds for a period of 15 days next preceding the date of any selection of the Bonds to be redeemed; or (ii) any Bonds chosen for redemption.

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

As described below, the principal of and interest on the Bonds are payable from Net Taxes (Special Taxes remaining after the payment of the Administrative Expense Requirement) and all amounts in the Bond Fund (including the Debt Service Account and the Reserve Account) established under the Indenture. Amounts in the Surplus Fund are not pledged to the repayment of the Bonds. The Net Taxes consist of the Special Tax proceeds, including all proceeds from foreclosure sales for delinquent Special Taxes, remaining after payment of the Administrative Expense Requirement. The Bonds are secured only by the Net Taxes collected within the District.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND OTHER AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

### **Special Taxes**

**General.** In accordance with the provisions of the Act, the City Council established the District on September 20, 2000 for the purpose of financing the design, construction, expansion, acquisition, leasing and rehabilitation of certain public facilities within or serving the District, as provided in the Resolution of Formation. The Resolution of Formation and the Resolution to Incur Bonded Indebtedness authorized the District to submit a proposition to the qualified electors of the District to authorize the issuance of an aggregate principal amount of bonds not to exceed \$3,500,000 and the annual levy and collection of the Special Tax pursuant to the terms and conditions of the Act. The levy of the Special Tax and the Rate and Method were approved by the qualified electors within the District on September 20, 2000. On October 4, 2000, the City Council, acting as the legislative body of the District, adopted the Ordinance, which provides for the levying of the Special Tax. The Rate and Method approved by the City Council and the qualified electors is set forth in Appendix A.

The City Council, as the legislative body of the District, has covenanted in the Indenture to cause the Treasurer-Tax Collector of the County to levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount anticipated to be sufficient, together with any moneys on deposit in the Bond Fund established under the Indenture (including such amounts deposited in the Reserve Account for the payment of debt service on the Bonds in the final Bond Year) and anticipated to be available in the next succeeding Bond Year, to pay in the following amounts in the following order of priority: (i) Administrative Expenses due or coming due equal to the Administrative Expense Requirement; (ii) the principal of and interest on the Bonds; (iii) the amount, if any, necessary to replenish the Reserve Account for the Bonds to an amount equal to the Reserve Requirement established by the Indenture; and (iv) rebatable arbitrage relating to the Bonds. See the caption “—Reserve Account” below. Notwithstanding the foregoing, the Special Taxes levied in any Fiscal Year of the District ending June 30 (each, a “Fiscal Year”) may not exceed the maximum rates authorized pursuant to the Rate and Method for the District. See Appendix A. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See the caption “SPECIAL RISK FACTORS—Insufficiency of Special Taxes.”

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

Under no circumstances will the Special Taxes levied against any parcel of Residential Property (as described in Appendix A and under the caption “—Rate and Method of Apportionment of Special Tax”) be increased by more than 10% per Fiscal Year as a consequence of delinquency or default by the owner of any other parcel within the District.

Although the Special Taxes constitute liens on taxed parcels within the District, such taxes do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the District or the landowners therein. See the caption “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.” There is no

assurance that the property owners in the District will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. See the caption "SPECIAL RISK FACTORS."

**Rate and Method of Apportionment of Special Tax.** The District is legally authorized and has covenanted to cause the levy of the Special Taxes in an amount determined according to the Rate and Method, which the City Council and the qualified electors of the District have approved. The Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in the District as more particularly described in the Appendix A. The District adopted the Rate and Method following public hearings and elections conducted pursuant to the provisions of the Act. The full text of the Rate and Method is set forth in Appendix A.

The Rate and Method classifies property to be taxed as "Taxable Property" or property which is exempt from the Special Tax. Taxable Property is further classified as "Developed Property," "Undeveloped Property" and "Other Property." Developed Property consists of all Assessor's Parcels in the District for which a building permit was issued prior to June 1 preceding the Fiscal Year for which Special Taxes being levied. Developed Property is further classified as Residential Property or Other Property. Currently, all property within the District consists of Residential Property and Developed Property. See the caption "THE COMMUNITY FACILITIES DISTRICT."

The amount of Special Tax that the District may levy is limited by the Maximum Special Tax rates set forth in the Rate and Method. Under the Rate and Method, the Maximum Special Tax for a parcel of Residential Property classified as Developed Property is \$0.39 per square foot of Residential Floor Area (as such term is defined in the Rate and Method).

The City Council levies the Special Tax, which levy commenced in Fiscal Year 2001-02, to the extent necessary, as follows: first, by determining the maximum Special Tax revenue generated by multiplying the total square feet of Residential Floor Area of all Assessor's Parcels of Developed Property that is Residential Property and the total Net Acres of all Assessor's Parcels of Developed Property that is Other Property by the respective Maximum Special Tax rate; second, if the amount of Special Tax revenue determined pursuant to the first step exceeds the amount necessary to pay debt service on the Bonds and any Parity Bonds, replenish the Reserve Account and pay Administrative Expenses (the "Special Tax Liability"), the Special Tax for each Assessor's Parcel will be reduced proportionately so that the Special Tax levy equals the Special Tax Liability; and third, if the amount of Special Tax revenue determined pursuant to the first step is less than the Special Tax Liability, then a Special Tax will be levied on Undeveloped Property according to the Rate and Method. All Taxable Property within the District is now classified as Residential Property and Developed Property under the Rate and Method.

UNDER NO CIRCUMSTANCES MAY THE SPECIAL TAX ON ANY ASSESSOR'S PARCEL EXCEED THE MAXIMUM RATES AS SET FORTH IN APPENDIX A.

In connection with the issuance of the Bonds, Special District Financing & Administration LLC, the District's Special Tax Consultant, will certify that the Maximum Special Tax that may be levied on assessor's parcels within the District will be at least equal to 110% of maximum annual debt service on the Bonds plus the Administrative Expense Requirement. Actual collections of the Special Tax will depend on the amount of Special Tax delinquencies.

Under the Rate and Method, the owner of a parcel may voluntarily prepay the Special Tax obligation for a parcel in whole or in part. Any voluntary prepayment of Special Taxes will result in a special mandatory redemption of the Bonds and any Parity Bonds. See the caption "THE BONDS—Redemption of the Bonds—Special Mandatory Redemption from Special Tax Prepayments."

**Collection of Special Taxes and Flow of Funds.** The District has covenanted to and will, on each date on which Special Taxes are apportioned to the District, deposit the Special Taxes in the Special Tax Fund

maintained by the District. As the Special Taxes are received each Fiscal Year, the District may disburse from the Special Tax Fund an amount up to the Administrative Expense Requirement to pay Administrative Expenses. No other amounts will be disbursed from the Special Tax Fund in a Fiscal Year until the District has transferred to the Fiscal Agent an amount sufficient:

(i) to increase the amount on deposit in the Debt Service Account of the Bond Fund to an amount not less than the interest and principal due on the Bonds on the March 1 in such Fiscal Year and the September 1 of the following Fiscal Year (the "Required Debt Service Deposit"); and

(ii) to maintain the balance in the Reserve Account of the Bond Fund in an amount equal to the Reserve Requirement, as described under the caption "—Reserve Account."

Not later than the last day of each month in which Special Taxes are apportioned to the District, the District will transfer from the Special Tax Fund to the Fiscal Agent for deposit in the Bond Fund all Net Taxes in the Special Tax Fund until the amount in the Debt Service Account of the Bond Fund equals the Required Debt Service Deposit and the balance in the Reserve Account of the Bond Fund equals the Reserve Requirement.

Except for Special Tax Prepayments, which will be deposited in the Redemption Account of the Bond Fund and applied to redeem Bonds as described under the caption "THE BONDS—Redemption of the Bonds—Special Mandatory Redemption from Special Tax Prepayments," the Fiscal Agent will, on each date on which the Net Taxes are received from the District, deposit the Net Taxes in the Bond Fund to be held in trust for the Owners. The Fiscal Agent will transfer the Special Taxes on deposit in the Bond Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to: (1) the Debt Service Account of the Bond Fund; (2) the Reserve Account of the Bond Fund; (3) the Rebate Fund; and (4) the Surplus Fund. The amounts in the Surplus Fund are not pledged to the repayment of the Bonds and may be transferred to the District to be used for any lawful purpose.

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

The District has covenanted in the Indenture that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax so long as the Bonds are Outstanding, including the initiation of proceedings under the Act to reduce the maximum Special Tax rates on then existing Developed Property below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to 110% of annual debt service on the Outstanding Bonds.

The District has further covenanted that in the event that any initiative is adopted which purports to reduce maximum Special Tax rates or to limit the power of the District to levy Special Taxes for the purposes set forth above, it will commence and pursue legal action seeking to preserve its ability to comply with its covenants. There are no California court cases interpreting the enforceability of the foregoing covenants in light of Article XIII C of the State Constitution. See the caption "SPECIAL RISK FACTORS—Proposition 218."

#### **Existing Liens**

The lots within the District are subject to additional indebtedness as set forth under the heading "THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness."

The lien for the Special Taxes is co-equal to the lien for the overlapping assessments and special taxes and the lien for general property taxes. See the caption "THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness."

Except as disclosed in this Official Statement, the District is unaware of any present or contemplated assessment district or community facilities district that includes property within the District. See the caption “THE COMMUNITY FACILITIES DISTRICT.” The District has no control, and the City has only limited control, over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which, through the levy of a tax or an assessment, will be on a parity with the Special Taxes. See the caption “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.”

### **No Obligation of the City Upon Delinquency**

The City is under no obligation to transfer any funds of the City into the Special Tax Fund for payment of the principal of or interest on the Bonds if a delinquency occurs in the payment of any Special Taxes. See the caption “—Proceeds of Foreclosure Sales” for a discussion of the District’s obligation to foreclose Special Tax liens upon delinquencies.

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

The County operates under a statutory program entitled the Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”). Under the Teeter Plan, certain local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the County. The City does not participate in the Teeter Plan and community facilities districts such as the District are not eligible to participate in the Teeter Plan; the Special Taxes are therefore not subject to the Teeter Plan. Accordingly, the District’s receipt of Special Taxes is impacted by delinquencies in payment, as well as by the collection of interest and penalties on past delinquencies. See the caption “THE COMMUNITY FACILITIES DISTRICT—Delinquency History” for historical delinquencies within the District.

### **Proceeds of Foreclosure Sales**

The net proceeds received following a judicial foreclosure sale of land within the District resulting from a property owner’s failure to pay the Special Tax when due are pledged to the payment of principal of and interest on the Bonds. See the caption “—Special Taxes.”

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 District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the 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 District has covenanted for the benefit of the owners of the Bonds that it will order, and cause to be commenced as hereinafter provided and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the Superior Court of the County to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following paragraphs.

On or about July 1 of each Fiscal Year, the District will compare the amount of Special Taxes theretofore levied in the District to the amount of Special Taxes theretofore received by the District, and:

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

(B) Aggregate Delinquencies. If the District determines that both: (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under clause (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year; and (ii) the balance on deposit in the Reserve Account of the Special Tax Fund is either: (a) less than the Reserve Requirement; or (b) is anticipated to be less than the Reserve Requirement as a result of such Special Tax delinquencies, then the District will notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and will commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

If foreclosure is necessary and other funds (including amounts in the Reserve Account of the Special Tax Fund) have been exhausted, debt service payments on the 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 District. See the caption "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure." 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 the caption "SPECIAL RISK FACTORS—Land Values." Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City 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.

#### **Reserve Account**

In order to further secure the payment of principal of and interest on the Bonds, upon delivery of the Bonds, the District will deposit in the Reserve Account an amount equal to the Reserve Requirement with respect to the Bonds. Thereafter, the District is required, subject to the limits on the levy of the Special Tax, to deposit and to maintain the Reserve Requirement in the Reserve Account at all times while any of the Bonds are outstanding. The Reserve Requirement for the Bonds is defined as the amount equal to the lowest of: (i) 10% of the original proceeds of the Bonds; (ii) maximum annual principal and interest requirements on all Bonds outstanding; or (iii) 125% of the average annual principal and interest requirements on all Bonds outstanding. See Appendix D.

Subject to the limits on the maximum annual Special Tax which may be levied within the District, as described in Appendix A, the District has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement while any Bonds are outstanding. Moneys in the Reserve Account will be used solely for the purposes of: (i) paying the principal of, including Sinking Fund Payments, and interest on the Bonds when due in the event that the moneys in the Debt Service Account of the Bond Fund are insufficient therefor; and (ii) making any required transfer to the Rebate Fund pursuant to the Indenture upon written direction from the District; provided, however, that amounts in the Reserve Account may be applied to pay the principal and interest due on any Bonds in the final Bond Year in which any Bonds are Outstanding.

If the amounts in the Debt Service Account of the Bond Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent will withdraw from the Reserve Account for deposit in the Debt Service Account of the Bond Fund or the Rebate Fund, as applicable, moneys necessary for such purposes. Following any transfer to the Debt Service Account of the Bond Fund or to the Rebate Fund as described above, the District will then take the steps necessary to cause to be deposited to the Reserve Account the amount needed to replenish the Reserve Account to the Reserve Requirement by

transferring such amount from the Special Tax Fund or, if the District so elects, by including such amount in the next annual Special Tax levy to the extent of the permitted maximum Special Tax rates.

### **Issuance of Parity Bonds**

The District may, at any time after the issuance and delivery of the Bonds under the Indenture, issue additional bonds ("Parity Bonds") payable from the Net Taxes and other amounts deposited in the Special Tax Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds; provided that Parity Bonds may be issued only to refund outstanding Bonds or Parity Bonds. See Appendix D.

### **Priority of Bonds and Pledge of Net Taxes**

The District has pledged and assigned to the Fiscal Agent all Net Taxes for the payment of principal of, premium, if any, and interest on the Bonds. Pursuant to the Act and the Indenture, the Bonds will be and are equally secured by a pledge of and lien upon the Net Taxes, and certain other amounts on deposit in the Bond Fund. So long as any of such Bonds are Outstanding and unpaid, the Net Taxes and the interest thereon may be used only as provided in the Indenture unless the Bondowners authorize other uses of such Net Taxes pursuant to the provisions of the Indenture. Nothing in the Indenture or in any Supplemental Indenture precludes the redemption prior to maturity of any Bonds subject to call and redemption or the payment of the Bonds from proceeds of refunding bonds issued under the Act or under any other law of the State.

## **THE COMMUNITY FACILITIES DISTRICT**

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

The District was formed on September 20, 2000 and consists of approximately 142 gross acres. The District is located within the City approximately 5 miles east of its downtown area in a neighborhood historically referred to as East Grove, approximately 33 miles northeast of downtown San Diego and approximately 45 miles north of the United States/Mexico international border. The District is fully built out and consists of 291 detached single family homes ranging in size from 1,780 square feet to 4,008 square feet.

The property within the District was developed jointly by the Developer, which consists of two related entities, East Grove and Lyon. East Grove is a limited partnership with Lyon as its sole general partner and ORA Residential Investments I, L.P., a California limited partnership, as its sole limited partner. Lyon is a corporation wholly owned by William Lyon Homes, a Delaware corporation.

The Developer commenced construction of the first units in May 2001. The last building permit in the District was issued on March 11, 2004 and the Developer has conveyed all of the units in the District to individual homeowners. Development occurred in four villages, with East Grove owning and developing Villages A and B, which comprise 71.485 acres, and Lyon owning and developing Villages C and D, which comprise 70.804 acres.

Village A consists of 96 homes ranging in size from 1,780-2,265 square feet and including 3-4 bedrooms and 2-3 baths. The average lot size in Village A is 11,739 square feet with a minimum lot size of 7,920 square feet.

Village B consists of 78 homes ranging in size from 2,322-2,847 square feet and including 4-5 bedroom and 2-3 baths. The average lot size in Village B is 14,449 square feet with a minimum lot size of 7,920 square feet.

Village C consists of 75 homes ranging in size from 2,848-3,576 square feet and including 4-5 bedrooms and 2.5-3 baths. The average lot size in Village C is 20,033 square feet with a minimum lot size of 10,000 square feet.

Village D consists of 42 homes ranging in size from 3,126-4,008 square feet and including 4-5 bedroom and 2.5-3 baths. The average lot size in Village D is 23,913 square feet with a minimum lot size of 20,000 square feet.

All of the 290 completed homes, as well as one home the owners of which prepaid their Special Tax obligation in September 2008, are within Final Tract Map No. 13897 (Escondido Tract No. 795) recorded on December 16, 1999. As a result of the Special Tax prepayment described in the previous sentence, as well as the partial prepayment of the Special Tax obligation by another parcel owner in August 2009, Refunded Bonds were called for redemption in September 2008 and September 2010 in the aggregate principal amount of \$10,000 and \$10,000, respectively.

The average Assigned Special Tax levied for Fiscal Year 2012-13 per parcel within the District was \$783.53, or approximately \$0.29 per building square foot ("BSF"). The actual Assigned Special Tax was levied at 74.9256% of the maximum Assigned Special Tax for Fiscal Year 2012-13.

### **Direct and Overlapping Indebtedness**

The ability of an owner of land within the District to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon the property. These taxes consist of the direct and overlapping debt set forth in Table 2 below. As of January 15, 2013, the sum of the direct and overlapping tax and assessment debt applicable to the property within the District, including the Refunded Bonds, was \$7,226,787. In addition, other public agencies whose boundaries overlap those of the District could, without the consent of the District, and in certain cases without the consent of the owners of the land within the District, impose additional taxes or assessment liens on the property within the District in order to finance public improvements to be located inside of or outside of such area. The lien created on the property within the District through the levy of such additional taxes or assessments may be on a parity with the lien of the Special Taxes. See the caption "SPECIAL RISK FACTORS—Parity Taxes and Special Assessments."

Set forth below is a direct and overlapping debt report prepared by California Municipal Statistics, Inc. as of January 2013. The table provides that the assessed value of the taxable property within the District has been determined to be \$118,746,123 for Fiscal Year 2012-13. The debt report sets forth those entities which have issued debt and does not include entities which only levy or assess fees, charges, *ad valorem* taxes or other special taxes. The debt report is included for general information purposes only. Although the District has reviewed the debt report, it makes no representations as to its completeness or accuracy.

**TABLE 1**  
**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01**  
**(HIDDEN TRAILS)**  
**DIRECT AND OVERLAPPING DEBT**

2012-13 Local Secured Assessed Valuation: \$118,746,123<sup>(1)</sup>

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt<sup>(2)</sup></u>
The Metropolitan Water District of Southern California	0.006%	\$ 11,120
Palomar Community College District	0.131	418,612
Escondido Union High School District	0.807	810,153
Escondido Union School District	0.836	362,607
City of Escondido	0.987	746,900
Palomar Pomerado Hospital District	0.191	913,221
<b>City of Escondido Community Facilities District No. 2000-01 (Hidden Trails)</b>	<b>100.</b>	<b><u>2,505,000*</u></b>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$5,767,613</b>
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
San Diego County General Fund Obligations	0.035%	\$ 127,403
San Diego County Pension Obligations	0.035	234,274
San Diego County Superintendent of Schools Obligations	0.035	5,784
Palomar Community College District General Fund Obligations	0.147	7,129
Escondido Union High School District Certificates of Participation	0.905	487,519
Escondido Union School District Certificates of Participation	0.938	177,669
City of Escondido General Fund Obligations	1.108	<u>419,396</u>
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>		<b>\$ 1,459,174</b>
 <b>COMBINED TOTAL DEBT</b>		 <b>\$ 7,226,787<sup>(3)*</sup></b>

Ratios to 2012-13 Assessed Valuation:

<b>Direct Debt (\$2,505,000)</b> .....	<b>2.11%*</b>
Total Direct and Overlapping Tax and Assessment Debt.....	4.86%
Combined Total Debt.....	6.09%*

<sup>(1)</sup> Taxable parcels only. Excludes one parcel for which Special Taxes have been prepaid. See the caption “—General Description of the District.”

<sup>(2)</sup> As of January 15, 2013 for all entities other than the District.

<sup>(3)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity

Source: California Municipal Statistics, Inc.

*\* Preliminary; subject to change.*

Table 2 below sets forth the Fiscal Year 2012-13 effective tax rate within the District. The estimated tax rates and amounts presented below are based on currently available information and actual amounts may vary and increase or decrease in future years. The below estimated Fiscal Year 2012-13 effective tax rate is an average for a typical home within the District and does not represent the actual tax rate for any parcel or parcels.

**TABLE 2**  
**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01**  
**(HIDDEN TRAILS)**  
**ESTIMATED FISCAL YEAR 2012-13 EFFECTIVE TAX RATE**

<b>ASSESSED VALUATION AND PROPERTY TAXES</b>		
Total Assessed Value of Taxable Property <sup>(1)</sup>		\$ 118,746,123
Number of Dwelling Units		290
Average Assessed Value of Taxable Dwelling Unit		\$ 409,469
Average Home Size in Square Feet		2,689
	<i>Tax Rate</i>	<i>Expected Levy<sup>(2)</sup></i>
<b>AD VALOREM PROPERTY TAXES</b>		
General Purpose	1.00000%	\$ 4,094.69
Palomar Pomerado Health 2005A	0.02350	96.23
General Bond Escondido Prop A 2007A Refunding	0.01365	55.89
General Bond Escondido Prop K 2002A Refunding	0.00844	34.56
General Bond Escondido Prop K 2007B Refunding	0.01158	47.42
High School Bond Escondido Prop A Series 1996A	0.02724	111.54
Palomar Community College Prop M 2006A	0.00964	39.47
Palomar Community College Prop M 2006B	0.00401	16.42
Escondido City Public Safety Facilities Improvement Bond	0.03923	160.63
Metropolitan Water District Debt Service SDCWA	0.00350	14.33
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>		
Metropolitan Water District Water Standby Charge	--	\$ 11.50
Mosquito Surveillance	--	2.28
Community Facilities District No. 2000-01 (Hidden Trails)	--	785.77
SDCWA Water Availability Charge	--	10.00
Vector Disease Control	--	5.86
<b>PROJECTED TOTAL PROPERTY TAXES</b>		<b>\$ 5,486.60</b>
<b>Percent of Property Taxes to Average Assessed Value<sup>(3)</sup></b>	<b>1.33993%</b>	

<sup>(1)</sup> Source: County of San Diego Assessor data roll dated July 1, 2012.

<sup>(2)</sup> Reflects estimated property taxes based on Fiscal Year 2012-13 assessed values and Fiscal Year 2012-13 tax rates.

<sup>(3)</sup> Projected Total Property Taxes divided by Average Assessed Value of Taxable Dwelling Unit.

Source: Special District Financing & Administration LLC.

**Summary of Special Tax Levy**

A summary of the District's Fiscal Year 2012-13 Special Tax levy is set forth in Table 3 below.

**TABLE 3  
CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
FISCAL YEAR 2012-13 SPECIAL TAX LEVY**

<i>Class</i>	<i>Unit Type</i>	<i>Number of Taxable Units</i>	<i>Maximum Special Tax Per Unit Type</i>	<i>Actual<sup>(1)</sup> Special Tax Levy Per Unit Type</i>	<i>Fiscal Year 2013 Levy Total</i>
Fully Prepaid Residential	D/U	1	\$ 0.00	\$ 0.00000	\$ 0.00
Other Property	Square Foot	779,697	0.39	2.29921	227,224.06
Undeveloped Property	Acre	0	2,861.00	2,143.65000	0.00
	Acre	0	3,290.00	0.00000	0.00

<sup>(1)</sup> Actual tax rates multiplied by the number of taxable units may not match parcel listing due to rounding and partial prepayments.

**Ad Valorem Overrides**

***The Metropolitan Water District of Southern California.*** Property within the District is subject to a tax by The Metropolitan Water District of Southern California for debt service. The rate on such property is 0.00350% of assessed value. The tax is used to pay debt service on \$850,000,000 in bonds which were issued by The Metropolitan Water District of Southern California under an authorization of \$850,000,000, and of which approximately \$165,085,000 was outstanding as of June 1, 2013.

***Palomar Community College District.*** Property within the District is subject to a tax by Palomar Community College District resulting from the issuance of \$334,998,901 in general obligation bonds (of which \$318,573,901 is currently outstanding), of which, according to California Municipal Statistics, Inc., \$418,612 is allocable to property in the District. These bonds have been, and are intended to be, issued to maintain and modernize the community college district's San Marcos college campus and to create new educational opportunities in underserved areas of the District. The bond authorization approved by the qualified voters in November 2006 was \$694,000,000. There remains approximately \$359,001,099 in authorized but unissued bonds.

***Escondido Union High School District.*** Property within the District is subject to a tax by Escondido Union High School District resulting from the issuance of \$42,974,777.85 in general obligation bonds pursuant to a 1996 authorization and \$81,213,747.60 in general obligation bonds pursuant to a 2008 authorization (of which \$20,235,464.30 of the 1996 authorization and \$81,213,747.60 of the 2008 authorization is currently outstanding), of which, according to California Municipal Statistics, Inc., \$810,153 is allocable to property in the District. These bonds have been, and are intended to be, issued to finance high school facilities, including design, construction, acquisition, improvement, installation, restoration, rehabilitation, modernization and improvement of public schools, school sites, school facilities and support facilities. The bond authorization approved by the qualified voters in 1996 and 2008 was \$43,976,000 and \$98,000,000, respectively. This tax is scheduled to end in or about 2051 based on the currently issued debt. The estimated Fiscal Year 2012-13 tax rate is approximately 0.807% of assessed value.

***Escondido Union School District.*** Property within the District is subject to a tax by Escondido Union School District resulting from the issuance of general obligation bonds, of which, according to California Municipal Statistics, Inc., \$362,607 is allocable to property within the District. Under the June 1989 authorization of \$27,000,000, \$13,100,000 in general obligation refunding bonds were issued in May 2007, of

which \$3,960,000 remains outstanding. The term of these bonds ends in 2015. A second bond issuance was approved by the qualified voters in March 2002 in the amount of \$46,300,000. Subsequently, \$46,299,622.30 in general obligation bonds was issued in July 2002, of which \$2,534,622 remains outstanding. The term of these bonds ends in 2027. A portion of the original issue of the second authorization was refunded in April 2007 through the sale of \$39,180,000 of refunding general obligation bonds, of which \$38,145,000 remains outstanding. The term of the refunding bonds of the second authorization ends in 2026. These bonds have been, and are intended to be, issued to finance school facilities. The estimated Fiscal Year 2012-13 tax rate is approximately 0.836% of assessed value.

**City of Escondido.** Property within the District is subject to a tax by the City resulting from the issuance of \$84,350,000 in general obligation bonds (of which \$75,665,000 is currently outstanding), of which, according to California Municipal Statistics, Inc., \$746,900 is allocable to property in the District. These bonds have been, and are intended to be, issued to finance construction, upgrades and acquisition of land for City fire stations and police headquarters. The bond authorization approved by the qualified voters in 2004 was \$84,350,000. This tax is scheduled to end in or about 2036. The estimated Fiscal Year 2012-13 tax rate is approximately 0.987% of assessed value.

**Palomar Pomerado Hospital District.** Property within the District is subject to a tax by Palomar Pomerado Hospital District resulting from the issuance of \$495,999,997.60 in three series of general obligation bonds (of which \$477,631,554.20 is currently outstanding), of which, according to California Municipal Statistics, Inc., \$913,221 is allocable to property in the District. These bonds have been, and are intended to be, issued to finance land acquisition, and to build, renovate and improve existing or new medical facilities within the hospital district. The bond authorization approved by the qualified voters in 2004 was \$496,000. This tax is scheduled to end in or about 2040. The estimated Fiscal Year 2012-13 tax rate is approximately 0.191% of assessed value.

#### **Direct Assessments**

The following direct assessment is applicable to properties within the District:

**Metropolitan Water District Water Standby Charge.** The standby charge is a pay-as-you-go assessment for capital improvements of the distribution systems, the construction and maintenance of reservoirs, as well as the California State Water Project costs. The current assessment rate is \$7.29 per parcel. Any increase in the assessment must be approved by the voters.

#### **Historical Assessed Values**

The following table sets forth the assessed valuation within the District for the current and four prior Fiscal Years.

**TABLE 4**  
**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01**  
**(HIDDEN TRAILS)**  
**HISTORICAL ASSESSED VALUES**

<i>Fiscal Year</i>	<i>Valuation Date</i>	<i>Taxable Assessed Value<sup>(1)</sup></i>	<i>Number of Taxable Developed Parcels</i>	<i>Number of Prepaid Parcels</i>	<i>Number of Developed Units</i>	<i>Number of Undeveloped Lots</i>
2008-09	1/1/2008	\$146,949,029	290	1	291	0
2009-10	1/1/2009	125,107,827	290	1	291	0
2010-11	1/1/2010	121,558,595	290	1	291	0
2011-12	1/1/2011	122,271,960	290	1	291	0
2012-13	1/1/2012	118,746,123	290	1	291	0

<sup>(1)</sup> Excludes the value of all prepaid developed units and includes the value of all lots classified as undeveloped.  
Source: Special District Financing & Administration LLC.

**Estimated Value-to-Lien Ratios**

The following table sets forth the estimated assessed value-to-lien ratios for parcels within the District by various ranges based on the Fiscal Year 2012-13 assessed valuation and the direct and overlapping debt information included in Table 1. As summarized below, the estimated assessed value-to-lien ratio for all parcels within the District is approximately 20.93\* to 1, but the ratios over individual parcels vary widely. The value of the individual parcels is significant because, in the event of a delinquency in payment, the District's only remedy is to foreclose on the delinquent parcel. A parcel with a lower value-to-lien ratio may be less likely to sell at foreclosure or provide sale proceeds adequate to pay all delinquent Special Tax installments.

**TABLE 5**  
**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01**  
**(HIDDEN TRAILS)**  
**ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS BY RANGES<sup>(1)</sup>**

Value-to-Lien*	Parcels	% of Total Parcels	Fiscal Year 2012-13 Actual Special Tax Levy <sup>(2)</sup>	% of Fiscal Year 2012-13 Actual Special Tax Levy <sup>(2)</sup>	Fiscal Year 2012-13 Assessed Value <sup>(3)</sup>	% of Fiscal Year 2012-13 Assessed Value	Share of Aggregate Outstanding Debt <sup>(4)</sup>	Share of District's Outstanding Debt <sup>(5)</sup>	Share of Total Outstanding Debt	% Share of Total Outstanding Debt	Value-to-Lien Ratio <sup>(6)</sup> *
5:1 to 9.99:1 <sup>(7)</sup>	3	1.03%	\$ 2,496	1.10%	\$ 291,561	0.25%	\$ 8,011	\$ 26,468	\$ 34,479	0.61%	8.46
10:1 to 14.99:1	4	1.38	3,031	1.33	549,666	0.46	15,102	32,152	47,254	0.83	11.63
15:1 to 19.99:1	61	21.03	60,562	26.65	26,623,255	22.42	731,488	642,343	1,373,831	24.22	19.38
20:1 to 24.99:1	221	76.21	160,917	70.82	90,826,482	76.49	2,495,506	1,706,725	4,202,231	74.08	21.61
Above 25:1	1	0.34	218	0.10	455,159	0.38	12,506	2,313	14,818	0.26	30.72
<b>Total</b>	<b>290</b>	<b>100.00%</b>	<b>\$ 227,224</b>	<b>100.00%</b>	<b>\$ 118,746,123</b>	<b>100.00%</b>	<b>\$ 3,262,613</b>	<b>\$ 2,410,000</b>	<b>\$ 5,672,613</b>	<b>100.00%</b>	<b>20.93</b>

(1) Columns may not add up due to rounding.  
(2) Reflects Special Tax Levy for Developed Property and Residential Property, which constitutes 100% of Taxable Property within the District.  
(3) Source: County of San Diego Assessor data roll dated July 1, 2012.  
(4) Share of Aggregate Outstanding Debt was allocated based on assessed value and sourced from Table 1, including all items shown with the exception of the District.  
(5) Share of District's Outstanding Debt was allocated based on the Fiscal Year 2012-13 actual Special Tax Levy.  
(6) Fiscal Year 2012-13 Assessed Value divided by Share of Total Outstanding Debt.  
(7) Reflects parcels the assessed values of which were transferred pursuant to Revenue and Taxation Code § 69.5, which allows persons aged 55 and over to transfer the assessed value of an existing primary residence to a replacement primary residence within the same county.  
Source: Special District Financing & Administration LLC.

\* Preliminary; subject to change.

**Delinquency History**

The following table is a summary of Special Tax levies, collections and delinquency rates in the District for Fiscal Years 2008-09 through the first installment of Fiscal Year 2012-13.

**TABLE 6  
CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01  
(HIDDEN TRAILS)  
DELINQUENCY HISTORY**

<i>Fiscal Year</i>	<i>Delinquencies as of June 30 of Fiscal Year in which Special Taxes Were Levied</i>			<i>Delinquencies as of May 31, 2013</i>				
	<i>Amount Levied</i>	<i>Parcels Levied</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>
2008-09	\$208,257	290	15	\$8,809	4.23%	1	\$ 499	0.24%
2009-10	201,397	290	14	9,626	4.78	1	966	0.48
2010-11	217,965	290	8	4,762	2.18	1	1,048	0.48
2011-12	198,901	290	3	1,956	0.98	1	1,290	0.65
2012-13 <sup>(1)</sup>	227,224	290	N/A	N/A	N/A	6	2,743	1.21

<sup>(1)</sup> For Fiscal Year 2012-13, delinquencies reported are for both installments and are as posted through May 31, 2013 only.  
Source: Special District Financing & Administration LLC.

## Debt Service Coverage

The following table shows projected coverage of debt service on the Bonds from Net Taxes.

**TABLE 7**  
**CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01**  
**(HIDDEN TRAILS)**  
**PROJECTED DEBT SERVICE COVERAGE\***

<i>Fiscal Year</i>	<i>Maximum Assigned Special Tax Levy<sup>(1)</sup></i>	<i>Administrative Expenses</i>	<i>Net Maximum Assigned Special Taxes</i>	<i>Debt Service</i>	<i>Debt Service Coverage</i>
2014	\$ 303,262.52	\$ 20,000.00	\$ 283,262.52	\$ 203,603.75	139.12%
2015	303,262.52	20,400.00	282,862.52	200,850.00	140.83
2016	303,262.52	20,808.00	282,454.52	203,000.00	139.14
2017	303,262.52	21,224.16	282,038.36	205,000.00	137.58
2018	303,262.52	21,648.64	281,613.87	206,850.00	136.14
2019	303,262.52	22,081.62	281,180.90	203,550.00	138.14
2020	303,262.52	22,523.25	280,739.27	205,250.00	136.78
2021	303,262.52	22,973.71	280,288.80	199,500.00	140.50
2022	303,262.52	23,433.19	279,829.33	203,750.00	137.34
2023	303,262.52	23,901.85	279,360.67	202,500.00	137.96
2024	303,262.52	24,379.89	278,882.63	201,000.00	138.75
2025	303,262.52	24,867.49	278,395.03	204,250.00	136.30
2026	303,262.52	25,364.84	277,897.68	207,000.00	134.25
2027	303,262.52	25,872.13	277,390.38	204,250.00	135.81
2028	303,262.52	26,389.58	276,872.94	206,250.00	134.24
2029	303,262.52	26,917.37	276,345.15	202,750.00	136.30
2030	303,262.52	27,455.71	275,806.80	204,000.00	135.20
2031	303,262.52	28,004.83	275,257.69	204,750.00	134.44
TOTAL				\$ 3,668,103.75	

<sup>(1)</sup> Pursuant to Government Code § 53321(d), the Special Tax for public facilities levied against any parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency or default by the owner of any other parcel within the District by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults

Source: Special District Financing & Administration LLC.

## THE CITY OF ESCONDIDO

*The following information relating to the City is included only for the purpose of supplying general information regarding the City. Neither the faith and credit nor taxing power of the City have been pledged to the payment of the Bonds and the Bonds will not be payable from any of City's revenues or assets.*

*Further information relating to the City is set forth in Appendix C.*

### General Information

The City is located approximately 30 miles northeast of San Diego, California. The City was incorporated in 1888 and is a general law city operating under a council/manager form of government. The City had a 2012 estimated population of 146,064, to which it provides police, fire, water and wastewater utilities, parks and recreation, public works, planning, engineering and other services.

The City had approximately 1,073 full and part-time employees as of June 30, 2012. City employees are represented by six labor unions and associations. A total of approximately 145 management and

\* Preliminary; subject to change.

confidential employees are exempt from collective bargaining. Salaries for exempt employees are set by the City Council. The City has never experienced a strike, slowdown or work stoppage.

### **Government and Administration**

The City operates under a council/manager form of government. The City Manager, appointed by the City Council, serves as the City's chief executive officer and is responsible for overseeing the daily operations of City departments. The City Manager serves as an advisor to the City Council on policy matters impacting the community and the City's organization, supports the informational and policymaking needs of the City Council, implements City Council decisions and prepares, manages, and implements the annual budgets for the City, as well as the City's Capital Improvement Program.

Clay Phillips is the City Manager. Mr. Phillips began his career with the City of Santa Ana from 1980 to 1983, as an accountant. Mr. Phillips also served as Deputy Finance Officer for the City of Irvine from 1983 to 1986. Mr. Phillips continued his career by accepting the Director of Finance position with the City in January of 1986. In 1993, Mr. Phillips was promoted to Director of Financial and Administrative Services. In 1997, Mr. Phillips was promoted to Deputy City Manager. On July 3, 2003, Mr. Phillips accepted his present position as City Manager for the City. Mr. Phillips graduated from Loma Linda University with a Bachelor of Science in Business Administration. Mr. Phillips has a Master of Business Administration from Pepperdine University.

Other key personnel responsible for management of the City include the Director of Finance. In addition, the City Attorney provides legal services to the City and the Authority.

Gil Rojas is the Director of Finance for the City. Mr. Rojas has served in that capacity since 2000. Prior to that time, Mr. Rojas was Assistant Finance Director with the City of Bakersfield, California. Mr. Rojas' tenure with the City of Bakersfield spanned 21 years, during which he held various positions within the Finance Department as well as the Bakersfield Police Department. Mr. Rojas received his Bachelor's degree in 1977 from San Jose State University. Mr. Rojas is a member of the Government Finance Officer's Association and the California Society of Municipal Finance Officers.

Jeffrey R. Epp is the City Attorney. Mr. Epp has been with the City since 1985. Prior to that time, Mr. Epp served as a prosecutor for the City Attorney's Office of Cheyenne, Wyoming. Mr. Epp obtained a Bachelor's degree in Political Science and a Juris Doctorate degree from the University of Wyoming, where he was also the Senior Editor of the Land and Water Law Review of the University of Wyoming School of Law. Mr. Epp is a member of the International Municipal Lawyers Association, and both the North County and San Diego Bar Association. He has served as the President of the San Diego/Imperial County City Attorneys Association, the League of California Cities Committee on Transportation, Communications and Public Works, on the League's Legal Advocacy Committee and has been a member of the Executive Committee of the Public Law Section of the California State Bar.

### **Insurance**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City maintains liability insurance coverage through the San Diego Pooled Insurance Program Authority ("SANDPIPA"), a joint exercise of powers authority of which the City is a member. The City carries a self-insured retention of \$500,000 for liability and is insured for amounts between \$500,000 and \$2,500,000. In addition, SANDPIPA has purchased excess insurance coverage for amounts between \$2,500,000 and \$47,000,000 for its members, including the City. The City maintains workers' compensation insurance coverage through the California Public Entity Insurance Authority. The City carries a self-insured retention of \$500,000 for workers' compensation and is insured for amounts between \$500,000 and \$5,000,000 through the California State Association of Counties

Excess Insurance Authority, a joint exercise of powers authority, with additional reinsurance of \$300,000,000 per occurrence. Claims have not exceeded the City's insurance coverage in any of the last three years.

The City purchases all risk, replacement cost value property insurance coverage through the Public Entity Property Insurance Program, issued through Alliant Insurance Services. The City is one of 12 cities insured by a joint policy with a shared limit of \$1,000,000,000. The City has a deductible of \$10,000 per loss. The City does not carry earthquake coverage.

### **SPECIAL RISK FACTORS**

The purchase of the Bonds involves significant risks and, therefore, the Bonds are not suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. Furthermore, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See the captions “—Land Values” and “—Limited Secondary Market” below.

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

The Bondowners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation: (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the 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.

No assurance can be given that the individual property owners will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See the caption “—Bankruptcy and Foreclosure” for a discussion of certain limitations on the District's ability to pursue judicial proceedings with respect to delinquent parcels.

#### **Limited Obligations**

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

The amount of annual installments of Special Taxes that are collected could be insufficient to pay principal of and interest on the Special Tax Refunding Bonds due to non-payment of such Special Taxes levied

or due to insufficient proceeds received from a judicial foreclosure sale of land within the District following delinquency. The City's and District's legal obligations with respect to any delinquent Special Taxes are limited to: (1) payments from the Reserve Account to the extent of funds on deposit therein; and (2) the institution of judicial foreclosure proceedings under certain circumstances with respect to any parcels for which Special Taxes are delinquent. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales." The Bonds cannot be accelerated in the event of any default.

The obligation to pay Special Taxes does not constitute a personal obligation of the current or subsequent owners of the respective parcels which are subject to such liens. Enforcement of Special Tax payment obligations by the District is limited to judicial foreclosure in the Superior Court. There is no assurance that any current or subsequent owner of a parcel subject to a Special Tax lien will be able to pay the amounts due or that such owner will choose to pay such amounts even though financially able to do so.

### **Insufficiency of Special Taxes**

The principal source of payment of principal of and interest on the Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the 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 Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the 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 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. The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to the problems of collecting taxes from public agencies, if a substantial portion of land within the District were to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay

principal of and interest on the Bonds when due, and a default could occur with respect to the payment of such principal and interest. See the caption “—FDIC/Federal Government Interests in Properties.”

Except as set forth above under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Special Taxes,” 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 under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

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

In addition, under no circumstances will the Special Taxes levied against any parcel of Residential Property be increased by more than 10% per Fiscal Year as a consequence of delinquency or default by the owner of any other parcel within the District. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—General.”

### **Natural Disasters**

The District, like all California communities, may be subject to unpredictable seismic activity, wildfires, flood, landslide, high winds or other natural disasters. Southern California is a seismically active area. Seismic activity represents a potential risk for damage to buildings, roads, bridges and property within the District. A safety report for parts of the City’s municipal water system states that there are four known earthquake fault zones located approximately 10 miles to 60 miles from portions of the City. There is significant potential for destructive ground-shaking during the occurrence of a major seismic event. In addition, land along the aforementioned fault lines may be subject to liquefaction during the occurrence of such an event.

In recent years, portions of Southern California have experienced outbreaks of wildfires that have burned thousands of acres at a time and destroyed thousands of homes and structures. In October 2003 and, most recently, in October 2007, such wildfires occurred in the County and the adjacent counties of Los Angeles, Orange, Riverside and San Bernardino, affecting parts of the City near the District and resulting in the destruction of homes.

In the event of a severe earthquake, wildfire, flood, landslide, high winds or other natural disaster, there may be significant damage to both property and infrastructure in the 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 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**

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but State 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 substance condition of property whether or not the owner or operator has anything to do

with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The value of the property within the District, as set forth in the various tables herein, does not reflect the presence of any hazardous substance or the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the property. The District has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within the District has such a current liability with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels 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. Such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

#### **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 District has no recourse against the owner and its only remedy is to pursue judicial foreclosure proceedings on the delinquent parcel.

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

Property within the District is subject to taxes and assessments imposed by public agencies that also have jurisdiction over the land within the District. See the caption "THE COMMUNITY FACILITIES DISTRICT—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 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 (the "FDIC"). See the caption "—FDIC/Federal Government Interests in Properties."

**Neither the District nor the City, however, have 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 District. In addition, the landowners within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Accordingly, the debt on the property within the District could increase without any corresponding increase in the value of the property therein. 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 the property within the District described herein or the willingness or ability of property owners within the District to pay the Special Taxes when due. Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of property with**

**delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness.”**

### **Land Values**

The value of land within the District is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in the payment of a Special Tax installment, the District’s only remedy is to commence foreclosure proceedings on such property. Prospective purchasers of the Bonds should not assume that the property within the District could be sold for the assessed value described herein at a foreclosure sale for delinquent Special Tax installments or for an amount adequate to pay delinquent Special Tax installments. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales.” Reductions in property values within the District due to a downturn in the economy or the real estate market, events such as earthquakes, wildfires, droughts, or floods, stricter land use regulations, threatened or endangered species or other events may adversely impact the security underlying the liens. The property within the District is fully developed.

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 County Assessor, generally not to exceed an increase of more than 2% per Fiscal Year as limited by Proposition 13, as amended by Proposition 8. Recently, several counties in the State, including the County, have reassessed certain properties acquired in recent years at the peak of the real estate market. The District is aware that the County Assessor made reductions in Fiscal Year 2008-09 and 2009-10 assessed values within the District and the City generally. See Table 4 under the caption “THE COMMUNITY FACILITIES DISTRICT—Historical Assessed Values” for the assessed values within the District in such Fiscal Years. The District cannot predict whether the County will further reduce assessed values within the District in future years. However, some of the current owners of homes within the District purchased their homes after 2004 at the height of the San Diego real estate market. Accordingly, if the County did decide to broadly reassess recent home transactions in the County, it is possible that in future years the assessed values shown in this Official Statement could be adjusted downward from the values reflected on the Fiscal Year 2012-13 Assessor’s Roll. No assurance can be given that Fiscal Year 2012-13 assessed values reflect market values or that a parcel could actually be sold for its assessed value.

The actual market value of the property is subject to future events such as a downturn in the economy, occurrences of certain acts of nature and the decisions of various governmental agencies as to land use, all of which could adversely impact the value of the land in the District, which is the security for the Bonds. As discussed herein, many factors could adversely affect property values within the District.

### **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 when the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel, was informed of the maximum tax rate and the risk of such a levy and the ability of such owner to pay the Special Tax as well as other expenses and obligations. The City has caused an Amendment to 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 when purchasing a property within the District or lending money with respect to such property.

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 that is 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

§ 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.

### **Concentration of Ownership**

No property owner in the District is presently responsible for more than 0.51% of the Special Taxes levied within the District. See the caption "THE COMMUNITY FACILITIES DISTRICT." There may be subsequent transfers of ownership of the property within the District. Failure of the owners of property to pay the annual Special Taxes when due could result in a default in payments of the principal of and interest on the Bonds. Such risk may be greater or its consequence more severe when ownership is concentrated and may be expected to decrease when ownership is diversified.

### **Potential Early Redemption of Bonds from Prepayments**

Property owners within the District are permitted to prepay their Special Taxes at any time. Such prepayments will result in a redemption of Bonds on the first March 1 or September 1 which is more than 30 days following the receipt of the prepayment. See the caption "THE BONDS—Redemption of the Bonds—Special Mandatory Redemption from Special Tax Prepayments."

### **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 Bonds are derived, are customarily billed to the properties within the 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 the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales" for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special Taxes. See the caption "—FDIC/Federal Government Interests in Properties" for a discussion of the policy of FDIC regarding the payment of special taxes and assessments and limitations on the District's ability to foreclose on the lien of the Special Taxes in certain circumstances.

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

**General.** The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the FDIC, the Drug Enforcement Agency, the Internal Revenue Service, or other federal agencies such as the Federal National Mortgage Association ("FNMA") or Freddie Mac, has or obtains an interest.

The supremacy clause of the United States Constitution reads as follows: "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding."

The foregoing is generally interpreted to mean that, unless the United States Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within the District 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 the United States Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. In *Rust v. Johnson* 597 F.2d 174 (9th Cir. 1979), the United States Court of Appeal, Ninth Circuit (the "Ninth Circuit"), held that FNMA is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States. For a discussion of risks associated with taxable parcels within the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see the caption "—Insufficiency of Special Taxes."

The District has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

**FDIC.** In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent that the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent that it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. The Ninth Circuit issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from Act special taxes.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes from being foreclosed at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure

sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the Bonds.

### **Bankruptcy and Foreclosure**

Bankruptcy, insolvency and other laws generally affecting creditors' rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners' taxes and the ability of the District to foreclose the lien of delinquent unpaid Special Taxes pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights (such as the Soldiers' and Sailors' Relief Act of 1940) or by the laws of the State relating to judicial foreclosure. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales." In addition, the prosecution of a foreclosure could be delayed for many reasons, including crowded local court calendars or lengthy procedural delays.

Second, the United States Bankruptcy Code might prevent moneys on deposit in the Special Tax Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against a landowner in the District and if the court found that any of such landowners had an interest in such moneys within the meaning of Section 541(a)(1) of the United States Bankruptcy Code.

Although a bankruptcy proceeding would not cause the lien of the Special Taxes to become extinguished, the amount and priority 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 a bankruptcy court. In addition, the bankruptcy of a property owner could result in a stay of enforcement or other delay in procuring Superior Court foreclosure proceedings or adversely affect the willingness of a property owner to pay the Special Taxes. If enough parcels were subject to bankruptcy proceedings, court delays would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full.

The various legal opinions to be delivered concurrently with the delivery of the 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, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Other laws generally affecting creditors' rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of military service to redeem property sold to enforce the collection of a tax or assessment and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if a court concludes that the ability to pay such taxes or assessments is materially affected by reason of such service.

### **Funds Invested in the County Investment Pool**

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county. Following payment of the Special Taxes to the District, such funds may be invested in the name of the City or the District for a period of time in the County investment pool. In the event of a petition of or the adjustment of County debts under Chapter 9 of the United States Bankruptcy Code, a court might hold that the Bondowners do not have a valid and/or prior lien on the Special Taxes or debt service payments where such amounts are deposited in the County investment pool and may not provide the Bondowners with a priority interest in such amounts. In that circumstance,

unless the Bondowners could “trace” the funds that have been deposited in the County investment pool, the Bondowners would be unsecured (rather than secured) creditors of the County. There can be no assurance that the Bondowners could successfully so trace the Special Taxes or debt service payments.

### **No Acceleration Provision**

The Act, the Bonds and the Indenture do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Indenture or in the event that interest on the Bonds becomes included in gross income for federal income tax purposes. Pursuant to the Indenture and further subject to the prior lien of owners of Bonds, an owner is given the right for the equal benefit and protection of all owners of a series similarly situated to pursue certain remedies described in Appendix D. See the caption “—Limitations on Remedies.”

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the 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 Bondowners on a timely basis. See the caption “CONTINUING DISCLOSURE” and Appendix E. Any failure to provide annual financial information, if required, 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 entitled the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State at the November 5, 1996, general election. The Initiative added Articles XIIC and XIID to the State Constitution. According to the “Title and Summary” of the Initiative prepared by the State Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” The provisions of the Initiative have not yet been interpreted by the courts, although a number of lawsuits have been filed requesting the courts to interpret various aspects of the Initiative. The Initiative could potentially impact the Special Taxes otherwise available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article XIIC states that “...the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” The Act provides for a procedure, which includes notice, hearing, protest and voting requirements to alter the rate and method of 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 XIIC of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution.”

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

It may be possible, however, for voters of the District or the City Council, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 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 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 District has covenanted that it will initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels of Developed Property within the District to less than an amount projected to equal to 110% of annual debt service each year on the Outstanding Bonds plus the Administrative Expense Requirement. In connection with the foregoing covenant, the District has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The District also has covenanted that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

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

The Initiative was adopted pursuant to a measure that qualified for the ballot pursuant to the State’s Constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. 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 State voters or legislation enacted by the State Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the City, or local districts to increase revenues or appropriations.

### **Loss of Tax Exemption**

As discussed under the caption “TAX EXEMPTION,” the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of acts or omissions of the District or the City in violation of certain provisions of the Internal Revenue Code of 1986, as amended (the “Code”) and the covenants of the Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the District has covenanted in the Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption provisions of the Indenture. See the caption “THE BONDS—Selection of Bonds for Redemption.”

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative

proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

### **IRS Audit of Tax-Exempt Bond Issues**

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

### **Limitations on Remedies**

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

Bond Counsel has limited its opinion as to the enforceability of the 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. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. 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 Owners.

Enforceability of the rights and remedies of the Owners of the Bonds, and the obligations incurred by the District, may become subject to the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the federal Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against governmental entities in the State. See the captions "—Bankruptcy and Foreclosure" and "—FDIC/Federal Government Interests in Properties."

### **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Agreement, dated as of July 1, 2013 (the "Disclosure Agreement"), by and between the District and Special District Financing & Administration LLC, as disclosure dissemination agent, the District has agreed to provide, or cause to be provided, to EMMA, on an annual basis certain financial information and operating data concerning the District. The District has further agreed to provide notice to EMMA of certain listed events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12 adopted by the Securities and Exchange Commission. See Appendix E for a description of the specific nature of the annual reports to be filed by the District and notices of listed events to be provided by the District. Within the last five years, the District has not failed to timely comply with its prior continuing disclosure obligations under Rule 15c2-12(b)(5) in all material respects. The full text of the form of Disclosure Agreement is set forth in Appendix E.

## TAX EXEMPTION

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

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

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds (including any original issue discount) is based upon certain representations of fact and certifications made by the District, the Underwriter and others and is subject to the condition that the District complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds (including any original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds (including any original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District will covenant to comply with all such requirements.

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

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

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

SUBSEQUENT TO THE ISSUANCE OF THE BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

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

Should interest on the Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

The proposed form of Bond Counsel's opinion with respect to the Bonds is attached as Appendix B.

#### **LEGAL OPINION**

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, approving the validity of the Bonds in substantially the form set forth as Appendix B will be made available to purchasers at the time of original delivery. Certain legal matters will be passed upon for the City and the District by Jeffrey Epp, Esquire, City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, San Diego, California.

#### **ABSENCE OF LITIGATION**

No litigation is pending or threatened concerning the validity of the Bonds and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds. Neither the City nor the District is aware of any litigation pending or threatened which questions the existence of the District or the City or contests the authority of the District to levy and collect the Special Taxes or to issue and retire the Bonds.

## **RATING**

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned the Bonds the rating of "\_\_\_". There is no assurance that the credit rating given to the Bonds will be maintained for any period of time or that the rating may not be lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. Such rating reflects only the views of S&P, and an explanation of the significance of such rating may be obtained from S&P.

## **UNDERWRITING**

The Bonds are being purchased by the Underwriter. The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_\_ (being \$\_\_\_\_\_ aggregate principal amount thereof, plus/less net original issue discount/premium of \$\_\_\_\_\_, and less Underwriter's discount of \$\_\_\_\_\_). The purchase contract relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

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

## **FINANCIAL INTERESTS**

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel, Best Best & Krieger LLP, as counsel to the Underwriter, the Fiscal Agent and the Escrow Agent are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

## **NEW LEGISLATION**

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

## **ADDITIONAL INFORMATION**

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the 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. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representatives of fact.

The execution and delivery of this Official Statement by the Mayor of the City has been duly authorized by the City Council of the City, acting in its capacity as the legislative body of the District.

CITY OF ESCONDIDO COMMUNITY FACILITIES  
DISTRICT NO. 2000-01 (HIDDEN TRAILS)

By: \_\_\_\_\_  
Mayor of the City of Escondido, which is acting in its  
capacity as the legislative body of City of Escondido  
Community Facilities District No. 2000-01 (Hidden  
Trails)

**APPENDIX A**

**RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX**

[TO COME]

**APPENDIX B**

**FORM OF OPINION OF BOND COUNSEL**

*Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:*

[Closing Date]

City of Escondido Community Facilities District No. 2000-01 (Hidden Trails)  
c/o City of Escondido  
201 North Broadway  
Escondido, California 92025-2798

Re: \$ \_\_\_\_\_ *City of Escondido Community Facilities District No. 2000-01 (Hidden Trails)  
Special Tax Refunding Bonds, Series 2013*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of Escondido (the "City") taken in connection with the formation of City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) (the "District") and the authorization and issuance of the District's Special Tax Refunding Bonds, Series 2013 in the aggregate principal amount of \$ \_\_\_\_\_ (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), Resolution No. 2013-\_\_ (the "Resolution of Issuance"), adopted by the City Council (the "City Council") of the City on June 19, 2013, and a Bond Indenture dated as of July 1, 2013 (the "Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent. All capitalized terms not defined herein shall have the meanings set forth in the Indenture.

The Bonds are dated the date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on each September 1 and March 1, commencing on March 1, 2014, at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture redeemable in the amounts, at the times and in the manner provided for in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the City, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes,

neither the faith and credit nor the taxing power of the City, the State of California, or any of its political subdivisions is pledged for the payment thereof.

2. The Indenture has been duly executed and delivered by the City Council on behalf of the District. The Indenture creates a valid pledge of and the Bonds are secured by the Net Taxes and the amounts on deposit in certain funds and accounts established under the Indenture, as and to the extent provided in the Indenture. The Indenture is enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California; provided, however, that we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses or as to any indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

3. Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 3. above) and is exempt from State of California personal income tax.

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

The opinion expressed in paragraphs 3. and 5. above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs 3. through 6. above, we express no opinion as to any tax consequences related to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate executed by the District and other documents related to the Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on any Bond if any such change occurs or action is taken or omitted upon advice or approval of bond counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement or other offering material.

Respectfully submitted,

## APPENDIX C

### GENERAL INFORMATION CONCERNING THE CITY OF ESCONDIDO

*The following information is presented as general background data. The Bonds are payable solely from the Net Taxes as described in the Official Statement. The taxing power of the City, the State or any political subdivision thereof is not pledged to the payment of the Bonds.*

#### Location

The City of Escondido (the "City") is located in a long valley surrounded by coastal mountains about eighteen miles inland and thirty miles north of downtown San Diego.

The City has diversified from its origins as an agricultural center for the surrounding citrus and avocado farms. Today, more than 175 industrial firms are located in the City. In addition, the City serves as a focal point for north San Diego County ("North County") recreation and entertainment. Interstate 15 and Highway 78 bisect the City, making the City easily accessible for regional commerce and recreation.

#### Population

The City is the largest inland city in North County with an estimated current population of 146,064. Table C-1 sets forth total population for the City, the County of San Diego (the "County") and the State of California (the "State").

**Table C-1**  
**City of Escondido, County of San Diego and State of California**  
**Population**

<i>January 1</i>	<i>City of Escondido</i>	<i>County of San Diego</i>	<i>State of California</i>
2008	140,785	3,032,689	36,704,375
2009	142,161	3,064,436	36,966,713
2010	144,008	3,091,579	37,223,900
2011	144,998	3,115,810	37,427,946
2012	146,064	3,143,429	37,678,563

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Counts and E-1 Population Estimates for Cities, Counties and the State, 2011-2012*, Sacramento, California, August 2011.

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**Employment and Industry**

Table C-2 summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2007 through 2011 in the City, the County, the State of California and the United States.

**Table C-2  
City of Escondido, County of San Diego, State of California and United States  
Labor Force, Employment and Unemployment Yearly Average**

<i>Year and Area</i>	<i>Civilian Labor Force</i>	<i>Civilian Employment<sup>(1)</sup></i>	<i>Civilian Unemployment<sup>(2)</sup></i>	<i>Civilian Unemployment Rate<sup>(3)</sup></i>
2007				
Escondido	70,600	67,300	3,400	4.8%
San Diego County	1,517,600	1,448,500	69,100	4.6
California	17,921,000	16,960,700	960,300	5.4
United States	153,124,000	146,047,000	7,078,000	4.6
2008				
Escondido	72,100	67,600	4,500	6.2
San Diego County	1,548,200	1,455,600	92,700	6.0
California	18,203,100	16,890,000	1,313,100	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
2009				
Escondido	72,500	65,300	7,200	10.0
San Diego County	1,554,200	1,405,000	149,200	9.6
California	18,208,300	16,144,500	2,063,900	11.3
United States	154,142,000	139,877,000	14,265,000	9.3
2010				
Escondido	73,400	65,400	8,000	10.9
San Diego County	1,572,600	1,407,100	165,600	10.5
California	18,316,400	16,051,500	2,264,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
2011				
Escondido	73,900	66,200	7,700	10.4
San Diego County	1,583,800	1,426,100	157,700	10.0
California	18,384,900	16,226,600	2,158,300	11.7
United States	153,617,000	139,869,000	13,747,000	8.9

<sup>(1)</sup> Includes persons involved in labor-management trade disputes.

<sup>(2)</sup> Includes all persons without jobs who are actively seeking work.

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

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

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Table C-3 sets forth the industry employment and the labor force estimates for the years 2007 through 2011 for the San Diego-Carlsbad-San Marcos MSA. Annual industry employment information is not compiled by sector for the City.

**Table C-3**  
**San Diego-Carlsbad-San Marcos MSA**  
**Industry Employment and Labor Force**  
**Annual Average**

<i>TITLE</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Total Farm	10,900	10,500	9,500	10,500	10,000
Total Nonfarm	1,308,800	1,298,700	1,231,400	1,222,800	1,231,200
Total Private	1,086,500	1,073,600	1,006,900	992,400	1,002,700
Goods Producing	189,800	179,200	156,800	148,600	148,400
Natural Resources & Mining	400	400	400	400	400
Construction	87,000	76,100	61,100	55,300	55,200
Manufacturing	102,500	102,800	95,300	92,900	92,800
Durable Goods	77,300	78,100	73,100	71,000	70,800
Nondurable Goods	25,200	24,700	22,200	21,900	21,900
Service Providing	1,119,000	1,119,500	1,074,600	1,074,200	1,082,800
Private Service Producing	896,600	894,400	850,100	843,800	854,400
Trade, Transportation & Utilities	222,300	215,900	199,600	197,300	199,000
Wholesale Trade	45,500	44,900	40,600	40,100	40,700
Retail Trade	148,100	142,000	131,600	130,700	132,200
Transportation, Warehousing & Utilities	28,800	29,000	27,400	26,500	26,100
Information	31,300	31,400	28,200	25,100	24,000
Financial Activities	80,300	75,200	69,800	67,200	66,800
Professional & Business Services	223,200	222,300	206,800	207,700	211,500
Educational & Health Services	129,500	137,300	144,300	145,500	149,100
Leisure & Hospitality	161,800	164,000	154,800	154,800	156,900
Other Services	48,300	48,400	46,800	46,200	47,100
Government	222,400	225,100	224,500	230,400	228,400
Total, All Industries	1,319,700	1,309,300	1,240,900	1,233,300	1,241,200

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, Labor Market Information Division, San Diego-Carlsbad-San Marcos MSA *Industry Employment & Labor Force - by Annual Average, March 2011 Benchmark*.

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**Major Employers**

Table C-4 sets forth the largest employers in the City as of June 30, 2011.

**Table C-4  
City of Escondido  
Largest Employers**

<i>Employer</i>	<i>Number of Employees</i>
Palomar Medical Center	2,689
Escondido Union School District	1,981
City of Escondido	1,091
San Diego Safari Park	953
Escondido Union High School District	766
Nordstrom Inc.	720
Welk Group Inc.	465
Vons Grocery Stores	391
Palomar Community College District	340
Home Depot	333

Source: City of Escondido Finance Department.

**Commercial Activity**

Trade outlet and retail sales activity are summarized in Tables C-5 and C-6 based on reports of the State Board of Equalization.

**Table C-5  
City of Escondido  
Total Taxable Transactions and Number of Sales Permits  
2007 through 2011<sup>(1)</sup>**

<i>Calendar Year</i>	<i>Retail Sales<sup>(2)</sup></i>	<i>Retail Sales Permits</i>	<i>Total Taxable Transactions<sup>(2)</sup></i>	<i>Issued Sales Permits</i>
2007	2,195,572	1,783	2,696,218	4,091
2008	1,924,432	1,898	2,395,108	4,074
2009	1,611,325	2,312	2,040,596	3,576
2010	1,782,265	2,414	2,132,167	3,706
2011 <sup>(1)</sup>	1,408,957	2,549	1,722,325	3,830

<sup>(1)</sup> Through 3rd Quarter 2011.

<sup>(2)</sup> Dollar amounts are in thousands.

Source: California State Board of Equalization.

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**Table C-6**  
**City of Escondido**  
**Taxable Retail Sales**  
**2007 through 2011<sup>(1)</sup>**  
**(\$000)**

<i>Type of Business</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011<sup>(1)</sup></i>
Apparel Stores	\$ 106,999	\$ 130,736	\$ 160,564	\$ 170,763	\$ 125,911
General Merchandise Stores	268,491	212,857	133,896	134,120	90,593
Food Stores	126,489	116,684	120,048	120,970	93,276
Eating/Drinking Places	174,338	170,032	162,468	169,879	133,479
Home Furnishings/Appliances	32,261	20,507	30,602	33,286	32,774
Building Materials/Farm Implements	243,426	183,154	157,370	167,646	128,045
Auto Dealers	753,082	606,190	481,614	529,178	465,942
Service Stations	250,484	282,099	218,496	254,285	234,209
Other Retail Stores	<u>240,002</u>	<u>202,172</u>	<u>146,267</u>	<u>148,138</u>	<u>104,730</u>
Retail Stores Totals	2,195,572	1,924,432	1,611,325	1,728,265	1,408,957
All Other Outlets	<u>500,646</u>	<u>470,676</u>	<u>429,271</u>	<u>403,902</u>	<u>313,368</u>
Total All Outlets	<u>\$2,696,218</u>	<u>\$2,395,108</u>	<u>\$2,040,596</u>	<u>\$2,132,167</u>	<u>\$1,722,325</u>

<sup>(1)</sup> Through 3rd Quarter 2011.

Source: California State Board of Equalization.

### Building Activity

Table C-7 summarizes building activity in the City of Escondido from 2007 through 2011.

**Table C-7**  
**City of Escondido**  
**Building Permit Valuations**  
**2007 through 2011**

	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
<u>Residential</u>					
Single Family	\$ 35,253,451	\$ 33,144,125	\$ 31,276,919	\$ 21,709,519	\$ 8,852,193
Multi-Family	14,028,209	8,715,433	4,625,512	5,166,958	12,919,403
Alteration/Additions	<u>10,419,656</u>	<u>5,194,468</u>	<u>3,743,437</u>	<u>3,032,618</u>	<u>3,585,270</u>
Total	59,701,316	47,054,026	39,645,868	\$29,909,095	25,356,866
<u>Non-Residential</u>					
New Commercial	14,773,541	45,028,783	1,124,405	3,480,411	2,303,428
New Industry	2,789,464	0	535,136	1,362,179	0
Other <sup>(1)</sup>	22,647,445	9,045,233	3,176,047	1,914,091	2,279,369
	<u>19,858,697</u>	<u>16,859,229</u>	<u>9,991,810</u>	<u>15,334,778</u>	<u>8,984,967</u>
Total	60,069,147	70,933,245	14,827,398	22,091,459	13,567,764
<u>Total All Industry</u>	<u>\$119,770,463</u>	<u>\$117,987,271</u>	<u>\$54,473,266</u>	<u>\$52,000,554</u>	<u>\$38,924,630</u>
<u>Total</u>					
Single Family Units	131	120	114	84	32
Multi-Family Units	<u>105</u>	<u>63</u>	<u>63</u>	<u>55</u>	<u>112</u>
Total	236	183	177	139	144

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

Source: Construction Industry Research Board.

## **Transportation**

Interstate 15 serves the City, extending from San Diego through to Riverside and Las Vegas, Nevada. State Highway 78 runs west to east from the coastline between Oceanside and Carlsbad through the City to Interstate 10 and is one of the main east/west corridors through the County.

The Santa Fe Railroad has a freight service line serving the City, and Amtrak provides passenger service from Oceanside on the San Diego/Los Angeles line. The Sprinter provides commuter rail service from the City to Oceanside.

Two airports serve North County. San Diego International Airport (Lindbergh Field), 35 minutes from the City, provides access to fourteen major national and international commercial airlines and fourteen freight forwarding companies. The smaller McClellan-Palomar Airport, 15 minutes from downtown of the City, offers commercial service to Los Angeles, Las Vegas, Nevada and Phoenix, Arizona. McClellan-Palomar also offers complete private aircraft service.

## **Education**

The City has 16 elementary schools (plus eight private schools), five middle schools, and three public high schools (plus three private schools). In addition, the City has a charter elementary school, middle school and night school.

The largest university in the County is San Diego State University, part of the California State University system. California State University at San Marcos is the closest university to the City. The University of California, San Diego in La Jolla is one of nine campuses of the University of California system. The statewide Community College System has nine colleges in San Diego County.

Private universities in San Diego County include United States International University, the University of San Diego, Point Loma Nazarene University and National University.

## **Recreation and Culture**

The City is a 60 minute drive from Cleveland National Forest and a 30 minute drive from the Pacific Ocean and all of the outdoor activities associated with these areas. Thousands of acres of nearby recreation areas provide opportunities for picnicking, boating, fishing, tennis, softball and swimming. Over 25 golf courses are located within a 20 minute drive of the City.

Spectator sports fans can choose among professional football and baseball at nearby Qualcomm, Petco Park, professional indoor soccer at the San Diego Sports Arena, and thoroughbred horse racing at Del Mar Racetrack. The City's recreation department offers amateur athletes softball, football, tennis and other organized sporting activities at 12 parks and 6 playgrounds.

Concerts, plays, and museums are popular in and around the City. The California Center for the Arts, Escondido, an \$81.0 million cultural center complex including a performing arts theater, a community theater, a museum and a conference center, opened in October 1994. The Patio Playhouse and the Lawrence Welk Theatre also offer dramatic productions. The San Diego Arts Gallery and the La Jolla Museum of Art are two of the many art galleries in the area and the Mingei International Museum offers various art exhibitions.

## **APPENDIX D**

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

*The following is a summary of certain definitions and 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.*

[TO COME]

**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE DISTRICT**

*Upon issuance of the Bonds, the District proposes to enter into a Continuing Disclosure Agreement in substantially the following form:*

[TO BE INSERTED]

## 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 District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 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 to the District which the District believes to be reliable, but the District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited through the facilities of DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has 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 Bonds 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 affect any change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 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 District or the Fiscal 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, the Fiscal Agent, or the 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 District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Fiscal 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 Fiscal 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 Fiscal 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 District or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

THE FISCAL AGENT, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of July 1, 2013, is executed and delivered by City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) (the "District") and Special District Financing & Administration LLC, as dissemination agent, in connection with the issuance and delivery by the District of its Special Tax Refunding Bonds, Series 2013 (the "Bonds"). The Bonds are being issued pursuant to Resolution No. \_\_\_\_\_ of the City adopted June 19, 2013 and that certain Bond Indenture (the "Indenture"), dated as of July 1, 2013, by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Fiscal Agent"). The District covenants as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the District for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

**SECTION 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

*"Annual Report"* shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

*"Beneficial Owner"* shall mean any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income purposes.

*"City"* shall mean the City of Escondido, California.

*"Disclosure Representative"* shall mean the City Manager or the Finance Director of the City, or his or her designee, or such other officer or employee as the City shall designate in writing to the Dissemination Agent from time to time.

*"Dissemination Agent"* shall mean, initially, Special District Financing & Administration LLC, or any successor Dissemination Agent designated in writing by the District which has filed with the then current Dissemination Agent a written acceptance of such designation.

*"EMMA"* shall mean the Electronic Municipal Market Access system of the MSRB.

*"Listed Events"* shall mean any of the events listed in Section 5 of this Disclosure Agreement.

*"MSRB"* shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

*"Official Statement"* shall mean the Official Statement, dated June \_\_, 2013, relating to the Bonds.

*"Participating Underwriter"* shall mean Stifel, Nicolaus & Company, Incorporated.

“*Repository*” shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the EMMA website, currently located at <http://emma.msrb.org>.

“*Rule*” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“*State*” shall mean the State of California.

“*Tax-exempt*” shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

### SECTION 3. Provision of Annual Reports.

(a) Not later than 270 days following the end of the District’s fiscal year, commencing March 31, 2014, the District shall provide, or shall cause the Dissemination Agent to provide, to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The District’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The District will promptly notify the Repository of a change in its fiscal year.

(b) In the event that the Dissemination Agent is an entity other than the District, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repository, the District shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District will be filing the Annual Report in compliance with subsection (a). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(c) If the District is the Dissemination Agent and the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the District shall send a notice to the Repository in the manner prescribed by the MSRB. If the Dissemination Agent is other than the District and if the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository in the manner prescribed by the MSRB.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository if other than the MSRB; and

(ii) promptly after receipt of the Annual Report, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

(e) Notwithstanding any other provision of this Disclosure Agreement, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the City for the most recent fiscal year of the District then ended. If the audited financial statements are not available by the time that the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the District in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the District shall be audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the District may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the District shall modify the basis upon which its financial statements are prepared, the District shall provide a notice of such modification to the Repository, including a reference to the specific federal or State law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Bond Indenture and the Reserve Requirement as of the September 2 preceding the filing of the Annual Report;

(iii) any changes to the Rate and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors for approval prior to the filing of the Annual Report and a description of any parcels for which the Special Taxes have been prepaid in the Fiscal Year for which the Annual Report is being prepared;

(iv) an update of the estimated assessed value-to-lien ratios within the District substantially in the form of Table 5 in the Official Statement based upon the most recent Special Tax levy preceding the date of the Annual Report and on the assessed values of property for

the current fiscal year; provided, however, that all parcels which constitute Developed Property may be grouped as a single category;

(v) an update of Table 1 in the Official Statement;

(vi) the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes;

(vii) the total Special Taxes levied and the total Special Taxes collected for the prior fiscal year and the total Special Taxes that remain unpaid for each prior fiscal year in which Special Taxes were levied; and

(viii) any information not already included under (i) through (vii) above that the District is required to file in its annual report to the California Debt and Investment Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

In addition to any of the information expressly required to be provided under paragraphs (a) or (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements set forth in clauses (i) to (vii), in the light of the circumstances under which they were made, not misleading.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5(a), the District shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
6. tender offers;

7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), 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 United States 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 5(b), the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. modifications to the rights of Bond holders;

3. optional, unscheduled or contingent Bond redemptions;

4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the City or the District or the sale of all or substantially all of the assets of the City or the District, 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; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event under Section 5(b) above, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a

notice of such occurrence with the Repository in a timely manner not more than 10 business days after the event.

(e) The District hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the District and that the Dissemination Agent shall not be responsible for determining whether the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the District and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Special District Financing & Administration LLC. The Dissemination Agent may resign: (i) by providing thirty days written notice to the District; and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the District or the type of business conducted thereby; (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the District shall have delivered to the Dissemination Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District and the Participating Underwriter, to the same effect as set forth in clause (2) above; (4) the District shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners, or such amendment shall have been approved by the Owners in the same manner as an amendment to the Indenture; and (5) the District shall have delivered copies of such opinion and amendment to the Repository.

(b) This Disclosure Agreement also may be amended by written agreement of the parties upon obtaining consent of Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Owners of the Bonds; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied.

(c) To the extent that any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the

reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The District acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as amended, may apply to the District, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the District under such laws.

SECTION 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent other than the District shall be paid: (i) compensation by the District for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District pursuant to this Disclosure Agreement. The obligations of the District under this Section shall survive resignation or removal of the

Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the 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.

SECTION 14. Governing Law. This Disclosure Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 15. Notices. Any notice or communications to be among any of the parties to this Disclosure Agreement may be given as follows:

To the District:	City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) c/o City of Escondido 201 North Broadway Escondido, California 92025 Attention: Finance Director
To the Fiscal Agent:	The Bank of New York Mellon Trust Company, N.A. 400 South Hope Street, Suite 400 Los Angeles, California 90071 Attention: Corporate Trust Services
To the Dissemination Agent:	Special District Financing & Administration LLC 437 West Grand Avenue Escondido, California 92025
To the Participating Underwriter:	Stifel, Nicolaus & Company, Incorporated One Ferry Building San Francisco, California 94111 Attention: Municipal Research Department Email: tlockard@stifel.com

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 16. Future Determination of Obligated Persons. In the event that the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the District to meet the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Agreement shall be deemed

to obligate the District to disclose information concerning any owner of land within the District except as required as part of the information required to be disclosed by the District pursuant to Sections 4 and 5 hereof. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

SECTION 17. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

SECTION 18. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

CITY OF ESCONDIDO COMMUNITY  
FACILITIES DISTRICT NO. 2000-01 (HIDDEN  
TRAILS)

By: \_\_\_\_\_  
Its: Finance Director of the City of Escondido,  
acting in its capacity as the legislative body of  
City of Escondido Community Facilities  
District No. 2000-01 (Hidden Trails))

SPECIAL DISTRICT FINANCING &  
ADMINISTRATION LLC, as Dissemination Agent

By: \_\_\_\_\_  
Its: Authorized Officer

RESOLUTION NO. 2013-91

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO ACTING AS THE LEGISLATIVE BODY OF CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01 (HIDDEN TRAILS), AUTHORIZING THE EXECUTION AND DELIVERY OF A BOND INDENTURE, ESCROW AGREEMENT, CONTINUING DISCLOSURE AGREEMENT AND BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF THE CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2000-01 (HIDDEN TRAILS) SPECIAL TAX REFUNDING BONDS, SERIES 2013 IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$2,600,000, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS

WHEREAS, the City Council (the "City Council") of the City of Escondido (the "City"), located in San Diego County, California (hereinafter sometimes referred to as the "legislative body of the District"), has heretofore undertaken proceedings and declared the necessity to issue bonds on behalf of City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) (the "District") pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the "Act"); and

WHEREAS, pursuant to proceedings taken and an election held on September 20, 2000 to authorize the issuance of bonds of the District, the levy of special taxes within the District and the establishment of an appropriations limit for the District, the District was authorized to issue bonds in one or more series, pursuant to the Act, in an aggregate principal amount not to exceed \$3,500,000 (the "Bond Authorization"); and

WHEREAS, the District has previously issued its \$3,085,000 2001 Special Tax Bonds (the "Prior Bonds") to finance certain public improvements; and

WHEREAS, the Board, acting as the legislative body of the District, now desires to refund the Prior Bonds through the issuance of bonds in an aggregate principal amount not to exceed \$2,600,000 designated as the "City of Escondido Community Facilities District No. 2000-01 (Hidden Trails) Special Tax Refunding Bonds, Series 2013" (the "2013 Bonds"); and

WHEREAS, in order to effect the issuance of the 2013 Bonds, the City Council, acting as the legislative body of the District, desires to enter into a Bond Indenture, dated as of July 1, 2013 (the "Bond Indenture"), with The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent, and an Escrow Agreement (2001 Bonds), dated as of July 1, 2013 (the "Escrow Agreement"), with The Bank of New York Mellon Trust Company, N.A., as Escrow Bank, in substantially the forms presented herewith; and

WHEREAS, the legislative body of the District has determined in accordance with Government Code Section 53360.4 that a negotiated sale of the 2013 Bonds to Stifel, Nicolaus & Company, Incorporated, as underwriter (the "Underwriter") in accordance with the terms of the Bond

Purchase Agreement (defined below) approved as to form by this Board herein will result in a lower overall cost to the District than a public sale;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, acting as the legislative body of City of Escondido Community Facilities District No. 2000-01 (Hidden Trails), that:

Section 1. Each of the above recitals is true and correct.

Section 2. The issuance of the 2013 Bonds in a principal amount not to exceed \$2,600,000 is hereby authorized pursuant to the Act with the exact principal amount to be determined by the officer signing the Bond Purchase Agreement in accordance with Section 7 below. The 2013 Bonds shall mature on the dates and pay interest at the rates set forth in the Bond Purchase Agreement to be executed on behalf of the District in accordance with Section 7 hereof and otherwise shall be substantially in the form set forth in the Bond Indenture on file with the City Clerk. All other provisions of the 2013 Bonds shall be governed by the terms and conditions set forth in the Bond Indenture prepared by Bond Counsel for the District and executed by the Mayor, the City Manager, the Finance Director or the City Clerk (the "Authorized Officers") of the City, acting as the legislative body of the District, or the written designee thereof, which Bond Indenture shall be substantially in the form presented to the Board, with such additions thereto and changes therein as are recommended or approved by Bond Counsel for the District and the officers executing the same, with such approval to be conclusively evidenced by the execution and delivery of the Bond Indenture. Capitalized terms used in this Resolution which are not defined herein have the meaning ascribed to them in the form of the Bond Indenture.

In satisfaction of the requirements contained in Section 53363.2 of the Act, the legislative body of the District hereby determines that: (1) it is anticipated that the purchase of the 2013 Bonds will occur on or about [June 27], 2013; (2) the 2013 Bonds shall be dated their date of issuance, and be in the denominations, have the maturity dates (which do not exceed the latest maturity date of the Prior Bonds being refunded), and be payable at the place and be in the form specified in the Bond Indenture; (3) the aggregate principal amount of 2013 Bonds shall not exceed \$2,600,000; (4) the 2013 Bonds shall not have a final maturity date later than September 1, 2031; (5) the issuance of the 2013 Bonds shall not result in a true interest cost for the 2013 Bonds in excess of 5.00%; (6) the Underwriter's discount for the 2013 Bonds shall not exceed 0.7% of the aggregate principal amount thereof; and (7) the designated cost of issuing the 2013 Bonds being used to refund the Prior Bonds, as defined by Section 53363.8 of the Act, shall include all of the costs specified in Section 53363.8(a), (b)(2) and (c).

In satisfaction of the requirements contained in Section 53364.2 of the Act, the legislative body of the District hereby determines that any savings achieved through the issuance of the 2013 Bonds shall be used to reduce the special taxes of the District levied to retire the 2013 Bonds, and such reductions shall be made in accordance with the Act.

Section 3. The 2013 Bonds shall be executed on behalf of the District by the manual or facsimile signature of the Mayor of the legislative body of the District, and the seal of the District, or a facsimile thereof, shall be impressed or imprinted thereon and attested with the manual or facsimile signature of the City Clerk.

Section 4. In accordance with the requirements of Section 53345.8(c) of the Act, the legislative body of the District hereby determines that the value of the real property in the District subject to the special tax to pay debt service on the 2013 Bonds is at least three times the principal amount of the 2013 Bonds and the principal amount of all other bonds outstanding that are secured by a special tax levied pursuant to the Act or a special assessment levied on property within the District (based on the County of San Diego Assessor's Fiscal Year 2013 assessed valuations of such property).

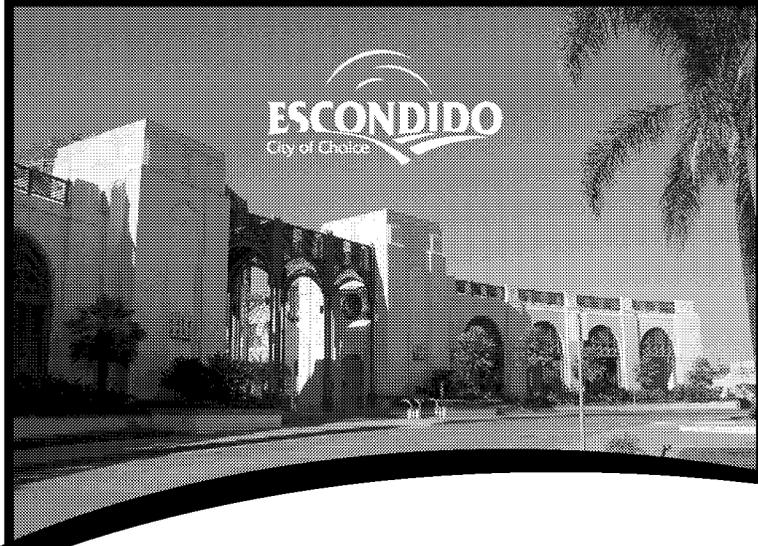
Section 5. The proceeds of the 2013 Bonds and the Special Taxes may be invested in any of the Authorized Investments of the type described in the Bond Indenture.

Section 6. The covenants set forth in the Bond Indenture to be executed in accordance with Section 2 above are hereby approved, shall be deemed to be covenants of the City Council, in its capacity as the legislative body of the District, and shall be complied with by the District and its officers. The Bond Indenture shall act as a bond indenture and constitute a contract between the District and the Owners of the 2013 Bonds.

Section 7. The Bank of New York Mellon Trust Company, N.A., is hereby appointed to act as Fiscal Agent and Registrar for the 2013 Bonds and as Escrow Bank under the Escrow Agreement. Special District Financing & Administration is hereby appointed to act as Dissemination Agent under the Continuing Disclosure Agreement. The Authorized Officers, or the written designees thereof, are hereby authorized to enter into an agreement with the Fiscal Agent to provide such services to the District. The forms of the Continuing Disclosure Agreement, the Bond Purchase Agreement, the Escrow Agreement and the Official Statement on file with the City Clerk are hereby approved and the Authorized Officers are hereby authorized and directed to execute the Bond Purchase Agreement, the Continuing Disclosure Agreement, the Escrow Agreement and the Official Statement in substantially the forms hereby approved, with such additions thereto and changes therein as are recommended or approved by Bond Counsel for the District and the officers executing the same, with such approval to be conclusively evidenced by the execution and delivery of such documents; provided, however, that the Bond Purchase Agreement shall be signed only if the interest rate on the 2013 Bonds is such that the principal and total interest cost to maturity on the 2013 Bonds is less than the principal and total interest cost to maturity on the Prior Bonds and the last maturity date of the 2013 Bonds is not later than the last maturity date of the Prior Bonds. The Underwriter is hereby authorized to distribute the Official Statement (in both preliminary and final forms) to prospective purchasers, and the Authorized Officers, or the written designees thereof, are hereby authorized to certify to the Underwriter prior to the distribution of the Official Statement in preliminary form that such Official Statement is deemed final by the District within the meaning of Rule 15c2-12 of the Securities and Exchange Commission.

Section 8. The Authorized Officers, or the written designees thereof, are authorized to contract for all services necessary to effect the issuance of the 2013 Bonds. Such services shall include, but not be limited to, printing the 2013 Bonds, the Preliminary Official Statement and the final Official Statement, obtaining legal services, Fiscal Agent services and any other services deemed appropriate as set forth in a certificate of an Authorized Officer or the written designee thereof. The Authorized Officers, or the written designees thereof, are authorized to pay for the cost of such services, together with other Costs of Issuance, with 2013 Bond proceeds deposited to the Costs of Issuance Fund established pursuant to the Bond Indenture.

Section 9. All actions heretofore taken by officers and agents of the District and the City with respect to the sale and issuance of the 2013 Bonds are hereby approved, confirmed and ratified, and the Authorized Officers and the other officers of the City and the District responsible for the fiscal affairs of the District are hereby authorized and directed to take any actions and execute and deliver any and all documents as are necessary to accomplish the issuance, sale and delivery of the 2013 Bonds in accordance with the provisions of this Resolution and the fulfillment of the purposes of the 2013 Bonds as described in the Bond Indenture. In the event that the Mayor is unavailable to sign any document authorized for execution herein, any other member of the City Council, or the written designee thereof, may sign such document. Any document authorized herein to be signed by the City Clerk may be signed by a duly appointed deputy clerk.



*Item # 11*

**CITY COUNCIL**

For City Clerk's Use:

**APPROVED**       **DENIED**

Reso No. \_\_\_\_\_ File No. \_\_\_\_\_

Ord No. \_\_\_\_\_

**Agenda Item No.: 11**

**Date: June 19, 2013**

**TO:** Honorable Mayor and Members of the City Council

**FROM:** Gilbert Rojas, Director of Finance

**SUBJECT:** 2013 Refunding of Community Facilities District (Eureka Ranch)-Financing Plan and Legal Documents

**RECOMMENDATION:**

It is requested that the City Council take the following actions:

- a) Adopt City Resolution No. 2013-90 and (Attachments 1) to approve the issuance and sale of Special Tax Refunding Bonds Series 2013, in an aggregate principal amount not to exceed \$17,250,000 to refinance 2006 Special Tax Bonds of the Community Facilities District 2006-01 (Eureka Ranch) which financed the construction and acquisition of various public improvements within the Community Facilities District.
- b) Authorize the Mayor, City Manager, City Clerk, Finance Director and other officers of the City to sign any and all refinancing documents.
- c) Authorize the Finance Department to make the necessary revenue and expenditure budget adjustments to the Community Facilities District Fund for all transactions associated with the issuance of the 2013 Special Tax Refunding Bonds.

**FISCAL ANALYSIS:**

The issuance by the Community Facilities District No. 2006-01 of the Special Tax Refunding Bonds, Series 2013 will achieve a complete refinancing of the 2006 Special Tax Bonds. The 2013 Refunding Bonds will be secured by the Special Tax proceeds which have been authorized to be levied against certain land within the District. The Bonds are not General or Special Obligations of the City or General Obligations of the District but are Limited Obligations of the District payable solely from net taxes of the District. The 2013 Special Tax Refunding Bonds will be issued in an amount not to exceed \$17,250,000, including funding a reserve fund if necessary, and all costs of issuance. Staff does not propose to extend the overall maturity of the 2006 Special Tax Bonds.

Over the past few months, staff has been tracking current market comparisons on all the 2006 Special Tax Bonds in an effort to lower our annual costs by means of a debt refinancing transaction.

The industry standard when doing a refinancing is to attain a three percent, or higher, savings on a present value basis, including all costs of issuance.

Under current market conditions, staff estimates present value savings from the refinancing of 2.03% (or \$327,600), although actual savings will be determined at the time of the sale.

To carry out the refinancing, the City has retained the firms of Stifel, Nicolaus & Company, Incorporated, as Underwriter; and Stradling Yocca Carlson & Rauth, as Bond and Disclosure Counsel.

**BACKGROUND:**

Currently the Special Tax bond market provides the Community Facilities District with a favorable environment in which to refinance the 2006 Special Tax Bonds through the issuance and sale of 2013 Special Tax Refunding Bonds in an amount not to exceed \$17,250,000 and a maturity no later than September 1, 2036 (the date that the 2006 Special Tax Bonds mature).

The 2006 Special Tax Bonds are currently outstanding in the principal amount of \$16.5 million and the entire principal amount may be refinanced at this time with a 3% premium.

The following documents are to be approved:

Bond Indenture. The Indenture is the primary document by which the 2013 Special Tax Refunding Bonds are issued. The Indenture establishes instructions to the Trustee to apply the proceeds of the 2013 Special Tax Refunding Bonds. The Indenture also describes when and how principal of and interest on 2013 Special Tax Refunding Bonds are paid and the conditions under which the 2013 Special Tax Refunding Bonds may be redeemed prior to maturity.

Escrow Agreement. The Escrow Agreement establishes an escrow fund into which moneys sufficient to redeem the 2006 Special Tax Bonds (consisting of moneys currently deposited in funds and accounts for the 2006 Special Tax Bonds and proceeds of the 2013 Special Tax Refunding Bonds) will be deposited. The Escrow Agreement instructs the escrow agent to redeem the 2006 Special Tax Bonds on or about September 1, 2013.

Bond Purchase Agreement. Pursuant to the Bond Purchase Agreement, the Authority and the City agree to sell the 2013 Bonds to Stifel, Nicolaus & Company, Incorporated (the "Underwriter") and the Underwriter agrees to purchase the 2013 Special Tax Refunding Bonds, subject to usual closing conditions.

Official Statement. The Official Statement is the disclosure document sent to potential investors. The Official Statement describes the District, the debt burden on parcels subject to the special taxes, assessed valuations within the District and certain other information, the 2013 Special Tax Refunding Bonds, the Indenture, and other information related to purchasing the 2013 Special Tax Refunding Bonds. The Underwriter uses the Official Statement as a marketing document. As the obligor on the 2013 Special Tax Refunding Bonds, the District will be subject to federal securities law anti-fraud

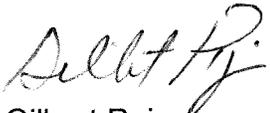
rules and will be required to certify that the information contained in the Official Statements is complete and is not misleading. To support these certifications, the District will receive opinions and certificates of other parties.

Continuing Disclosure Certificate. In connection with the issuance of the 2013 Special Tax Refunding Bonds, the District is required by federal securities law to execute a Continuing Disclosure Certificate. The Continuing Disclosure Certificate obligates the District to file an annual report which includes the audited financial statements of the District. The District is also required to report certain events which are significant to 2013 bond owners. The District currently provides such an annual report in connection with the 2006 Special Tax Bonds.

In addition, the Resolution authorizes staff to prepare documents to terminate the recorded liens securing the 2006 Special Tax Bonds upon the redemption of the 2006 Special Tax Bonds.

All legal documents associated with the refinancing are in substantially final form, and on file available for review with the City Clerk. These documents will be in final form once the 2013 Special Tax Refunding Bonds have been priced and sold.

Respectfully submitted,



Gilbert Rojas  
Director of Finance

RESOLUTION NO. 2013-90

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO ACTING AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 2006-01 OF THE CITY OF ESCONDIDO (EUREKA RANCH), AUTHORIZING THE EXECUTION AND DELIVERY OF A BOND INDENTURE, ESCROW AGREEMENT, CONTINUING DISCLOSURE AGREEMENT AND BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF THE COMMUNITY FACILITIES DISTRICT NO. 2006-01 OF THE CITY OF ESCONDIDO (EUREKA RANCH) SPECIAL TAX REFUNDING BONDS, SERIES 2013 IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$17,250,000, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS

WHEREAS, the City Council (the "City Council") of the City of Escondido (the "City"), located in San Diego County, California (hereinafter sometimes referred to as the "legislative body of the District"), has heretofore undertaken proceedings and declared the necessity to issue bonds on behalf of Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the "District") pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the "Act"); and

WHEREAS, pursuant to proceedings taken and an election held on September 20, 2006, to authorize the issuance of bonds of the District, the levy of special taxes within the District and the establishment of an appropriations limit for the District, the

District was authorized to issue bonds in one or more series, pursuant to the Act, in an aggregate principal amount not to exceed \$20,000,000 (the "Bond Authorization"); and

WHEREAS, the District has previously issued its \$18,080,000 Special Tax Bonds Series 2006 (the "Prior Bonds") to finance certain public improvements; and

WHEREAS, the Board, acting as the legislative body of the District, now desires to refund the Prior Bonds through the issuance of bonds in an aggregate principal amount not to exceed \$17,250,000 designated as the "Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Refunding Bonds, Series 2013" (the "2013 Bonds"); and

WHEREAS, in order to effect the issuance of the 2013 Bonds, the City Council, acting as the legislative body of the District, desires to enter into a Bond Indenture, dated as of July 1, 2013 (the "Bond Indenture"), with The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent, and an Escrow Agreement (2006 Bonds), dated as of July 1, 2013 (the "Escrow Agreement"), with The Bank of New York Mellon Trust Company, N.A., as Escrow Bank, in substantially the forms presented herewith; and

WHEREAS, the legislative body of the District has determined in accordance with Government Code Section 53360.4 that a negotiated sale of the 2013 Bonds to Stifel, Nicolaus & Company, Incorporated, as underwriter (the "Underwriter") in accordance with the terms of the Bond Purchase Agreement (defined below) approved as to form by this Board herein will result in a lower overall cost to the District than a public sale;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, acting as the legislative body of Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch), that:

Section 1. Each of the above recitals is true and correct.

Section 2. The issuance of the 2013 Bonds in a principal amount not to exceed \$17,250,000 is hereby authorized pursuant to the Act with the exact principal amount to be determined by the officer signing the Bond Purchase Agreement in accordance with Section 7 below. The 2013 Bonds shall mature on the dates and pay interest at the rates set forth in the Bond Purchase Agreement to be executed on behalf of the District in accordance with Section 7 hereof and otherwise shall be substantially in the form set forth in the Bond Indenture on file with the City Clerk. All other provisions of the 2013 Bonds shall be governed by the terms and conditions set forth in the Bond Indenture prepared by Bond Counsel for the District and executed by the Mayor, the City Manager, the Finance Director or the City Clerk (the "Authorized Officers") of the City, acting as the legislative body of the District, or the written designee thereof, which Bond Indenture shall be substantially in the form presented to the Board, with such additions thereto and changes therein as are recommended or approved by Bond Counsel for the District and the officers executing the same, with such approval to be conclusively evidenced by the execution and delivery of the Bond Indenture. Capitalized terms used in this Resolution which are not defined herein have the meaning ascribed to them in the form of the Bond Indenture.

In satisfaction of the requirements contained in Section 53363.2 of the Act, the legislative body of the District hereby determines that: (1) it is anticipated that the purchase of the 2013 Bonds will occur on or about June 27, 2013; (2) the 2013 Bonds shall be dated their date of issuance, and be in the denominations, have the maturity dates (which do not exceed the latest maturity date of the Prior Bonds being refunded), and be payable at the place and be in the form specified in the Bond Indenture; (3) the aggregate principal amount of 2013 Bonds shall not exceed \$17,250,000; (4) the 2013 Bonds shall not have a final maturity date later than September 1, 2036; (5) the issuance of the 2013 Bonds shall not result in a true interest cost for the 2013 Bonds in excess of 4.75%; (6) the Underwriter's discount for the 2013 Bonds shall not exceed 0.7% of the aggregate principal amount thereof; and (7) the designated cost of issuing the 2013 Bonds being used to refund the Prior Bonds, as defined by Section 53363.8 of the Act, shall include all of the costs specified in Section 53363.8(a), (b)(2) and (c).

In satisfaction of the requirements contained in Section 53364.2 of the Act, the legislative body of the District hereby determines that any savings achieved through the issuance of the 2013 Bonds shall be used to reduce the special taxes of the District levied to retire the 2013 Bonds, and such reductions shall be made in accordance with the Act.

Section 3. The 2013 Bonds shall be executed on behalf of the District by the manual or facsimile signature of the Mayor of the legislative body of the District, and the seal of the District, or a facsimile thereof, shall be impressed or imprinted thereon and attested with the manual or facsimile signature of the City Clerk.

Section 4. In accordance with the requirements of Section 53345.8(c) of the Act, the legislative body of the District hereby determines that the value of the real property in the District subject to the special tax to pay debt service on the 2013 Bonds is at least three times the principal amount of the 2013 Bonds and the principal amount of all other bonds outstanding that are secured by a special tax levied pursuant to the Act or a special assessment levied on property within the District (based on the County of San Diego Assessor's Fiscal Year 2013 assessed valuations of such property).

Section 5. The proceeds of the 2013 Bonds and the Special Taxes may be invested in any of the Authorized Investments of the type described in the Bond Indenture.

Section 6. The covenants set forth in the Bond Indenture to be executed in accordance with Section 2 above are hereby approved, shall be deemed to be covenants of the City Council, in its capacity as the legislative body of the District, and shall be complied with by the District and its officers. The Bond Indenture shall act as a bond indenture and constitute a contract between the District and the Owners of the 2013 Bonds.

Section 7. The Bank of New York Mellon Trust Company, N.A., is hereby appointed to act as Fiscal Agent and Registrar for the 2013 Bonds and as Escrow Bank under the Escrow Agreement. Special District Financing & Administration is hereby appointed to act as Dissemination Agent under the Continuing Disclosure Agreement. The Authorized Officers, or the written designees thereof, are hereby authorized to enter into an agreement with the Fiscal Agent to provide such services to the District.

The forms of the Continuing Disclosure Agreement, the Bond Purchase Agreement, the Escrow Agreement and the Official Statement on file with the City Clerk are hereby approved and the Authorized Officers are hereby authorized and directed to execute the Bond Purchase Agreement, the Continuing Disclosure Agreement, the Escrow Agreement and the Official Statement in substantially the forms hereby approved, with such additions thereto and changes therein as are recommended or approved by Bond Counsel for the District and the officers executing the same, with such approval to be conclusively evidenced by the execution and delivery of such documents; provided, however, that the Bond Purchase Agreement shall be signed only if the interest rate on the 2013 Bonds is such that the principal and total interest cost to maturity on the 2013 Bonds is less than the principal and total interest cost to maturity on the Prior Bonds and the last maturity date of the 2013 Bonds is not later than the last maturity date of the Prior Bonds. The Underwriter is hereby authorized to distribute the Official Statement (in both preliminary and final forms) to prospective purchasers, and the Authorized Officers, or the written designees thereof, are hereby authorized to certify to the Underwriter prior to the distribution of the Official Statement in preliminary form that such Official Statement is deemed final by the District within the meaning of Rule 15c2-12 of the Securities and Exchange Commission.

Section 8. The Authorized Officers, or the written designees thereof, are authorized to contract for all services necessary to effect the issuance of the 2013 Bonds. Such services shall include, but not be limited to, printing the 2013 Bonds, the Preliminary Official Statement and the final Official Statement, obtaining legal services, Fiscal Agent services and any other services deemed appropriate as set forth in a

certificate of an Authorized Officer or the written designee thereof. The Authorized Officers, or the written designees thereof, are authorized to pay for the cost of such services, together with other Costs of Issuance, with 2013 Bond proceeds deposited to the Costs of Issuance Fund established pursuant to the Bond Indenture.

Section 9. All actions heretofore taken by officers and agents of the District and the City with respect to the sale and issuance of the 2013 Bonds are hereby approved, confirmed and ratified, and the Authorized Officers and the other officers of the City and the District responsible for the fiscal affairs of the District are hereby authorized and directed to take any actions and execute and deliver any and all documents as are necessary to accomplish the issuance, sale and delivery of the 2013 Bonds in accordance with the provisions of this Resolution and the fulfillment of the purposes of the 2013 Bonds as described in the Bond Indenture. In the event that the Mayor is unavailable to sign any document authorized for execution herein, any other member of the City Council, or the written designee thereof, may sign such document. Any document authorized herein to be signed by the City Clerk may be signed by a duly appointed deputy clerk.

ATTACHMENTS 1

**BOND INDENTURE**

Between

**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)**

and

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,**  
as Fiscal Agent

Relating To

§ \_\_\_\_\_  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

**Dated as of July 1, 2013**

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## BOND INDENTURE

THIS BOND INDENTURE (the "Indenture") dated as of July 1, 2013, by and between Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the "District") and The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent (the "Fiscal Agent"), governs the terms of the Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Refunding Bonds, Series 2013 (the "Bonds") issued in accordance herewith.

### *RECITALS:*

WHEREAS, the City Council (the "City Council") of the City of Escondido (the "City"), located in San Diego County, California (hereinafter sometimes referred to as the "legislative body of the District"), has heretofore undertaken proceedings and declared the necessity to issue bonds on behalf of the District pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982, as amended; being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the "Act"); and

WHEREAS, the District has previously issued its Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Bonds Series 2006 (the "Refunded Bonds") in the aggregate principal amount of \$18,080,000 pursuant to that certain Bond Indenture, dated as of October 1, 2006 (the "Prior Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as fiscal agent (the "Prior Fiscal Agent"), and the Refunded Bonds are the only bonds of the District outstanding; and

WHEREAS, the legislative body of the District intends to accomplish the refunding of the Refunded Bonds through the issuance of bonds in an aggregate principal amount of \$\_\_\_\_\_ designated as the "Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Refunding Bonds, Series 2013" (the "Bonds") and to fund a deposit to the Reserve Account and pay certain costs related to the issuance of the Bonds; and

WHEREAS, the District has determined that the issuance of the Bonds will provide significant public benefits by reducing the total amount of Special Taxes to be levied for debt service on indebtedness of the District; and

WHEREAS, the Bonds are to be issued and sold in accordance with Resolution No. 2013-\_\_\_ of the City Council, acting in its capacity as the legislative body of the District, adopted on June 19, 2013, and with this Indenture; and

WHEREAS, the District has determined that all requirements of the Act for the issuance of the Bonds have been satisfied; and

WHEREAS, upon their issuance, the Bonds will be the only outstanding bonds of the District, and the District is covenanting herein not to issue any future obligation or security having a lien, charge, pledge or encumbrance on a parity with the Bonds upon the Special Taxes, except to refund the Bonds;

NOW, THEREFORE, in order to establish the terms and conditions upon and subject to which the Bonds are to be issued, and in consideration of the premises and of the mutual covenants contained herein and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the District does hereby covenant and agree, for the benefit of the Owners of the Bonds which may be issued hereunder from time to time, as follows:

## ARTICLE I

### DEFINITIONS

Section 1.1 Definitions. Unless the context otherwise requires, the following terms shall have the following meanings:

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

“Administrative Expense Requirement” means the amount of \$45,947.43, which amount shall escalate by 2% in each Bond Year, commencing in the Bond Year beginning on September 2, 2013, provided that the District may, in its sole discretion, fund additional Administrative Expenses, without limitation, from any other funds available to the District.

“Administrative Expenses” means the administrative costs with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Fiscal Agent and any Special Tax Consultant to the District, any costs related to the District’s compliance with state and federal laws requiring continuing disclosure of information concerning the Bonds and the District, and any other costs otherwise incurred by City staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District hereunder.

“Alternative Penalty Account” means the account by that name in the Rebate Fund created pursuant to Section 3.1 hereof.

“Annual Debt Service” means the principal amount of any Outstanding Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds in such Bond Year, if the Bonds are retired as scheduled.

“Authorized Investments” means any of the following investments, if and to the extent the same are at the time legal for investment of the District’s funds (provided that the Fiscal Agent is entitled to rely upon investment direction from the District as a conclusive certification to the Fiscal Agent that such investment is authorized under the laws of the State):

(a) Federal Securities;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided that such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- U.S. Export-Import Bank - Direct obligations or fully guaranteed certificates of beneficial ownership;
- Farmers Home Administration - Certificates of beneficial ownership;
- General Service Administration - Participation Certificates;
- Government National Mortgage Association (GNMA or "Ginnie Mae") GNMA - guaranteed mortgage-backed bonds, GNMA - guaranteed pass-through obligations;
- U.S. Maritime Administration - Guaranteed Title XI financing;
- U.S. Department of Housing and Urban Development (HUD), Project Notes, Local Authority Bonds, New Communities Debentures - U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds;
- Federal Housing Administration Debentures;

(c) Senior debt obligations rated "AAA" by Standard & Poor's and "Aaa" by Moody's issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;

(d) Money market funds registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and having a rating by Standard & Poor's of "AAAm-G" or better, including such funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services or for which the Fiscal Agent or an affiliate thereof serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that: (I) the Fiscal Agent or an affiliate thereof receives fees from funds for services rendered; (II) the Fiscal Agent collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds; and (III) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Fiscal Agent or an affiliate thereof;

(e) Certificates of deposit secured at all times by collateral described in clauses (a) and (b) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party or the Fiscal Agent and the Fiscal Agent on behalf of the Bond Owners must have a perfected first security interest in the collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by Federal Deposit Insurance Corporation;

(g) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (i.e., ratings on holding companies are not considered as the rating of the bank);

(h) Commercial Paper rated, at the time of purchase, “Prime-1” by Moody’s and “A-1” or better by Standard & Poor’s;

(i) Repurchase agreements with financial institutions insured by the Federal Deposit Insurance Corporation; or any broker-dealer with “retail customers” which falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC); or a bank or other financial institution rated in the top two rating categories by one or more Rating Agencies; provided that: (i) the over-collateralization is at one hundred two percent (102%), computed weekly, consisting of such securities as described in this section, items (a) through (c); (ii) a third party custodian, the Fiscal Agent or the Federal Reserve Bank shall have possession of such obligations; (iii) the Fiscal Agent shall have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent to liquidate the collateral;

(j) County or State-administered pooled investment funds in which the District is statutorily permitted or required to invest to the extent that any amounts are deposited by the Fiscal Agent into such funds and provided that the Fiscal Agent shall have direct access to such fund; and

(k) The local agency investment pool maintained by the San Diego County Treasurer’s Money Market Investment Pool to the extent that deposits and withdrawals may be made directly by and in the name of the Fiscal Agent.

“Bond Counsel” means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“Bond Fund” means the fund by that name created pursuant to Section 3.1.

“Bond Register” means the books which the Fiscal Agent shall keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds shall be recorded.

“Bond Year” means the twelve (12) month period commencing on September 2 of each year and ending on September 1 of the following year, and for the first Bond Year commencing on the Delivery Date and ending on September 1, 2013.

“Bondowner” or “Owner” means the person or persons in whose name or names any Bond or Parity Bond is registered.

“Bonds” means the Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Refunding Bonds, Series 2013 issued in the original principal amount of \$\_\_\_\_\_.

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

“Certificate of an Authorized Representative” means a written certificate executed by the Mayor of the City, the City Manager of the City, the Finance Director of the City, the City Clerk, or his or her written designee.

“City” means the City of Escondido, California.

“Code” means the Internal Revenue Code of 1986, together with any amendments thereto.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of July 1, 2013, by and between the District and Special District Financing & Administration, as dissemination agent thereunder.

“Corporate Trust Office” means the corporate trust office of the Fiscal Agent at 400 South Hope Street, Suite 400, Los Angeles, California 90071, Attention: Corporate Trust Services, Ref: City of Escondido, or such other office designated by the Fiscal Agent from time to time.

“Costs of Issuance” means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Fiscal Agent, legal fees and expenses, costs of printing the Bonds and the preliminary and final Official Statements, fees of the appraiser, financial consultants, special tax consultants and other fees and expenses set forth in a Certificate of an Authorized Representative.

“Costs of Issuance Fund” means the fund by that name created pursuant to Section 3.1.

“County” means the County of San Diego, California.

“Debt Service Account” means the account by that name in the Bond Fund created pursuant to Section 3.1 hereof.

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

“Depository” means the securities depository acting as Depository under Section 2.12 hereof.

“Dissemination Agent” means Special District Financing & Administration, and any successor thereto.

“District” means Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) established pursuant to the Act and the Resolution of Formation.

“Escrow Agreement” means the Escrow Agreement (2006 Bonds), dated as of July 1, 2013, by and between the Escrow Bank and the District.

“Escrow Bank” means The Bank of New York Mellon Trust Company, N.A.

“Escrow Fund” means the Escrow Fund established under the Escrow Agreement.

“Federal Securities” means any of the following:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in clause (2) below);

(2) Direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of the Treasury of the United States of America; or

(3) Obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Fiscal Agent” means The Bank of New York Mellon Trust Company, N.A., and any successor thereto.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next following June 30.

“Gross Taxes” means the amount of all Special Taxes received by the District from the Treasurer, together with the net proceeds collected from the sale of property pursuant to the foreclosure provisions of this Indenture, penalties and interest received by the District in connection with the delinquency of such Special Taxes and proceeds from any security for payment of Special Taxes taken in lieu of foreclosure after payment of administrative costs and attorneys’ fees payable from such proceeds to the extent not previously paid as an Administrative Expense.

“Indenture” means this Bond Indenture, together with any Supplemental Indenture approved pursuant to Article 6 hereof.

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

- (a) is in fact independent and not under the domination of the District or the City;
- (b) does not have any substantial interest, direct or indirect, in the District or the City; and
- (c) is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District or the City.

“Interest Payment Date” means each March 1 and September 1, commencing March 1, 2014; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

- (1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and
- (2) the interest payable on the aggregate principal amount of the Bonds Outstanding in such Bond Year if the Bonds are retired as scheduled.

“Moody’s” means “Moody’s Investor’s Service, Inc., or any successor thereto.

“Net Taxes” means Gross Taxes minus amounts set aside to pay the Administrative Expense Requirement.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.12 hereof.

“Ordinance” means, Resolution and Ordinance No. 2006-32 adopted by the legislative body of the District on September 27, 2006 providing for the levying of the Special Tax.

“Outstanding” or “Outstanding Bonds and Parity Bonds” means all Bonds and Parity Bonds theretofore issued by the District, except:

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with Section 10.1 hereof;

(2) Bonds and Parity Bonds for payment or redemption of which moneys shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in this Indenture or any applicable Supplemental Indenture for Parity Bonds; and

(3) Bonds and Parity Bonds which have been surrendered to the Fiscal Agent for transfer or exchange pursuant to Section 2.9 hereof or for which a replacement has been issued pursuant to Section 2.10 hereof.

Upon request of the Fiscal Agent, the District shall specify in a Certificate of an Authorized Representative those Bonds that are not Outstanding and the Fiscal Agent may conclusively rely on such Certificate.

“Parity Bonds” means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in this Indenture or any Supplemental Indenture, rank on a parity with the Bonds.

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

“Prior Fiscal Agent” means The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as fiscal agent under the Prior Indenture.

“Prior Indenture” means the Bond Indenture, dated as of October 1, 2006, by and between the District and the Prior Fiscal Agent, pursuant to which the Refunded Bonds were issued.

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

“Rate and Method of Apportionment” means that certain First Amended Rate and Method of Apportionment of Special Tax approved by the City Council of the City, acting as the legislative body of the District, as it may be amended from time to time in accordance with the Act and this Indenture.

“Rebatable Arbitrage” means the amount (determinable as of the last day of each fifth Bond Year and upon retirement of the Bonds) of arbitrage profits payable to the United States at all times and in the amounts specified in Section 148(f) of the Code and any applicable Regulations.

“Rebate Account” means the account by that name in the Rebate Fund created pursuant to Section 3.1 hereof.

“Rebate Fund” means the fund by that name created pursuant to Section 3.1.

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

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

“Redemption Account” means the account by that name in the Bond Fund created pursuant to Section 3.1 hereof.

“Refunded Bonds” means the Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Bonds Series 2006 issued pursuant to the Prior Indenture.

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

“Representation Letter” shall mean the Blanket Letter of Representations from the District to the Depository as described in Section 2.12 hereof.

“Reserve Account” means the account by that name in the Bond Fund created pursuant to Section 3.1 hereof.

“Reserve Requirement” means that amount as of any date of calculation equal to the lesser of: (i) 10% of the initial principal amount of the Bonds and Parity Bonds, if any; (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds.

“Resolution of Formation” means, Resolution No. 2006-227 adopted by the City Council of the City on September 20, 2006, pursuant to which the City formed the District.

“Resolution of Issuance” means Resolution No. 2013-\_\_ duly adopted by the City Council of the City, acting in its capacity as the legislative body of the District, on June 19, 2013, approving this Indenture, and any supplemental bond indenture approved pursuant to Article VI hereof.

“Sinking Fund Payment” means any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

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

“Special Taxes” means the taxes authorized to be levied by the District in accordance with the Ordinance, the Resolution of Formation, the Act and the Rate and Method of Apportionment.

“Special Tax Fund” means the fund by that name created pursuant to Section 3.1.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

“State” means the State of California.

“Supplemental Indenture” means any supplemental indenture amending or supplementing this Indenture.

“Surplus Fund” means the fund by that name created pursuant to Section 3.1.

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

“Term Bonds” means any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

“Taxable Property” means the area within the boundaries of the District which is not exempt from application of the Special Tax by operation of law or the Rate and Method of Apportionment.

“Treasurer” means the Treasurer-Tax Collector of the County of San Diego.

## ARTICLE II

### GENERAL AUTHORIZATION AND BOND TERMS

Section 2.1 Amount, Issuance, Purpose and Nature of Bonds and Parity Bonds. Under and pursuant to the Act, the Bonds in the aggregate principal amount of \$ \_\_\_\_\_ shall be issued for the purposes of refunding the Refunded Bonds, funding the Reserve Account and paying Costs of Issuance. The Bonds and any Parity Bonds shall be and are limited obligations of the District and shall be payable as to the principal thereof and interest thereon and any premiums upon the redemption thereof solely from the Net Taxes and the other amounts in the funds created hereunder, other than amounts in the Rebate Fund.

Section 2.2 Type and Nature of Bonds and Parity Bonds. Neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the City or general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Bond Fund, as more fully described herein. The District’s limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity Bonds from Net Taxes and amounts in the Bond Fund is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or

the City or the forfeiture of any of their property. The principal of and interest on the Bonds and any Parity Bonds and premiums upon the redemption thereof, if any, are not a debt of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds and any Parity Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District's property, or upon any of its income, receipts or revenues except the Net Taxes and other amounts in the Bond Fund which are, under the terms of this Indenture and the Act, set aside for and irrevocably pledged to the payment of the Bonds, any Parity Bonds and interest thereon, and neither the members of the legislative body of the District nor any persons executing the Bonds or any Parity Bonds are liable personally on the Bonds or any Parity Bonds by reason of their issuance.

Notwithstanding anything to the contrary contained in this Indenture, the District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds or Parity Bonds or for the performance of any covenants contained herein. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Section 2.3 Equality of Bonds and Parity Bonds and Pledge of Net Taxes. Pursuant to the Act and this Indenture, the Bonds and any Parity Bonds shall be equally payable from the Net Taxes and other amounts in the Bond Fund, without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption thereof shall be exclusively paid from the Net Taxes and other amounts in the Bond Fund, which are hereby set aside for and irrevocably pledged to the payment of the Bonds and any Parity Bonds. Such pledge constitutes a first lien on the Net Taxes and other amounts in the Bond Fund. Amounts in the Bond Fund shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by this Indenture or any Supplemental Indenture. Notwithstanding any provision contained in this Indenture to the contrary, Net Taxes deposited in the Rebate Fund shall no longer be considered to be pledged to the Bonds or any Parity Bonds, and neither the Rebate Fund nor the Costs of Issuance Fund shall be construed as a trust fund held for the benefit of the Owners.

Nothing in this Indenture or any Supplemental Indenture shall preclude: (i) subject to the limitations contained hereunder, the redemption prior to maturity of any Bonds or Parity Bonds subject to call and redemption and payment of said Bonds or Parity Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as hereafter amended, or under any other law of the State; or (ii) the issuance, subject to the limitations contained herein, of Parity Bonds which shall be payable from Net Taxes.

Section 2.4 Description of Bonds; Interest Rates. The Bonds and any Parity Bonds shall be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds and any Parity Bonds of each issue shall be numbered as desired by the Fiscal Agent. The Bonds shall be designated "COMMUNITY FACILITIES DISTRICT NO. 2006-01 OF THE CITY OF ESCONDIDO (EUREKA RANCH) SPECIAL TAX REFUNDING BONDS, SERIES 2013." The Bonds shall be dated as of their Delivery Date and shall mature and be payable on September 1 in the years and in the aggregate principal amounts and shall be subject to and shall bear interest at the rates set forth in the table below payable on March 1, 2014 and each Interest Payment Date thereafter:

<i>Period Ending September 1</i>	<i>Principal</i>	<i>Interest Rate</i>
2014	\$	%
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
2030		
2031		
2032		
2033		
2034		
2035		
2036		

Interest shall be payable on each Bond and Parity Bond from the date established in accordance with Section 2.5 below on each Interest Payment Date thereafter until the principal sum of that Bond or Parity Bond has been paid; provided, however, that if at the maturity date of any Bond or Parity Bond (or if the same is redeemable and shall be duly called for redemption, then at the date fixed for redemption) funds are available for the payment or redemption thereof in full, in accordance with the terms of this Indenture, such Bonds and Parity Bonds shall then cease to bear interest. Interest due on the Bonds and Parity Bonds shall be calculated on the basis of a 360 day year comprised of twelve 30 day months.

**Section 2.5 Place and Form of Payment.** The Bonds and Parity Bonds shall be payable both as to principal and interest, and as to any premiums upon the redemption thereof, in lawful money of the United States of America. The principal of the Bonds and Parity Bonds and any premiums due upon the redemption thereof shall be payable upon presentation and surrender thereof at the Corporate Trust Office, or at the designated office of any successor Fiscal Agent. Interest on any Bond or Parity Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that Bond or Parity Bond, unless: (i) such date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication; (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of such Bond or Parity Bond, in which event interest shall be payable from the dated date of such Bond or Parity Bond, as applicable; provided, however, that if at the time of authentication of such Bond or Parity Bond, interest is in default, interest on that Bond or Parity Bond shall be payable from the last Interest Payment Date to

which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment on that Bond or Parity Bond, interest on that Bond or Parity Bond shall be payable from its dated date. Interest on any Bond or Parity Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond or Parity Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the Bond Register. In addition, upon a request in writing received by the Fiscal Agent on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of the Bonds or of any issue of Parity Bonds, payment shall be made on the Interest Payment Date by wire transfer in immediately available funds to an account designated by such Owner.

Section 2.6 Form of Bonds and Parity Bonds. The definitive Bonds may be printed from steel engraved or lithographic plates or may be typewritten. The Bonds and the certificate of authentication shall be substantially in the form attached hereto as Exhibit A, which form is hereby approved and adopted as the form of such Bonds and of the certificate of authentication. Each issue of Parity Bonds and the certificate of authentication therefor shall be in the form provided in the Supplemental Indenture for such issue of Parity Bonds.

Until definitive Bonds or Parity Bonds, as applicable, shall be prepared, the District may cause to be executed and delivered in lieu of such definitive Bonds or Parity Bonds temporary bonds in typed, printed, lithographed or engraved form and in fully registered form, subject to the same provisions, limitations and conditions as are applicable in the case of definitive Bonds or Parity Bonds, except that they may be in any denominations authorized by the District. Until exchanged for definitive Bonds or Parity Bonds, as applicable, any temporary bond shall be entitled and subject to the same benefits and provisions of this Indenture as definitive Bonds and Parity Bonds. If the District issues temporary Bonds or Parity Bonds, it shall execute and furnish definitive Bonds or Parity Bonds, as applicable, without unnecessary delay and thereupon any temporary Bond or Parity Bond may be surrendered to the Fiscal Agent at the Corporate Trust Office, without expense to the Owner, in exchange for a definitive Bond or Parity Bond of the same issue, maturity, interest rate and principal amount in any authorized denomination. All temporary Bonds or Parity Bonds so surrendered shall be cancelled by the Fiscal Agent and shall not be reissued.

Section 2.7 Execution and Authentication. The Bonds and Parity Bonds shall be signed on behalf of the District by the manual or facsimile signature of the Mayor of the City and countersigned by the manual or facsimile signature of the City Clerk, or any duly appointed deputy clerk, in their capacity as officers of the District and attested by the signature of the City Clerk. In case any one or more of the officers who shall have signed any of the Bonds or Parity Bonds shall cease to be such officer before the Bonds or Parity Bonds so signed have been authenticated and delivered by the Fiscal Agent (including new Bonds or Parity Bonds delivered pursuant to the provisions hereof with reference to the transfer and exchange of Bonds or Parity Bonds or to lost, stolen, destroyed or mutilated Bonds or Parity Bonds), such Bonds or Parity Bonds shall nevertheless be valid and may be authenticated and delivered as herein provided, and may be issued as if the person who signed such Bonds or Parity Bonds had not ceased to hold such office.

Only such Bonds as shall bear thereon such certificate of authentication in the form set forth in Exhibit A hereto shall be entitled to any right or benefit under this Indenture, and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Fiscal Agent.

Section 2.8 Bond Register. The Fiscal Agent will keep or cause to be kept, at the Corporate Trust Office, sufficient books for the registration and transfer of the Bonds and any Parity Bonds which shall be open to inspection by the District during all regular business hours upon reasonable prior notice, and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds and any Parity Bonds as herein provided.

The District and the Fiscal Agent may treat the Owner of any Bond or Parity Bond whose name appears on the Bond Register as the absolute Owner of that Bond or Parity Bond for any and all purposes, and the District and the Fiscal Agent shall not be affected by any notice to the contrary. The District and the Fiscal Agent may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Bondowner to give written notice to the Fiscal Agent of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Section 2.9 Registration of Exchange or Transfer. Subject to the limitations of the following paragraph, the registration of any Bond or Parity Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond or Parity Bond for cancellation at the Corporate Trust Office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney.

Bonds or Parity Bonds may be exchanged at the Corporate Trust Office for a like aggregate principal amount of Bonds or Parity Bonds for other authorized denominations of the same maturity and issue. The Fiscal Agent shall not collect from the Owner any charge for any new Bond or Parity Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds or Parity Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds or a new Parity Bond or Parity Bonds, as applicable, of the same issue and maturity, for a like aggregate principal amount; provided that the Fiscal Agent shall not be required to register transfers or make exchanges of: (i) Bonds or Parity Bonds for a period of 15 days next preceding the date of any selection of the Bonds or Parity Bonds to be redeemed; or (ii) any Bonds or Parity Bonds chosen for redemption.

Section 2.10 Mutilated, Lost, Destroyed or Stolen Bonds. If any Bond or Parity Bond shall become mutilated, the District, at the expense of the Bondowner, shall execute, and the Fiscal Agent shall authenticate and deliver, a new Bond or Parity Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond or Parity Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Fiscal Agent shall be cancelled by the Fiscal Agent pursuant to Section 10.1 hereof. If any Bond or Parity Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if any indemnity satisfactory to the Fiscal Agent shall be given, the District, at the expense of the Bondowner, shall execute and the Fiscal Agent shall authenticate and deliver, a new Bond or Parity Bond, as applicable, of like tenor, maturity and issue, numbered and dated as the Fiscal Agent shall determine in lieu of and in substitution for the Bond or Parity Bond so lost, destroyed or stolen. Any Bond or Parity Bond issued in lieu of any Bond or Parity Bond alleged to

be mutilated, lost, destroyed or stolen shall be equally and proportionately entitled to the benefits hereof with all other Bonds and Parity Bonds issued hereunder. The Fiscal Agent shall not treat both the original Bond or Parity Bond and any replacement Bond or Parity Bond as being Outstanding for the purpose of determining the principal amount of Bonds or Parity Bonds which may be executed, authenticated and delivered hereunder or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding hereunder, but both the original and replacement Bond or Parity Bond shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Fiscal Agent may make payment with respect to such Bonds or Parity Bonds upon receipt of indemnification satisfactory to the Fiscal Agent.

Section 2.11 Validity of Bonds and Parity Bonds. The validity of the authorization and issuance of the Bonds and any Parity Bonds shall not be affected in any way by any defect in any proceedings taken by the District, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

Section 2.12 Book-Entry System. The Bonds shall be initially issued in the form of a separate single fully-registered Bond for each maturity (which may be typewritten). Upon initial issuance, the ownership of each such Bond shall be registered in the Bond Register maintained by the Fiscal Agent in the name of the Nominee, as nominee of the Depository. Except hereinafter as provided, all of the Outstanding Bonds shall be registered in the Bond Register maintained by the Fiscal Agent in the name of the Nominee.

With respect to the Bonds registered in the name of the Nominee, the District and the Fiscal Agent shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the District and the Fiscal Agent 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 the Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond Register maintained by the Fiscal Agent, of any notice with respect to the Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in the Bonds to be redeemed in the event that the District redeems the Bonds in part; or (iv) the payment to any Participant or any other person, other than an Owner as shown in the Bond Register maintained by the Fiscal Agent, of any amount with respect to principal of, premium, if any, or interest on the Bonds. The District and the Fiscal Agent may treat and consider the person in whose name each Bond is registered in the Bond Register maintained by the Fiscal Agent as the absolute Owner of such Bond for the purpose of payment of principal, premium, if any, and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Fiscal Agent shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owner, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner shall receive a Bond evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to this Indenture. Upon delivery by the Depository to the Owner, Fiscal Agent and the District 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 herein

with respect to Record Dates, the term "Nominee" in this Indenture shall refer to such nominee of the Depository.

In order to qualify the Bonds and any Parity Bonds that the District elects to register in the name of the Nominee for the Depository's book-entry system, the District shall execute and deliver the Representation Letter to the Depository concurrently with the issuance and delivery of the Bonds and any such Parity Bonds to their respective original purchasers. The execution and delivery of the Representation Letter shall not in any other way limit the provisions of this Section or in any other way impose upon the District any obligation whatsoever with respect to persons having interests in the Bonds or Parity Bonds other than the Owners. In a separate agreement, the Fiscal Agent shall have agreed to take all action necessary to ensure compliance with all representations of the District in the Representation Letter with respect to the Fiscal Agent at all times. In addition to the execution and delivery of the Representation Letter, the District shall take such other actions, not inconsistent with this Indenture, as are reasonably necessary to qualify the Bonds and any Parity Bonds for the Depository's book-entry program.

In the event that: (i) the Depository determines not to continue to act as securities depository for the Bonds; or (ii) the Depository shall no longer so act and gives notice to the Fiscal Agent of such determination, then the District will discontinue the book-entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully-registered Bond and Parity Bond for each of the issues and maturities of the Bonds and Parity Bonds, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace the Depository, then the Bonds and Parity Bonds shall no longer be restricted to being registered in the Bond Register in the name of the Nominee, but shall be registered in whatever name or names Owners transferring or exchanging Bonds and Parity Bonds shall designate, in accordance with the provisions of Section 2.9 of this Indenture.

Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond or Parity Bond is registered in the name of the Nominee, all payments with respect to principal of, premium, if any, and interest on such Bond or Parity Bond and all notices with respect to such Bond or Parity Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

The initial Depository under this Section shall be The Depository Trust Company, New York, New York ("DTC"). The initial Nominee shall be Cede & Co., as Nominee of DTC.

Section 2.13 Issuance of Parity Bonds. The District may at any time after the issuance and delivery of the Bonds hereunder issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued hereunder or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or Parity Bonds then outstanding.

ARTICLE III

CREATION OF FUNDS AND APPLICATION OF PROCEEDS AND NET TAXES

Section 3.1 Creation of Funds.

(a) There are hereby created the following funds and accounts, which shall be maintained by the Fiscal Agent:

(i) The Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Bond Fund (the "Bond Fund"), in which there shall be created a Debt Service Account, a Redemption Account and a Reserve Account;

(ii) The Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Rebate Fund (the "Rebate Fund") in which there shall be created a Rebate Account and an Alternative Penalty Account;

(iii) The Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Costs of Issuance Fund (the "Costs of Issuance Fund"); and

(iv) The Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Surplus Fund (the "Surplus Fund").

The amounts on deposit in the foregoing funds and accounts shall be held by the Fiscal Agent and the Fiscal Agent shall invest and disburse the amounts in such funds and accounts in accordance with the provisions of this Article III and shall disburse investment earnings thereon in accordance with the provisions of Section 3.10 hereof.

(b) There is hereby created the Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Fund (the "Special Tax Fund"), which shall be maintained by the District.

Section 3.2 Disposition of Bond Proceeds.

(a) The proceeds of the sale of the Bonds shall be received by the Fiscal Agent on behalf of the District and deposited as follows:

(1) \$\_\_\_\_\_ shall be transferred to the Escrow Bank for deposit into the Escrow Fund pursuant to the terms of the Escrow Agreement, together with \$\_\_\_\_\_ of moneys held by the Prior Fiscal Agent under the Prior Indenture, which the District shall direct the Prior Fiscal Agent to transfer to the Escrow Agent for deposit in the Escrow Fund pursuant to the Escrow Agreement;

(2) \$\_\_\_\_\_, representing Costs of Issuance with respect to the Bonds, shall be deposited in the Costs of Issuance Fund, and such amount shall be applied to the payment of Costs of Issuance for the Bonds; and

(3) \$\_\_\_\_\_ shall be deposited in the Reserve Account of the Bond Fund.

The Fiscal Agent may, in its discretion, establish temporary funds or accounts in its books and records to facilitate such deposits or transfers.

Section 3.3 Deposits to and Disbursements from Special Tax Fund and Bond Fund. The District covenants to and shall, on each date on which Special Taxes are apportioned to the District, deposit the Special Taxes in the Special Tax Fund. As the Special Taxes are received each Fiscal Year, the District may disburse from the Special Tax Fund an amount up to the Administrative Expense Requirement to pay Administrative Expenses. No other amounts shall be disbursed from the Special Tax Fund in a Fiscal Year until the District has transferred to the Fiscal Agent an amount sufficient: (i) to increase the amount on deposit in the Debt Service Account of the Bond Fund to an amount not less than the interest and principal due on the Bonds and Parity Bonds on the March 1 in such Fiscal Year and the September 1 of the following Fiscal Year (the "Required Debt Service Deposit"); and (ii) to maintain the balance in the Reserve Account of the Bond Fund in an amount equal to the Reserve Requirement. Not later than the last day of each month in which Special Taxes are apportioned to the District, the District shall transfer from the Special Tax Fund to the Fiscal Agent for deposit in the Bond Fund all Net Taxes in the Special Tax Fund until the amount in the Debt Service Account of the Bond Fund equals the Required Debt Service Deposit and the balance in the Reserve Account of the Bond Fund equals the Reserve Requirement. Except for Special Tax Prepayments, which shall be deposited in the Redemption Account of the Bond Fund, the Fiscal Agent shall, on each date on which the Net Taxes are received from the District, deposit the Net Taxes in the Bond Fund to be held in trust for the Owners. The Fiscal Agent shall transfer the Special Taxes on deposit in the Bond Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- (1) The Debt Service Account of the Bond Fund;
- (2) The Reserve Account of the Bond Fund;
- (3) The Rebate Fund; and
- (4) The Surplus Fund.

At the maturity of all Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Fiscal Agent have been paid in full, moneys in the Bond Fund and any accounts therein may be transferred to the District for use by the District for any lawful purpose.

Section 3.4 Debt Service Account of the Bond Fund. The principal or Sinking Fund Payment of, and interest on, the Bonds and Parity Bonds until maturity shall be paid by the Fiscal Agent from amounts transferred to the Debt Service Account of the Bond Fund. For the purpose of assuring that the payment of principal or Sinking Fund Payment of, and interest on, the Bonds and Parity Bonds will be made when due, the Fiscal Agent shall transfer from the Bond Fund to the Debt Service Account Net Taxes as received in each Fiscal Year until the amount in the Debt Service Account equals the Required Debt Service Deposit for such Fiscal Year. Moneys in the Debt Service Account shall be used for the payment of the interest, principal or Sinking Fund Payment of the Bonds and Parity Bonds as the same become due.

Section 3.5 Redemption Account of the Bond Fund.

(a) All Special Tax Prepayments shall be deposited to the Redemption Account of the Bond Fund. After making the deposit to the Debt Service Account of the Bond Fund pursuant to Section 3.4 above and in accordance with the District's election to call Bonds or Parity Bonds for optional redemption as set forth in Section 4.1 hereof or any Supplemental Indenture, the Fiscal Agent shall transfer from the Bond Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal of and interest on the Bonds called for redemption, and the premiums payable as provided in Section 4.1 hereof or any Supplemental Indenture on the Bonds or Parity Bonds called for optional redemption one (1) Business Day prior to the redemption date; provided, however, that Net Taxes may be applied to optionally redeem Bonds or Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(b) Special Tax Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to Section 4.1(c) hereof for the use of such Special Tax Prepayments to the payment of the principal of, premium, if any, and interest on the Bonds and Parity Bonds to be redeemed with such Special Tax Prepayments.

(c) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds; provided, however, that in lieu or partially in lieu of such call and redemption, upon receipt by the Fiscal Agent of written direction of the District to purchase Bonds, moneys deposited in the Redemption Account may be used to purchase Outstanding Bonds or Parity Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, or, in the case of purchases to be made from funds to be applied to a redemption pursuant to Section 4.1, par plus accrued interest, plus premium, if any, in the case of moneys set aside for an optional redemption. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Bond Fund for the payment of interest on the next following Interest Payment Date.

Section 3.6 Reserve Account of the Bond Fund. There shall be maintained in the Reserve Account of the Bond Fund an amount equal to the Reserve Requirement.

Moneys in the Reserve Account shall be used solely for the purposes of: (i) paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Debt Service Account of the Bond Fund are insufficient therefor; and (ii) making any required transfer to the Rebate Fund pursuant to Section 3.7 upon written direction from the District; provided, however, that amounts in the Reserve Account may be applied to pay the principal and interest due on any Bonds or Parity Bonds in the final Bond Year in which any Bonds or Parity Bonds are Outstanding. If the amounts in the Debt Service Account of the Bond Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds and any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw from the Reserve Account for deposit in the Debt Service Account of the Bond Fund or the Rebate Fund, as applicable, moneys necessary for such purposes. Following any transfer to the Debt Service Account of the

Bond Fund or to the Rebate Fund as described above, the District shall then take the steps necessary to cause to be deposited to the Reserve Account the amount needed to replenish the Reserve Account to the Reserve Requirement by transferring such amount from the Special Tax Fund or, if the District so elects, by including such amount in the next annual Special Tax levy to the extent of the permitted maximum Special Tax rates.

Notwithstanding anything herein to the contrary, whenever moneys are withdrawn from the Reserve Account, after making the required transfers pursuant to Sections 3.4 and 3.5 above, the Fiscal Agent shall transfer to the Reserve Account from available moneys in the Bond Fund the amount needed to restore the amount of such account to the Reserve Requirement. Moneys in the Bond Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Debt Service Account of the Bond Fund. In no event shall amounts in the Reserve Account be used to pay fees or expenses of the Fiscal Agent or its counsel.

In connection with a redemption of Bonds pursuant to Section 4.1(a) or (c), or a defeasance of Bonds in accordance with Section 9.1 hereof, amounts in the Reserve Account shall be applied to such redemption or defeasance so long as the amount on deposit in the Reserve Account following such redemption or any partial defeasance equals the Reserve Requirement. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to this Indenture to partially defease Bonds, and the Fiscal Agent shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

Notwithstanding any provision herein to the contrary, moneys in the Reserve Account in excess of the Reserve Requirement shall be withdrawn from the Reserve Account on the Business Day before each Interest Payment Date and transferred to the Debt Service Account to be applied to the interest on the Bonds on the next Interest Payment Date.

### Section 3.7 Rebate Fund.

(a) The Fiscal Agent shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. The District shall cause to be deposited in the Rebate Fund such amounts as required under the Tax Certificate. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Fiscal Agent in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by this Section 3.7 and the Tax Certificate.

Without limiting the generality of the foregoing, the District agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Regulations as may be applicable to the Bonds from time to time, which the District covenants to pay or cause to be paid to the United States at the times and in the amounts determined under the Tax Certificate. The Fiscal Agent agrees to comply with all instructions given to it by the District in accordance with this covenant. The Fiscal Agent shall conclusively be deemed to have complied with the provisions of this Section 3.7 if it follows the instructions of the District and shall not be required to take any actions hereunder in the absence of instructions from the District.

(b) Disposition of Unexpended Funds. Any funds remaining in the Accounts of the Rebate Fund with respect to the Bonds or Parity Bonds after payment in full of such issue and after making the payments required to comply with this Section 3.7 and the Tax Certificate may be withdrawn by the Fiscal Agent at the written direction of the District and utilized in any manner by the District.

(c) Survival of Defeasance and Final Payment. Notwithstanding anything in this Section or this Indenture to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance and final payment of the Bonds or Parity Bonds.

(d) Amendment Without Consent of Owners. This Section 3.7 may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or Parity Bonds issued on a tax exempt basis. Notwithstanding any provision of this Section, if the District shall provide to the Fiscal Agent an opinion of a nationally recognized bond or tax counsel that any specified action required under this Section 3.7 is no longer required or that some further or different action is required to maintain the tax-exempt status of interest on the Bonds or Parity Bonds, the Fiscal Agent and the District may conclusively rely on such opinion in complying with the requirements of this Section, and the covenants hereunder shall be deemed to be modified to that extent.

#### Section 3.8 Costs of Issuance Fund.

(a) The moneys in the Costs of Issuance Fund shall be applied exclusively to pay the Costs of Issuance for the Bonds. Amounts for Costs of Issuance shall be disbursed from the Costs of Issuance Fund by the Fiscal Agent only upon receipt of a sequentially numbered written requisition, substantially in the form of the Certificate of an Authorized Representative attached hereto as Exhibit B, or such other person as is designated in writing to the Fiscal Agent by the legislative body of the District. Each such Certificate of an Authorized Representative shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall have no duty to confirm the accuracy of such facts.

(b) Upon the receipt of a Certificate of an Authorized Representative that all or a specified portion of the amount remaining in the Costs of Issuance Fund is no longer needed to pay Costs of Issuance, the Fiscal Agent shall transfer all or such specified portion of the moneys remaining on deposit in such account to the Debt Service Account of the Bond Fund.

Section 3.9 Surplus Fund. After making the transfers required by Sections 3.4, 3.5, 3.6 and 3.7 hereof, as soon as practicable after each September 1, and in any event prior to each October 1, the Fiscal Agent shall transfer all remaining amounts in the Bond Fund (other than the Reserve Account) to the Surplus Fund, unless on or prior to such date, it has received a Certificate of an Authorized Representative directing that certain amounts be retained in the Bond Fund because the District has included such amounts as being available in the Bond Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to Section 5.2(b) hereof. Moneys deposited in the Surplus Fund will be transferred by the Fiscal Agent at the direction of an Authorized Representative of the District: (i) to the Debt Service Account or the Redemption Account of the Bond Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds; (ii) to the Reserve Account of the Bond Fund

in order to replenish the Reserve Account to the Reserve Requirement; or (iii) to the District for any lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Fiscal Agent in a Certificate of an Authorized Representative and the Fiscal Agent will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested at the written direction of the District in Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes. Such amounts shall be disbursed as directed by an Authorized Representative.

Section 3.10 Investments. Moneys held in any of the Funds and Accounts under this Indenture shall be invested by the Fiscal Agent at the written direction of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds and Accounts. Any loss resulting from such Authorized Investments shall be charged to the Fund or Account from which such investment was made, and any investment earnings on a Fund or Account shall be applied as follows: (i) investment earnings on all amounts deposited in the Costs of Issuance Fund shall be deposited in that Fund; (ii) investment earnings on all amounts in the Rebate Fund shall be deposited in that Fund; (iii) investment earnings on all amounts deposited in the Reserve Account of the Bond Fund shall be used to satisfy the Reserve Requirement and any investment earnings not needed to satisfy the Reserve Requirement shall be withdrawn from the Reserve Account one (1) Business Day before each Interest Payment Date and transferred to the Debt Service Account of the Bond Fund as provided in Section 3.6 hereof; and (iv) all other investment earnings shall be deposited in the Debt Service Account of the Bond Fund. Moneys in the Funds and Accounts held under this Indenture may be invested by the Fiscal Agent, upon the written direction of the District, from time to time, in Authorized Investments for which written direction shall be made in accordance with the following restrictions:

(a) Moneys in the Accounts within the Costs of Issuance Fund shall be invested in Authorized Investments which will by their terms mature, as close as practicable to the date that the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Costs of Issuance Fund.

(b) Moneys in the Debt Service Account of the Bond Fund shall be invested only in Authorized Investments which will by their terms mature or are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(c) One-half of the amount in the Reserve Account of the Bond Fund may be invested only in Authorized Investments which mature not later than six (6) months from their date of purchase by the Fiscal Agent, and one-half of such amount shall be invested in Authorized

Investments which mature not more than two (2) years from the date of purchase by the Fiscal Agent; provided that such amounts may be invested in an investment or repurchase agreement so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with Section 3.4 hereof; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds to which such amounts relate.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (a) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates that such amounts are needed to be paid to the United States Government pursuant to Section 3.7 hereof.

The Fiscal Agent, at the direction of the District, shall sell, or present for redemption, any Authorized Investments so purchased whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof at least semiannually on or before each Interest Payment Date. In making any valuations hereunder, the Fiscal Agent may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything herein to the contrary, the Fiscal Agent shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of this Indenture.

The Fiscal Agent may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee for making such investment. The Fiscal Agent may sell at the best market price obtainable, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the Fund or Account to which such Authorized Investment is credited, and, subject to the provisions of Section 7.4, the Fiscal Agent shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the Fiscal Agent may commingle the funds and accounts established hereunder, but shall account for each separately. In the absence of written investment direction the Fiscal Agent shall invest solely in Authorized Investments set forth in clause (d) of the definition thereof.

The District acknowledges that regulations of the Comptroller of the Currency grant the District the right to receive brokerage confirmations of security transactions to be effected by the Fiscal Agent hereunder as they occur. The District specifically waives the right to receive such confirmations to the extent permitted by applicable law and agrees that it will instead receive periodic cash transaction statements which shall include detail for the investment transactions effected by the Fiscal Agent hereunder; provided, however, that the District retains its right to receive brokerage confirmation on any investment transaction requested by the District.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.1 Redemption of Bonds.

(a) Optional Redemption. The Bonds are subject, at the option of the District, to call and redemption from any available source of funds prior to their stated maturity on any date, as a whole or in part, and by lot, at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

(b) [Reserved].

(c) Special Mandatory Redemption from Special Tax Prepayments. The Bonds are subject to special mandatory redemption from Special Tax Prepayments as a whole, or in part on a pro rata basis among maturities, on any Interest Payment Date, and shall be redeemed by the Fiscal Agent, from Special Tax Prepayments deposited to the Redemption Account pursuant to Section 3.5(b), plus amounts transferred from the Reserve Account pursuant to Section 3.6, at the following redemption prices, expressed as a percentage of the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

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

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

Section 4.2 Selection of Bonds for Redemption. If less than all of the Bonds Outstanding are to be redeemed (except with respect to mandatory sinking fund redemption, in which case

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

Section 4.3 Notice of Redemption. When Bonds are to be called for redemption under Section 4.1, and in the case of an optional redemption or special mandatory redemption, if the Fiscal Agent has received the required notice from the District, the Fiscal Agent shall give notice, in the name and at the expense of the District, of the redemption of such Bonds. Such notice of redemption shall: (a) specify the serial numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds subject to redemption, or all of the Bonds of one maturity are to be redeemed, the serial numbers thereof need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be surrendered for redemption; and (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed. Such notice shall further state that on the date fixed for redemption, there shall become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon shall cease to accrue and be payable. At least 30 days but no more than 60 days prior to the redemption date, the Fiscal Agent shall mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register. The actual receipt by the Owner of any Bond of notice of such redemption shall not be a condition precedent thereto, and neither the failure to receive such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Fiscal Agent that notice of such redemption has been given as herein provided shall be conclusive as against all parties, and the Owner shall not be entitled to show that he or she failed to receive notice of such redemption.

With respect to any notice of optional redemption of the Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Fiscal Agent, on or prior to the date fixed for such redemption, of moneys sufficient to pay the principal of, premium if any, and interest on the Bonds to be redeemed and upon other conditions set forth therein and that, if such moneys shall not have been so received and such other conditions shall not have been satisfied, said notice shall be of no force and effect and the Fiscal Agent shall not be required to redeem such Bonds. If any condition stated in the redemption notice for an optional redemption shall not have been satisfied on or prior to the redemption date: (i) the redemption notice shall be of no force and effect; (ii) the District shall not be required to redeem such Bonds; (iii) the redemption shall not be made; and (iv) the Fiscal Agent shall within a reasonable time thereafter give notice to the persons in the manner in which the conditional redemption notice was given that such condition or conditions were not met and that the redemption was canceled.

In addition to the foregoing notices, further notice shall be given by the Fiscal Agent as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

Each further notice of redemption shall be sent not later than the date that notice of redemption is mailed to the Bondowners pursuant to the first paragraph of this Section by registered or certified mail or overnight delivery service to the Depository and to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds and Parity Bonds as determined by the Fiscal Agent and to one or more of the national information services that the Fiscal Agent determines are in the business of disseminating notice of redemption of obligations such as the Bonds and Parity Bonds.

Upon the payment of the redemption price of any Bonds and Parity Bonds being redeemed, each check or other transfer of funds issued for such purpose shall to the extent practicable bear the CUSIP number identifying, by issue and maturity, the Bonds and Parity Bonds being redeemed with the proceeds of such check or other transfer.

Section 4.4 Partial Redemption of Bonds. Upon surrender of any Bond to be redeemed in part only, the District shall execute and the Fiscal Agent shall authenticate and deliver to the Bondowner, at the expense of the District, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity.

Section 4.5 Effect of Notice and Availability of Redemption Money. Notice of redemption having been duly given, as provided in Section 4.3, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(a) The Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in this Indenture, anything in this Indenture or in the Bonds to the contrary notwithstanding;

(b) Upon presentation and surrender thereof at the Corporate Trust Office of the Fiscal Agent, the redemption price of such Bonds shall be paid to the Owners thereof;

(c) As of the redemption date, the Bonds, or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Bonds, or portions thereof, shall cease to bear further interest; and

(d) As of the date fixed for redemption, no Owner of any of the Bonds, or portions thereof so designated for redemption, shall be entitled to any of the benefits of this Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

## ARTICLE V

### COVENANTS AND WARRANTY

Section 5.1 Warranty. The District shall preserve and protect the security pledged hereunder to the Bonds and any Parity Bonds against all claims and demands of all persons.

Section 5.2 Covenants. So long as any of the Bonds or Parity Bonds issued hereunder are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the

provisions of the Act and this Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Bond Fund:

(a) Punctual Payment; Against Encumbrances. The District covenants that it will receive all Gross Taxes in trust and will deposit the Gross Taxes in the Special Tax Fund and disburse them only as provided in Section 3.3. The District shall have no beneficial right or interest in Net Taxes deposited with the Trustee except as provided by this Indenture. All such Gross Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth herein, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued hereunder, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and Parity Bonds and in accordance with this Indenture to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created hereunder will be made, all in strict conformity with the terms of the Bonds and Parity Bonds and this Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and of the Bonds and Parity Bonds issued hereunder.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Gross Taxes, except as provided in this Indenture, and (except as set forth herein) will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds. Nothing herein shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Special Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

(b) Levy and Collection of Special Tax. Subject to the maximum Special Tax rates, the District will comply with all requirements of the Act so as to assure the timely collection of the Special Taxes, including without limitation, the enforcement of delinquent Special Taxes.

On or before each June 1, commencing June 1, 2014, the Fiscal Agent shall provide a written notice to the District stating the amounts then on deposit in the various funds and accounts established by the Fiscal Agent pursuant to this Indenture. The receipt of such notice by the District shall in no way affect the obligations of the District under the following paragraphs. Upon receipt of a copy of such notice, the District shall communicate with the Treasurer or other appropriate official of the County to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year.

The District shall retain an Independent Financial Consultant to assist in the levy of the Special Taxes each Fiscal Year, commencing Fiscal Year 2013-14, in accordance with the Ordinance, such that the computation of the levy is complete before the final date on which the Treasurer will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the next secured tax roll. Upon the completion of the computation of the amounts of the levy, and approval by the legislative body of the District, the District shall prepare or cause to be

prepared, and shall transmit to the Treasurer, such data as the Treasurer requires to include the levy of the Special Taxes on the next secured tax roll.

The District shall fix and levy the amount of Special Taxes within the District required for the payment of principal of and interest on Outstanding Bonds and Parity Bonds becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Account for the Bonds and Parity Bonds, an amount equal to the estimated Administrative Expenses and any additional amounts necessary for expenses incurred in connection with administration or enforcement of delinquent Special Taxes. The District further covenants that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and Parity Bonds are Outstanding, including the initiation of proceedings under the Act to reduce the Maximum Special Tax rates on Developed Property below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Outstanding Bonds and Parity Bonds. For purposes of this covenant, the terms "Maximum Special Tax" and "Developed Property" have the meanings set forth in the Rate and Method of Apportionment.

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

The fees and expenses of the Independent Financial Consultant retained by the District to assist in computing the levy of the Special Taxes hereunder and any reconciliation of amounts levied to amount received, as well as the costs and expenses of the District (including a charge for District staff time) in conducting its duties hereunder, shall be Administrative Expenses hereunder.

(c) Commence Foreclosure Proceedings. Pursuant to Section 53356.1 of the Act, the District hereby covenants with and for the benefit of the owner of the Bonds and Parity Bonds that it will order, and cause to be commenced as hereinafter provided and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the Superior Court of the County to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following two paragraphs.

On or about July 1st of each Fiscal Year, the District shall compare the amount of Special Taxes theretofore levied in the District to the amount of Special Taxes theretofore received by the District, and:

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

(B) Aggregate Delinquencies. If the District determines that both: (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year; and (ii) the balance on deposit in the Reserve Account of the Bond Fund is either: (a) less than the Reserve Requirement; or (b) is anticipated to be less than the Reserve Requirement as a result of such Special Tax delinquencies, the District shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

Special Taxes collected as a result of a foreclosure proceeding shall be deposited in the Special Tax Fund and only inure to the benefit of the Bonds and Parity Bonds in the manner provided in Section 3.3 hereof.

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

(e) Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the improvements constructed with the proceeds of bonded indebtedness issued by the District, the levy of the Special Tax and the deposits to the Bond Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Owners of not less than ten percent (10%) of the principal amount of the Bonds or the Owners of not less than ten percent (10%) of the principal amount of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

(f) Federal Tax Covenants. Notwithstanding any other provision of this Indenture, absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis will not be adversely affected, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(1) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other moneys or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "private activity bonds" within the meaning of Section 141 of the Code.

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

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

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

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

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

(7) Other Tax-Exempt Issues. The District will not use proceeds of other tax-exempt securities to redeem any Bonds or Parity Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis.

(g) Covenants to Defend. The District covenants that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in Section 5.2(b) above or to limit the power of the District to levy the Special Taxes for the purposes set forth in Section 5.2(b) above, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(h) Limitation on Right to Tender Bonds. The District hereby covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Tax unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due.

(i) Continuing Disclosure Covenant. The District hereby covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Agreement. Notwithstanding any other provision of this Indenture, failure of the District to comply with its obligations under the Continuing Disclosure Agreement shall not be considered an event of default under this Indenture, and the sole remedy, in the event of any failure of the District to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

(j) Opinions. In the event that an opinion is rendered by Bond Counsel as provided herein from a firm other than the firm which rendered the Bond Counsel opinion at closing,

such subsequent opinion by Bond Counsel shall also include the conclusions set forth in numbered paragraphs [1, 2, 3 and 4] of the original Bond Counsel opinion.

(k) Reduction of Maximum Special Taxes. The District hereby finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District hereby determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in this Section 5.2(k) would interfere with the timely retirement of the Bonds and Parity Bonds. The District determines it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District hereby does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that: (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than the Administrative Expense Requirement plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; (ii) based on the current development plan for parcels within the District, such changes do not reduce the maximum Special Taxes expected to be levied on Developed Property upon the buildout of such parcels in each year after buildout to an amount which is less than the Administrative Expense Requirement plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds.

Notwithstanding the foregoing, the District may modify, alter or amend the Rate and Method of Apportionment in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property (as defined in the Rate and Method of Apportionment) below an amount equal to the sum of the Administrative Expense Requirement in the last Fiscal Year in which any Bonds or Parity Bonds are due plus an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Bonds and Parity Bonds Outstanding as of the date of such amendment;

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

## ARTICLE VI

### AMENDMENTS TO INDENTURE

Section 6.1 Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt Supplemental Indentures for any of the following purposes:

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

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

(c) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds then Outstanding;

(d) to modify, alter or amend the Rate and Method of Apportionment in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property (as defined in the Rate and Method of Apportionment) below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Bonds Outstanding as of the date of such amendment;

(e) to modify, alter, amend or supplement this Indenture in any other respect which is not materially adverse to the Bondowners; provided that any amendment or supplement to this Indenture which will affect the Fiscal Agent's duties or protections set forth hereunder shall be effective only upon written consent of the Fiscal Agent; or

(f) to issue Parity Bonds in accordance with Section 2.13 hereof.

Section 6.2 Supplemental Indentures or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures set forth in Section 6.1, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture; provided, however, that nothing herein shall permit, or be construed as permitting: (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond or Parity Bond over any

other Bond or Parity Bond; or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of this Section 6.2 shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The Fiscal Agent shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the Corporate Trust Office for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by this Section 6.2. Whenever at any time within one year after the date of the first mailing of such notice, the Fiscal Agent shall receive an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Fiscal Agent, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of this Section 6.2, this Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

Section 6.3 Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds. After the effective date of any action taken as hereinabove provided, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of his Bond or Parity Bond for the purpose at the Corporate Trust Office or at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds or Parity Bonds. If the District shall so determine, new Bonds or Parity Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity Bonds shall be exchanged at the Corporate Trust Office or at such additional offices as the Fiscal Agent may select and designate for that purpose, without cost to each

Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

## ARTICLE VII

### FISCAL AGENT

Section 7.1 Fiscal Agent. The Bank of New York Mellon Trust Company, N.A., having a Corporate Trust Office in Los Angeles, California, is hereby appointed Fiscal Agent for the District for the purpose of receiving all money which the District is required to deposit with the Fiscal Agent hereunder and to allocate, use and apply the same as provided in this Indenture. In the event that the District fails to deposit with the Fiscal Agent any amount due hereunder when due, the Fiscal Agent shall provide telephonic notice to the District and shall confirm the amount of such shortfall in writing to the extent that such amount is known to the Fiscal Agent.

The Fiscal Agent is hereby authorized to and shall mail by first class mail, postage prepaid, or pay by wire transfer as provided in Section 2.5 hereof, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Fiscal Agent is hereby authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds and to provide for the authentication of Bonds and Parity Bonds, all as provided in this Indenture, and shall perform all other duties assigned to or imposed on it as provided in this Indenture. The Fiscal Agent shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it. The Fiscal Agent shall deliver to the District a monthly accounting of the Funds and Accounts that it holds under this Indenture; provided, however, that the Fiscal Agent shall not be obligated to deliver such accounting for any Fund or Account that has a balance of zero. The Fiscal Agent may establish such Funds and Accounts as it deems necessary or appropriate to perform its obligations hereunder.

The Fiscal Agent is hereby authorized to redeem the Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Fiscal Agent shall cancel all Bonds upon payment thereof in accordance with the provisions of Section 10.1 hereof.

The District shall from time to time, subject to any agreement between the District and the Fiscal Agent then in force, pay to the Fiscal Agent compensation for its services, reimburse the Fiscal Agent for all of its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties hereunder, and indemnify and save the Fiscal Agent, its officers, directors, employees and agents, harmless from and against costs, claims, expenses and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties hereunder. The obligations of the District under this Section shall survive the discharge of the Bonds and the resignation or removal of the Fiscal Agent.

Section 7.2 Removal of Fiscal Agent. The District may at any time at its sole discretion remove the Fiscal Agent initially appointed, and any successor thereto, by delivering to the Fiscal Agent a written notice of its decision to remove the Fiscal Agent and may appoint a successor or successors thereto; provided that any such successor shall be a bank, banking association or trust

company having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Fiscal Agent. If any bank, banking association or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section 7.2, the combined capital and surplus of such bank, banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Section 7.3 Resignation of Fiscal Agent. The Fiscal Agent may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the Bond Register. Upon receiving such notice of resignation, the District shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent. If no appointment of a successor Fiscal Agent shall be made pursuant to the foregoing provisions of this Section within thirty (30) days after the Fiscal Agent shall have given to the District and the Owners written notice, the Fiscal Agent, at the expense of the District, or the District may apply to any court of competent jurisdiction to appoint a successor Fiscal Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Fiscal Agent, which successor shall be acceptable to the District.

Section 7.4 Liability of Fiscal Agent. The recitals of fact and all promises, covenants and agreements contained herein and in the Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Fiscal Agent assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of this Indenture, the Bonds, or any Parity Bonds and shall incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth herein, in the Bonds and any Parity Bonds, or in the certificate of authentication assigned to or imposed upon the Fiscal Agent. The Fiscal Agent shall be under no responsibility or duty with respect to the issuance of the Bonds or any Parity Bonds for value. The Fiscal Agent shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

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

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

Whenever in the administration of its duties under this Indenture the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate shall be full warrant to the

Fiscal Agent for any action taken or suffered under the provisions of this Indenture upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

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

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

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

Section 7.5 Merger or Consolidation. Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Fiscal Agent without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

## ARTICLE VIII

### EVENTS OF DEFAULT; REMEDIES

Section 8.1 Events of Default. Any one or more of the following events shall constitute an "Event of Default":

(a) Default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) Default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same shall become due and payable; or

(c) Except as described in clauses (a) or (b), default by the District in the observance of any of the agreements, conditions or covenants on its part contained in this Indenture, the Bonds or any Parity Bonds, which default shall have continued for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Fiscal Agent or the Owners of twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

Section 8.2 Remedies of Owners. Following the occurrence of an Event of Default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

(a) By mandamus or other suit or proceeding at law or in equity to enforce its rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in this Indenture;

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

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

Nothing in this Article or in any other provision of this Indenture, the Bonds or Parity Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and Parity Bonds to the respective Owners thereof at the respective dates of maturity, as herein provided, out of the Net Taxes pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and Parity Bonds and in this Indenture. The principal of the Bonds and Parity Bonds shall not be subject to acceleration hereunder.

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

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

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

In case the moneys held by the Fiscal Agent after an Event of Default pursuant to Section 8.1(a) or (b) shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds and Parity Bonds, then all available amounts shall be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

## ARTICLE IX

### DEFEASANCE

Section 9.1 Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in this Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the

District to the Owner of such Bond or Parity Bond under this Indenture and any Supplemental Indenture relating to such Parity Bonds shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to this Section 9.1, upon payment of all amounts owed by the District to the Fiscal Agent hereunder, the Fiscal Agent shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent shall, after payment of amounts payable to the Fiscal Agent hereunder, pay over or deliver to the District's general fund all money or securities held by it pursuant to this Indenture which are not required for the payment of the interest due on and the principal of such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the first paragraph of this Section 9.1 if such Bond or Parity Bond is paid in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;

(b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the Bond Fund which are available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable; or

(c) by depositing with the Fiscal Agent, or another escrow bank appointed by the District, in trust, direct, noncallable Federal Securities, of the type defined in the definition thereof set forth in Section 1.1 hereof, in which the District may lawfully invest its money, in such amount as an Independent Financial Consultant shall determine will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Bond Fund which are available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable.

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under this Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in Section 5.2(f) relating to compliance with the Code. Notice of such election shall be filed with the Fiscal Agent not less than thirty (30) days prior to the proposed defeasance date. In connection with a defeasance under clauses (b) or (c) above, there shall be provided to the Fiscal Agent a certificate of a certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank to pay and discharge the principal of and interest on all Outstanding Bonds or Parity Bonds to be defeased in accordance with this Section 9.1, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bond being defeased have been legally defeased in accordance with this Indenture and any applicable Supplemental Indenture. Upon a defeasance, the Fiscal Agent, upon request of the District, shall release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under this Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance hereunder of all Outstanding

Bonds and Parity Bonds, the Fiscal Agent shall pay over or deliver to the District any funds held by the Fiscal Agent at the time of a defeasance which are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds when due and any fees and expenses of the Fiscal Agent remaining unpaid. The Fiscal Agent shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds and Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

Section 9.2 Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness. The District may at any time after the issuance and delivery of the Bonds hereunder issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Bond Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued hereunder or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding. Parity Bonds which may only be issued to effect a partial refunding may be issued subject to the following additional specific conditions, which are hereby made conditions precedent to the issuance of any such Parity Bonds:

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

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

(1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding;

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

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

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

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

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

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

(8) the form of such Parity Bonds; and

(9) such other provisions as are necessary or appropriate and not inconsistent with this Indenture.

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

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

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

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

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

(5) a certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding

following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds; and

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

## ARTICLE X

### MISCELLANEOUS

Section 10.1 Cancellation of Bonds and Parity Bonds. All Bonds and Parity Bonds surrendered to the Fiscal Agent for payment upon maturity or for redemption shall upon payment therefor and any Bond or Parity Bond purchased by the District as authorized herein shall be cancelled forthwith and shall not be reissued. The Fiscal Agent shall destroy such Bonds and Parity Bonds, as provided by law, and, upon written request from the District, furnish to the District a certificate of such destruction.

Section 10.2 Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, banking association, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds or Parity Bonds, shall be sufficient for the purposes of this Indenture (except as otherwise herein provided), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank, banking association or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his authority.

(b) As to any Bond or Parity Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond or Parity Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond or Parity Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Fiscal Agent shall be affected by any notice to the contrary.

Nothing contained in this Indenture shall be construed as limiting the Fiscal Agent or the District to such proof, it being intended that the Fiscal Agent or the District may accept any other evidence of the matters herein stated which the Fiscal Agent or the District may deem sufficient. Any request or consent of the Owner of any Bond or Parity Bond shall bind every future Owner of the same Bond or Parity Bond in respect of anything done or suffered to be done by the Fiscal Agent in pursuance of such request or consent.

Section 10.3 Unclaimed Moneys. Anything in this Indenture to the contrary notwithstanding and subject to the escheat laws of the State, any money held by the Fiscal Agent in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two (2) years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Fiscal Agent at such date, or for two (2) years after the date of deposit of such money if deposited with the Fiscal Agent after the said date when such Outstanding Bonds or Parity Bonds become due and payable, shall be repaid by the Fiscal Agent to the District, as its absolute property and free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds and Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Fiscal Agent shall, at the expense of the District, cause to be mailed to the registered Owners of such Outstanding Bonds and Parity Bonds at their addresses as they appear on the Bond Register of the Fiscal Agent a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Section 10.4 Provisions Constitute Contract. The provisions of this Indenture shall constitute a contract between the District and the Bondowners and the provisions hereof shall be construed in accordance with the laws of the State.

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

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

Section 10.5 Future Contracts. Nothing herein contained shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Net Taxes which is subordinate to the pledge hereunder, or which is payable from the general fund of the District or from taxes or any source other than the Net Taxes as defined herein.

Section 10.6 Further Assurances. The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in this Indenture.

Section 10.7 Severability. If any covenant, agreement or provision, or any portion thereof, contained in this Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of this Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and this Indenture, the Bonds and any Parity Bonds issued pursuant hereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State.

Section 10.8 Notices. Any notices required to be given to the District with respect to the Bonds or this Indenture shall be mailed, first class, postage prepaid or personally delivered to the City of Escondido, 201 North Broadway, Escondido, California 92025, Attention: Finance Director, and all notices to the Fiscal Agent shall be mailed, first class, or personally delivered to the Fiscal Agent at The Bank of New York Mellon Trust Company, N.A., 400 South Hope Street, Suite 400, Los Angeles, California 90071, Attention: Global Corporate Trust Services, Ref: Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Series 2013.

Section 10.9 Action on Next Business Day. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Indenture, is not a Business Day, such payment, with no interest accruing for the period from and after such nominal date, may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided therefore in this Indenture.

SIGNED AND APPROVED as of the day and year first written above by the Mayor of the City of Escondido, acting on behalf of COMMUNITY FACILITIES DISTRICT NO. 2006-01 OF THE CITY OF ESCONDIDO (EUREKA RANCH), and attested to by the City Clerk, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., in token of its acceptance of the duties of the Fiscal Agent created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

COMMUNITY FACILITIES DISTRICT NO.  
2006-01 OF THE CITY OF ESCONDIDO (EUREKA  
RANCH)

By: \_\_\_\_\_  
Mayor of the City of Escondido, acting on  
behalf of Community Facilities District No.  
2006-01 of the City of Escondido (Eureka  
Ranch)

ATTEST:

\_\_\_\_\_  
City Clerk of the City of Escondido, acting on  
behalf of Community Facilities District No.  
2006-01 of the City of Escondido

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**[FORM OF BOND]**

*UNLESS THIS BOND CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE DISTRICT OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.*

No. \_\_\_\_\_

\$ \_\_\_\_\_

**UNITED STATES OF AMERICA  
STATE OF CALIFORNIA  
COUNTY OF SAN DIEGO**

\$ \_\_\_\_\_

**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

INTEREST RATE	MATURITY DATE	DATED DATE	CUSIP® NUMBER
_____%	September 1, ____	July ___, 2013	_____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \_\_\_\_\_ AND NO/100 DOLLARS

COMMUNITY FACILITIES DISTRICT NO. 2006-01 OF THE CITY OF ESCONDIDO (EUREKA RANCH) (the "District"), situated in the City of Escondido, located in the County of San Diego, State of California (the "City"), FOR VALUE RECEIVED, hereby promises to pay, solely from certain amounts held under the Indenture (as hereinafter defined), to the Registered Owner named above, or registered assigns, on the Maturity Date set forth above, unless redeemed prior thereto as hereinafter provided, the Principal Amount set forth above, and to pay interest on such Principal Amount from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication hereof to which interest has been paid or duly provided in full, unless: (i) the date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication; (ii) the date of authentication is after a Record Date (as hereinafter defined) but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest shall be payable from the Dated Date set forth above; provided, however, that if at the

time of authentication of this Bond, interest is in default, interest on this Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment, interest on this Bond shall be payable from the Dated Date set forth above. Interest will be paid semiannually on March 1 and September 1 (each, an "Interest Payment Date"), commencing March 1, 2014, at the Interest Rate set forth above, until the Principal Amount hereof is paid or made available for payment.

The principal of this Bond is payable to the Registered Owner hereof in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office of The Bank of New York Mellon Trust Company, N.A. (the "Fiscal Agent"). Interest on this Bond shall be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, or, upon request of any Registered Owner of at least \$1,000,000 of Bonds, by wire transfer to an account in the continental United States of the Registered Owner hereof prior to the Record Date as of the close of business on the fifteenth day of the month preceding an Interest Payment Date (the "Record Date") at such Registered Owner's address as it appears on the Bond Register maintained by the Fiscal Agent.

This Bond is one of a duly authorized issue of "Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Refunding Bonds, Series 2013" (the "Bonds") issued in the aggregate principal amount of \$\_\_\_\_\_ pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311, *et seq.*, of the California Government Code (the "Act"), for the purpose of refunding the District's Special Tax Bonds Series 2006, paying certain costs related to the issuance of the Bonds and funding a reserve account. The issuance of the Bonds and the terms and conditions thereof are provided for by a resolution adopted by the City Council of the City of Escondido, acting in its capacity as the legislative body of the District (the "Legislative Body") on June 19, 2013, and a Bond Indenture, dated as of July 1, 2013 (the "Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent, executed in connection therewith, and this reference incorporates the Indenture herein, and by acceptance hereof the Registered Owner of this Bond assents to said terms and conditions. The Indenture is executed under and this Bond is issued under, and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act and the Indenture, the principal of and interest on this Bond are payable solely from the portion of the annual special taxes authorized under the Act to be levied and collected within the District and which are pledged to the repayment of the Bonds (the "Special Taxes"). Any amounts for the payment hereof shall be limited to the Special Taxes pledged and collected or foreclosure proceeds received following a default in payment of the Special Taxes and other amounts on deposit in the Bond Fund, except to the extent that other provision for payment has been made by the legislative body of the District, as may be permitted by law. The District has covenanted for the benefit of the owners of the Bonds that under certain circumstances it will commence and diligently pursue to completion appropriate foreclosure proceedings in the event of delinquencies of Special Tax installments levied for payment of principal and interest on the Bonds.

The Bonds are subject, at the option of the District, to call and redemption from any available source of funds prior to their stated maturity on any Interest Payment Date, as a whole or in part, and by lot, at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

The Bonds are subject to special mandatory redemption from Special Tax Prepayments on any Interest Payment Date, in whole or in part, at the following redemption prices, expressed as a percentage of the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

Notice of redemption with respect to the Bonds to be redeemed shall be mailed to the Registered Owners thereof not less than 30 nor more than 60 days prior to the redemption date by first class mail, postage prepaid, to the addresses set forth in the Bond Register. Neither a failure of the Registered Owner hereof to receive such notice nor any defect therein will affect the validity of the proceedings for redemption. All Bonds or portions thereof so called for redemption will cease to accrue interest on the specified redemption date; provided that funds for the redemption are on deposit with the Fiscal Agent on the redemption date. Thereafter, the Registered Owners of such Bonds shall have no rights except to receive payment of the redemption price upon the surrender of the Bonds.

This Bond shall be registered in the name of the Registered Owner hereof, as to both principal and interest, and the District and the Fiscal Agent may treat the Registered Owner hereof as the absolute owner for all purposes and shall not be affected by any notice to the contrary.

The Bonds are issuable only in fully-registered form in the denomination of \$5,000 or any integral multiple of \$5,000 and may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same issue and maturity, all as more fully set forth in the Indenture. This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the corporate trust office of the Fiscal Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, upon surrender and cancellation of this Bond. Upon such transfer, a new registered Bond of authorized denomination or denominations for the same aggregate principal amount of the same issue and maturity will be issued to the transferee in exchange therefor.

The Fiscal Agent shall not be required to register transfers or make exchanges of: (i) any Bonds for a period of 15 days next preceding any selection of the Bonds to be redeemed; or (ii) any Bonds chosen for redemption.

The rights and obligations of the District and of the Registered Owners of the Bonds may be amended at any time, and in certain cases without notice to or the consent of the Registered Owners, to the extent and upon the terms provided in the Indenture.

The principal of this Bond is not subject to acceleration.

If the District shall pay or cause to be paid to the Owner of this Bond the interest due hereon and the principal hereof, at the times and in the manner stipulated herein and in the Indenture, or if there has been deposited with the Fiscal Agent moneys or investment securities, which together with the interest to accrue thereon without further investment, will be fully sufficient to pay and discharge the principal of, premium, if any, and interest on all Bonds Outstanding as and when the same shall become due and payable, then the Owner of this Bond shall cease to be entitled to the pledge of Net Taxes under the Indenture, and all covenants, agreements and other obligations of the District to the Owner of this Bond under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied.

THE BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE CITY OR OF THE DISTRICT FOR WHICH THE CITY OR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES REFERENCED HEREIN. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM THE PORTION OF THE SPECIAL TAXES PLEDGED UNDER THE INDENTURE BUT ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Fiscal Agent.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

IN WITNESS WHEREOF, Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) has caused this Bond to be dated as of the Dated Date, to be executed on behalf of the District by the Mayor of the City of Escondido by facsimile signature and attested by the facsimile signature of the City Clerk.

COMMUNITY FACILITIES DISTRICT NO.  
2006-01 OF THE CITY OF ESCONDIDO (EUREKA  
RANCH)

By: \_\_\_\_\_  
Mayor of the City of Escondido, acting on  
behalf of Community Facilities District No.  
2006-01 of the City of Escondido (Eureka  
Ranch)

ATTEST:

\_\_\_\_\_  
City Clerk of the City of Escondido, acting as the  
legislative body of Community Facilities District  
No. 2006-01 of the City of Escondido (Eureka  
Ranch)

[FORM OF FISCAL AGENT'S CERTIFICATE  
OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within-defined Indenture.

Dated: July \_\_, 2013

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

[FORM OF LEGAL OPINION]

The following is a true copy of the opinion rendered by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, in connection with the issuance of, and dated as of the date of the original delivery of, the Bonds. A signed copy is on file in my office.

\_\_\_\_\_  
City Clerk of the City of Escondido, acting as the legislative  
body of Community Facilities District No. 2006-01 of the  
City of Escondido (Eureka Ranch)

[FORM OF ASSIGNMENT]

For value received, the undersigned do(es) hereby sell, assign and transfer unto

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within Bond and do(es) hereby irrevocably constitute(s) and appoint(s)

\_\_\_\_\_  
attorney, to transfer the same on the registration books of the Fiscal Agent with full power of  
substitution in the premises.

Dated: \_\_\_\_\_

Signature Guarantee:

\_\_\_\_\_  
Notice: Signature(s) must be guaranteed by a  
qualified guarantor.

\_\_\_\_\_  
Notice: The signature on this assignment must  
correspond with the name(s) as written on the  
face of the within Bond in every particular  
without alteration or enlargement or any change  
whatsoever.

**EXHIBIT B**

**FORM OF REQUISITION FOR DISBURSEMENT OF  
COSTS OF ISSUANCE**

§ \_\_\_\_\_  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

The undersigned, a duly authorized representative of Community Facilities District No. 2006-01 of the City of Escondido (the "District"), hereby certifies to The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Fiscal Agent") for purposes of disbursing funds from the Costs of Issuance Fund to pay Costs of Issuance that:

(1) The Fiscal Agent is to pay to the payees set forth on Exhibit A hereto the amount set forth next to each payee's name for the item described on Exhibit A hereto;

(2) The conditions to the release of these amounts from the Costs of Issuance Fund have been satisfied; and

(3) There has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, stop notice or claim affecting the right to receive payment of, any of the moneys payable to any of the payees named on Exhibit A hereto which has not been released or will not be released simultaneously with the payment of such amounts, other than materialmen's or mechanic's liens accruing by mere operation of law.

Dated: \_\_\_\_\_

COMMUNITY FACILITIES DISTRICT NO.  
2006-01 OF THE CITY OF ESCONDIDO  
(EUREKA RANCH)

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

*Payee*

*Amount Due*

*Purpose of Expenditure*

**ESCROW AGREEMENT (2006 BONDS)**

**By and Between**

**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)**

**and**

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,  
as Escrow Bank**

**Dated as of July 1, 2013**

**Relating to**

**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO  
(EUREKA RANCH)  
SPECIAL TAX BONDS SERIES 2006**

## ESCROW AGREEMENT (2006 BONDS)

THIS ESCROW AGREEMENT (2006 BONDS), dated as of July 1, 2013 (the "Escrow Agreement"), by and between Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the "District") and The Bank of New York Mellon Trust Company, N.A., as escrow bank (the "Escrow Bank") and as Prior Fiscal Agent (as defined below), is entered into in accordance with Resolution No. 2013-\_\_\_ of the City Council of the City of Escondido, acting as the legislative body of the District, adopted on June 19, 2013 and a Bond Indenture, dated as of July 1, 2013 (the "Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent (the "Fiscal Agent"), to refund all of the outstanding bonds issued pursuant to the Bond Indenture, dated as of October 1, 2006 (the "Prior Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as Fiscal Agent (the "Prior Fiscal Agent").

### WITNESSETH:

WHEREAS, pursuant to the Prior Indenture, the District has previously issued its Special Tax Bonds Series 2006 (the "Refunded Bonds") in the aggregate principal amount of \$18,080,000, which are currently outstanding in the aggregate principal amount of \$16,575,000; and

WHEREAS, the District has determined to issue its Special Tax Refunding Bonds, Series 2013 in the aggregate principal amount of \$\_\_\_\_\_ (the "Bonds") for the purpose of providing moneys which will be used to optionally redeem all of the Refunded Bonds on September 1, 2013 (the "Redemption Date") at a redemption price equal to 103% of the outstanding aggregate principal amount thereof, together with interest accrued on the Refunded Bonds through the Redemption Date (the "Redemption Price"), as required under the Prior Indenture; and

WHEREAS, the District has taken action to cause to be issued or delivered to the Escrow Bank for deposit in or credit to the escrow fund established and maintained by it (the "Escrow Fund") moneys to be held uninvested as cash, in an amount necessary to refund all of the Refunded Bonds.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District and the Escrow Bank agree as follows:

#### SECTION 1. Deposit of Moneys.

(a) As used herein, the term "Investment Securities" means the Investment Securities set forth in Schedule B hereto, which constitute direct noncallable nonredeemable obligations issued by the United States Treasury. The District hereby deposits with the Escrow Bank \$\_\_\_\_\_, comprised of a portion of the net sale proceeds of the Bonds, and instructs the Prior Fiscal Agent to transfer to the Escrow Bank \$\_\_\_\_\_, consisting of moneys held under the Prior Indenture with respect to the Refunded Bonds, to be held in irrevocable escrow by the Escrow Bank separate and apart from all other securities, investments or moneys on deposit with the Escrow Bank, in a fund hereby created and established and to be known as the "Escrow Fund," and to be applied solely as provided in this Escrow Agreement. As described in the Verification Report (as defined below), such moneys are at least equal to an amount sufficient to purchase the principal amount of Investment Securities set forth in Schedule B hereto and to hold \$\_\_\_ uninvested as cash; and the aggregate principal amount of Investment Securities described in Schedule B hereto, together with all

interest due or to become due on such Investment Securities, and \$\_\_\_ held as cash, will be sufficient to pay the Redemption Price of the Refunded Bonds on the Redemption Date.

(b) The Escrow Bank hereby acknowledges receipt of the written Verification Report of Causey Demgen & Moore P.C., Denver, Colorado, certified public accountants, dated July \_\_\_, 2013 relating to the redemption of the Refunded Bonds on the Redemption Date (the "Verification Report").

SECTION 2. Use and Investment of Moneys. The Escrow Bank acknowledges receipt of the moneys described in Section 1 and agrees:

(a) immediately to invest \$\_\_\_\_\_ of the moneys described in Section 1(a) hereof in the Investment Securities set forth in Schedule B hereto and to deposit such Investment Securities in the Escrow Fund; and

(b) to make the payments required under Section 3 hereof at the times set forth in Section 3 hereof.

SECTION 3. Refunding of the Refunded Bonds. As the principal of the Investment Securities set forth in Schedule B hereto and the investment income and earnings thereon are paid, the Escrow Bank shall transfer from the Escrow Fund to the Prior Fiscal Agent for the Refunded Bonds amounts sufficient to pay on the Redemption Price of the Refunded Bonds on the Redemption Date. Such transfers shall constitute the respective payments of the principal and interest with respect to the Refunded Bonds and Redemption Price due from the District. The holders of the Refunded Bonds shall have a first lien on the moneys and Investment Securities in the Escrow Fund which are allowable and sufficient to pay the Refunded Bonds until such moneys and Investment Securities are used and applied as provided in this Escrow Agreement. Any cash or securities held in the Escrow Fund are irrevocably pledged only to the Refunded Bond holders. Upon deposit of the moneys set forth in Section 1 hereof with the Escrow Bank pursuant to the provisions of Section 1 hereof and the simultaneous purchase of the Investment Securities as provided in Section 2 hereof, the holders of the Refunded Bonds shall cease to be entitled to any lien, benefit or security under the Prior Indenture.

SECTION 4. Performance of Duties. The Escrow Bank agrees to perform the duties set forth herein.

SECTION 5. Reinvestment. Upon written direction of the District, the Escrow Bank shall reinvest any uninvested amounts held as cash under this Escrow Agreement in noncallable nonredeemable obligations which are direct obligations issued by the United States Treasury or obligations which are unconditionally guaranteed as to full and timely payment by the United States of America, provided that: (i) the amounts of and dates on which the anticipated transfers from the Escrow Fund to the Prior Fiscal Agent for the payment of the principal of, Redemption Price of and interest on the Refunded Bonds will not be diminished or postponed thereby; (ii) the Escrow Bank shall receive the unqualified opinion of nationally recognized bond counsel to the effect that such reinvestment will not adversely affect the exclusion from gross income of interest with respect to the Bonds or the Refunded Bonds; (iii) the Escrow Bank shall receive from an independent certified public accountant a certification that, immediately after such reinvestment, the principal of and interest on obligations in the Escrow Fund will, together with other cash on deposit in the Escrow Fund available for such purposes, be sufficient without reinvestment to pay, when due, the principal

or Redemption Price of and interest on the Refunded Bonds; and (iv) the Escrow Bank shall receive an opinion of nationally recognized bond counsel that such reinvestment is permissible under this Escrow Agreement. Except as provided in this Section 5 and Section 8 hereof, the Escrow Bank shall have no power or duty to invest any funds held under this Escrow Agreement or to sell, transfer or otherwise dispose of the moneys or Investment Securities held hereunder. In no event shall the Escrow Bank invest or reinvest moneys held under this Escrow Agreement in mutual funds or unit investment trusts. Notwithstanding any other provision of this Escrow Agreement, the Escrow Bank shall invest the amounts described in Schedule B as described in Schedule B.

SECTION 6. Indemnity. The District hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Bank and its respective successors, assigns, directors, agents, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Bank at any time (whether or not also indemnified against the same by the District or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Escrow Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds deposited therein, the purchase of the Investment Securities, the retention of the Investment Securities or the proceeds thereof and any payment, transfer or other application of moneys by the Escrow Bank in accordance with the provisions of this Escrow Agreement; provided, however, that the District shall not be required to indemnify the Escrow Bank against the Escrow Bank's own negligence or willful misconduct or the negligent or willful misconduct of the Escrow Bank's respective agents and employees or the breach by the Escrow Bank of the terms of this Escrow Agreement. In no event shall the District or the Escrow Bank be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section 6. The indemnities contained in this Section 6 shall survive the termination of this Escrow Agreement.

SECTION 7. Responsibilities of the Escrow Bank. The Escrow Bank and its respective successors, assigns, agents and servants shall not be held to any personal liability whatsoever, in tort, contract or otherwise, in connection with the execution and delivery of this Escrow Agreement, the establishment of the Escrow Fund, the acceptance of the moneys or securities deposited therein, the purchase of the Investment Securities, the retention of the Investment Securities or the proceeds thereof, the sufficiency of the Investment Securities to accomplish the defeasance of the Refunded Bonds or any payment, transfer or other application of moneys or obligations by the Escrow Bank in accordance with the provisions of this Escrow Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Bank made in good faith in the conduct of its duties. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the District, and the Escrow Bank assumes no responsibility for the correctness thereof. The Escrow Bank makes no representation as to the sufficiency of the Investment Securities to accomplish the refunding of the Refunded Bonds on the Redemption Date or to the validity of this Escrow Agreement as to the District and, except as otherwise provided herein, the Escrow Bank shall incur no liability with respect thereto. The Escrow Bank shall not be liable in connection with the performance of its duties under this Escrow Agreement except for its own negligence, willful misconduct or default, and the duties and obligations of the Escrow Bank shall be determined by the express provisions of this Escrow Agreement. The Escrow Bank may consult with counsel, who may or may not be counsel to the District, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection with respect to any action taken, suffered or

omitted by it in good faith in accordance therewith. Whenever the Escrow Bank shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Escrow Agreement, such matter may be deemed to be conclusively established by a certificate signed by an authorized officer of the District.

The liability of the Escrow Bank to make the payments required by this Escrow Agreement shall be limited to the moneys in the Escrow Fund.

No provision of this Escrow Agreement shall require the Escrow Bank to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder, or in the exercise of its rights or powers.

The Escrow Bank shall not be liable for the accuracy of any calculations provided herein.

Any company into which the Escrow Bank may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Escrow Bank may sell or transfer all or substantially all of its corporate trust business shall be the successor to the Escrow Bank without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

The District shall pay the Escrow Bank full compensation for its duties under this Escrow Agreement, including out-of-pocket costs such as publication costs, redemption or redemption expenses, legal fees and other costs and expenses relating hereto. Under no circumstances shall amounts deposited in the Escrow Fund be deemed to be available for said purposes.

The Escrow Bank may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care, and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed.

The Escrow Bank agrees to accept and act upon instructions or directions pursuant to this Escrow Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Escrow Bank shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Escrow Bank e-mail or facsimile instructions (or instructions by a similar electronic method) and the Escrow Bank in its discretion elects to act upon such instructions, the Escrow Bank's understanding of such instructions shall be deemed controlling. The Escrow Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Escrow Bank's reliance upon and compliance with such instructions notwithstanding that such instructions conflict or are inconsistent with a subsequent written instruction. The District agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Escrow Bank, including without limitation the risk of the Escrow Bank acting on unauthorized instructions, and the risk of interception and misuse by third parties.

**SECTION 8. Substitution of Investment Securities.** At the written request of the District and upon compliance with the conditions hereinafter set forth, the Escrow Bank shall have the power to sell, transfer, request the redemption or otherwise dispose of some or all of the Investment

Securities in the Escrow Fund and to substitute noncallable nonredeemable obligations (the "Substitute Investment Securities") constituting direct obligations issued by the United States Treasury or obligations which are unconditionally guaranteed as to full and timely payment by the United States of America as contemplated by Section 9.1 of the Prior Indenture. The foregoing may be effected only if: (i) the substitution of Substitute Investment Securities for the Investment Securities (or Substitute Investment Securities) occurs simultaneously; (ii) the amounts of and dates on which the anticipated transfers from the Escrow Fund to the trustee for the payment of the principal of and/or Redemption Price of and/or interest on the Refunded Bonds will not be diminished or postponed thereby; (iii) the Escrow Bank shall receive the unqualified opinion of nationally recognized bond counsel to the effect that such disposition and substitution would not adversely affect the exclusion from gross income of interest with respect to the Refunded Bonds or the Bonds, and that the conditions of this Section 8 as to the disposition and substitution have been satisfied and that the substitution is permitted by this Escrow Agreement; and (iv) the Escrow Bank shall receive from an independent certified public accountant a certification that, immediately after such transaction, the principal of and interest on the Substitute Investment Securities in the Escrow Fund will, together with other cash on deposit in the Escrow Fund available for such purpose, be sufficient without reinvestment to pay, when due, the principal or Redemption Price of and interest on the Refunded Bonds. Any cash from the sale of Investment Securities (including U.S. Treasury Securities) received from the disposition and substitution of Substitute Investment Securities pursuant to this Section 8 to the extent that such cash will not be required, in accordance with the Prior Indenture and this Escrow Agreement, and as demonstrated in the certification described in clause (iv) above, at any time for the payment when due of the principal or Redemption Price of or interest on the Refunded Bonds shall be paid to the District as received by the Escrow Bank free and clear of any trust, lien, pledge or assignment securing such Refunded Bonds or otherwise existing under this Escrow Agreement. In no event shall the Escrow Bank invest or reinvest moneys held under this Escrow Agreement in mutual funds or unit investment trusts.

SECTION 9. Irrevocable Instructions as to Notice. The Escrow Bank hereby acknowledges that upon the funding of the Escrow Fund as provided in this Escrow Agreement, the receipt of the Verification Report described in Section 1(b) of this Escrow Agreement and the Irrevocable Instructions and Request to Prior Fiscal Agent and Escrow Bank attached hereto as Schedule C, it is in receipt of the items constituting all of the conditions precedent to the redemption of the Refunded Bonds under the Prior Indenture, the Refunded Bonds shall be paid in accordance with the Prior Indenture and the Refunded Bonds shall cease to be entitled to any lien, benefit or security under the Prior Indenture. The Escrow Bank hereby agrees to provide to The Depository Trust Company the notice of defeasance attached as Exhibit Y to Schedule C within 30 days of receipt of such Irrevocable Instructions.

SECTION 10. Amendments. This Escrow Agreement is made for the benefit of the District and the holders from time to time of the Bonds and it shall not be repealed, revoked, altered or amended without the written consent of all such holders, the Escrow Bank and the District, as defined in the Indenture; provided, however, but only after the receipt by the Escrow Bank of an opinion of nationally recognized bond counsel that the exclusion from gross income of interest on the Bonds and the Refunded Bonds will not be adversely affected for federal income tax purposes, the District and the Escrow Bank may, without the consent of, or notice to, such holders, amend this Escrow Agreement or enter into such agreements supplemental to this Escrow Agreement as shall not adversely affect the rights of such holders and as shall not be inconsistent with the terms and provisions of this Escrow Agreement for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Escrow Agreement; (ii) to grant to, or confer upon, the

Escrow Bank for the benefit of the holders of the Refunded Bonds any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such holders or the Escrow Bank; and (iii) to include under this Escrow Agreement additional funds, securities or properties. The Escrow Bank shall be entitled to rely conclusively upon an unqualified opinion of nationally recognized bond counsel with respect to compliance with this Section 10, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the holders of the Refunded Bonds or that any instrument executed hereunder complies with the conditions and provisions of this Section 10.

SECTION 11. Term. This Escrow Agreement shall commence upon its execution and delivery and shall terminate on the later to occur of either: (i) the date upon which the Refunded Bonds have been paid in accordance with this Escrow Agreement; or (ii) the date upon which no unclaimed moneys remain on deposit with the Escrow Bank and all amounts owed to the Escrow Bank shall have been paid in full. Any unclaimed money which remains in the Escrow Fund for 2 years from the date upon which the Refunded Bonds have been paid in accordance with this Escrow Agreement shall be remitted by the Escrow Bank to the District.

SECTION 12. Compensation. The Escrow Bank shall receive its reasonable fees and expenses as previously agreed to; provided, however, that under no circumstances shall the Escrow Bank be entitled to any lien nor will it assert a lien whatsoever on any moneys or obligations in the Escrow Fund for the payment of fees and expenses for services rendered by the Escrow Bank under this Escrow Agreement.

SECTION 13. Resignation or Removal of Escrow Bank.

(a) The Escrow Bank may resign by giving 30 days prior written notice in writing to the District. The Escrow Bank may be removed: (1) by: (i) the filing with the District of an instrument or instruments executed by the holders of at least 51% in aggregate principal amount of the Refunded Bonds then remaining unpaid; and (ii) the delivery of a copy of the instruments filed with the District to the Escrow Bank; or (2) by a court of competent jurisdiction for failure to act in accordance with the provisions of this Escrow Agreement upon application by the District or the holders of 5% in aggregate principal amount of the Refunded Bonds then remaining unpaid.

(b) No resignation or removal of the Escrow Bank shall become effective until a successor Escrow Bank has been appointed hereunder and until the cash held under this Escrow Agreement is transferred to the new Escrow Bank. The District or the holders of a majority in principal amount of the Refunded Bonds then remaining unpaid may, by an instrument or instruments filed with the District, appoint a successor Escrow Bank who shall supersede any Escrow Bank theretofore appointed by the District. If no successor Escrow Bank is appointed by the District or the holders of such Refunded Bonds then remaining unpaid, within 45 days after notice of any such resignation or removal, the holder of any such Refunded Bonds or any retiring Escrow Bank may apply to a court of competent jurisdiction for the appointment of a successor Escrow Bank.

SECTION 14. Severability. If any one or more of the covenants or agreements provided in this Escrow Agreement on the part of the District or the Escrow Bank to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Escrow Agreement.

SECTION 15. Counterparts. This Escrow Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

SECTION 16. Governing Law. This Escrow Agreement shall be construed under the laws of the State of California.

SECTION 17. Holidays. 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 this Escrow Agreement, shall be a legal holiday or a day on which banking institutions in the city in which is located the principal office of the Escrow Bank are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are authorized by law to remain closed, with the same force and effect as if done on the nominal date provided in this Escrow Agreement, and no interest shall accrue for the period after such nominal date.

SECTION 18. Assignment. This Escrow Agreement shall not be assigned by the Escrow Bank or any successor thereto without the prior written consent of the District.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be executed by their duly authorized officers and attested as of the date and year first written above.

COMMUNITY FACILITIES DISTRICT NO.  
2006-01 OF THE CITY OF ESCONDIDO (EUREKA  
RANCH)

By: \_\_\_\_\_  
Mayor of the City of Escondido, acting on  
behalf of Community Facilities District No.  
2006-01 of the City of Escondido (Eureka  
Ranch)

*[SIGNATURES CONTINUED ON NEXT PAGE.]*

*[SIGNATURE PAGE CONTINUED.]*

The BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Escrow Bank and as Prior  
Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

**SCHEDULE A**  
**REFUNDED BONDS**

<i>Maturity Date (September 1)</i>	<i>Interest Rate</i>	<i>Par Amount</i>	<i>Call Date</i>	<i>Call Price</i>
2013	4.55 %	\$ 375,000	N/A	N/A%
2014	4.65	390,000	September 1, 2013	103
2015	4.75	410,000	September 1, 2013	103
2016	4.875	430,000	September 1, 2013	103
2017	4.95	450,000	September 1, 2013	103
2018	5.00	475,000	September 1, 2013	103
2019	5.00	495,000	September 1, 2013	103
2020	5.00	520,000	September 1, 2013	103
2026*	5.10	3,730,000	September 1, 2013	103
2036*	5.15	9,300,000	September 1, 2013	103

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\* Term Bonds.

**SCHEDULE B**  
**INVESTMENT SECURITIES**

“Investment Securities” are defined to be United States Treasury Time Deposit Securities, State and Local Government Series, and shall be, as follows:

<i>Maturity Date</i>	<i>Par Amount</i>	<i>Rate</i>	<i>Type</i>
September 1, 2013	\$ _____	_____%	_____

**SCHEDULE C**

**IRREVOCABLE INSTRUCTIONS AND REQUEST TO PRIOR FISCAL AGENT AND  
ESCROW BANK**

June \_\_, 2013

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

\$18,080,000  
COMMUNITY FACILITIES DISTRICT NO. 2006-01 OF THE CITY OF ESCONDIDO  
(EUREKA RANCH)  
SPECIAL TAX BONDS SERIES 2006

Ladies and Gentlemen:

As Fiscal Agent under that certain Bond Indenture, dated as of October 1, 2006, and as Escrow Bank under that certain Escrow Agreement (2006 Bonds), dated as of July 1, 2013, you are hereby notified of the irrevocable election of Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) to defease all outstanding amounts with respect to the above-captioned bonds (the "Bonds").

You are hereby further irrevocably instructed to mail, as soon as practicable: (i) a notice to the registered owners of such Bonds (in the form attached hereto as Exhibit Y) that the deposit of investment securities and moneys has been made with you as such Escrow Bank and that the projected withdrawals from such escrow have been calculated to be adequate to pay the principal or redemption price of and the interest with respect to the Bonds; and (ii) a notice of redemption of such Bonds in the form attached hereto as Exhibit Z.

COMMUNITY FACILITIES DISTRICT NO.  
2006-01 OF THE CITY OF ESCONDIDO (EUREKA  
RANCH)

By: \_\_\_\_\_  
Finance Director of the City of Escondido,  
acting on behalf of Community Facilities  
District No. 2006-01 of the City of Escondido  
(Eureka Ranch)

RECEIPT ACKNOWLEDGED AND CONSENTED TO:

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,  
as Prior Fiscal Agent and Escrow Bank

By: \_\_\_\_\_  
Its: Authorized Officer

EXHIBIT Y

NOTICE OF DEFEASANCE OF

\$18,080,000

COMMUNITY FACILITIES DISTRICT NO. 2006-01 OF THE CITY OF ESCONDIDO  
(EUREKA RANCH)  
SPECIAL TAX BONDS SERIES 2006

Notice is hereby given to the owners of the outstanding Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Bonds Series 2006 described on Exhibit 1 attached hereto (collectively, the "Refunded Bonds"): (i) that there has been deposited with The Bank of New York Mellon Trust Company, N.A., as Escrow Bank, moneys and investment securities as permitted by the Bond Indenture, dated as of October 1, 2006 (the "Indenture"), by and between Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the "District") and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as fiscal agent (the "Fiscal Agent"), the principal of and the interest on which when due will provide moneys which, together with such other moneys deposited with the Escrow Bank, shall be sufficient and available to redeem the Refunded Bonds on September 1, 2013 at a redemption price equal to 103% aggregate principal amount of the Refunded Bonds; and (ii) that the Refunded Bonds are deemed to be paid and that the Indenture has been released in accordance with Section 9.1 thereof and all obligations of the District and the Fiscal Agent under the Indenture with respect to all Refunded Bonds shall cease and terminate.

All Refunded Bonds shall be surrendered at the following address:

First Class/Registered/Certified

**The Bank of New York Mellon**  
Global Corporate Trust  
P.O. Box 396  
East Syracuse, New York 13057

Express Delivery Only

**The Bank of New York Mellon**  
Global Corporate Trust  
111 Sanders Creek Parkway  
East Syracuse, New York 13057

By Hand Only

**The Bank of New York Mellon**  
Global Corporate Trust  
Corporate Trust Window  
101 Barclay Street, 1st Floor East  
New York, New York 10286

No representation is made as to the correctness of the CUSIP number either as printed on any Refunded Bond or as contained herein and any error in the CUSIP number shall not affect the validity of the proceedings for redemption of the Refunded Bonds.

At least 30 days, but not more than 45 days, prior to September 1, 2013 in accordance with the terms of the Indenture, the Fiscal Agent will mail a redemption notice for the Refunded Bonds.

Dated this \_\_\_\_ day of July, 2013.

COMMUNITY FACILITIES DISTRICT NO.  
2006-01 OF THE CITY OF ESCONDIDO  
(EUREKA RANCH)

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A.,  
as Fiscal Agent

EXHIBIT 1  
REFUNDED BONDS

<i>Maturity Date (September 1)</i>	<i>Interest Rate</i>	<i>Par Amount</i>	<i>Call Date</i>	<i>Call Price</i>
2013	4.55 %	\$ 375,000	N/A	N/A%
2014	4.65	390,000	September 1, 2013	103
2015	4.75	410,000	September 1, 2013	103
2016	4.875	430,000	September 1, 2013	103
2017	4.95	450,000	September 1, 2013	103
2018	5.00	475,000	September 1, 2013	103
2019	5.00	495,000	September 1, 2013	103
2020	5.00	520,000	September 1, 2013	103
2026*	5.10	3,730,000	September 1, 2013	103
2036*	5.15	9,300,000	September 1, 2013	103

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\* Term Bonds.

NOTICE OF FULL REDEMPTION OF  
 \$18,080,000  
 COMMUNITY FACILITIES DISTRICT NO. 2006-01 OF THE CITY OF ESCONDIDO  
 (EUREKA RANCH)  
 SPECIAL TAX BONDS SERIES 2006

BASE CUSIP 29634S

NOTICE IS HEREBY GIVEN to the owners of the above-captioned bonds (the "Bonds") of Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the "District") pursuant to the Bond Indenture, dated as of October 1, 2006 (the "Indenture"), by and among the District and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as fiscal agent (the "Fiscal Agent"), that the outstanding Bonds in the amount of \$16,200,000 have been called for redemption on September 1, 2013 (the "Redemption Date"). The Bonds to be called, which were originally issued on November 1, 2006, are as follows:

<u>CUSIP</u>	<u>MATURITY</u> <u>(September 1)</u>	<u>RATE</u>	<u>AMOUNT</u>	<u>PRICE</u>
BB6	2014	4.65 %	\$ 390,000	103%
BC4	2015	4.75	410,000	103
BD2	2016	4.875	430,000	103
BE0	2017	4.95	450,000	103
BF7	2018	5.00	475,000	103
BG5	2019	5.00	495,000	103
BH3	2020	5.00	520,000	103
BK6	2026*	5.10	3,730,000	103
BL4	2036*	5.15	9,300,000	103

\* Term Bonds.

The Bonds will be payable on the Redemption Date at a redemption price of 103% of the principal amount plus accrued interest thereon to such date (the "Redemption Price"). The Redemption Price of the Bonds will become due and payable on the Redemption Date. Interest on the Bonds to be redeemed will cease to accrue on and after the Redemption Date, and such Bonds will be surrendered to the Fiscal Agent.

To receive payment on the Redemption Date, owners of the Bonds should present and surrender said Bonds on the Redemption Date at the address of the Fiscal Agent set forth below:

First Class/Registered/Certified

**The Bank of New York Mellon**  
Global Corporate Trust  
P.O. Box 396  
East Syracuse, New York 13057

Express Delivery Only

**The Bank of New York Mellon**  
Global Corporate Trust  
111 Sanders Creek Parkway  
East Syracuse, New York 13057

By Hand Only

**The Bank of New York Mellon**  
Global Corporate Trust  
Corporate Trust Window  
101 Barclay Street, 1st Floor East  
New York, New York 10286

If the Owner of any Bond subject to optional redemption fails to deliver such Bond to the Fiscal Agent on the Redemption Date, such Bond shall nevertheless be deemed redeemed on the Redemption Date and the Owner of such Bond shall have no rights in respect thereof except to receive payment of the Redemption Price from funds held by the Fiscal Agent for such payment.

A form W-9 must be submitted with the Bonds. Failure to provide a completed form W-9 will result in 31% backup withholding pursuant to the Interest and Dividend Tax Compliance Act of 1983. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, 28% will be withheld if the tax identification number is not properly certified.

Note: *The District and the Fiscal Agent shall not be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness in the notice or as printed on any Bond. They are included solely for the convenience of the holders.*

By: THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Fiscal Agent  
for Community Facilities District No. 2006-01 of the City of Escondido (Eureka  
Ranch)

DATED this 1st day of August, 2013.

§  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

**BOND PURCHASE AGREEMENT**

\_\_\_\_\_, 2013

City Council  
City of Escondido  
201 North Broadway  
Escondido, California 92025

Community Facilities District No. 2006-01  
of the City of Escondido (Eureka Ranch)  
201 North Broadway  
Escondido, California 92025

Ladies and Gentlemen:

Stifel Nicolaus & Company, Incorporated, as underwriter (the "Underwriter"), acting not as a fiduciary or agent for you, but on behalf of itself, offers to enter into this Bond Purchase Agreement (this "Purchase Agreement") with Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the "District") established by the City of Escondido (the "City"), which upon acceptance will be binding upon the Underwriter and the District. The agreement of the Underwriter to purchase the Bonds (as hereinafter defined) is contingent upon the District satisfying all of the obligations imposed upon it under this Purchase Agreement. This offer is made subject to the District's acceptance by the execution of this Purchase Agreement and its delivery to the Underwriter at or before \_\_\_\_ p.m., local time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the District at any time prior to the acceptance hereof by the District. All capitalized terms used herein, which are not otherwise defined, shall have the meanings provided for such terms in the Bond Indenture, dated as of July 1, 2013 (the "Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Fiscal Agent").

1. Purchase, Sale and Delivery of the Bonds.

A. Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the District and the District hereby agrees to sell to the Underwriter all (but not less than all) of the \$\_\_\_\_\_ aggregate principal amount of the Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Refunding Bonds, Series 2013 (the "Bonds"), dated the Closing Date (as hereinafter defined). The Bonds will be dated as of their date of delivery. Interest on the Bonds shall be payable semiannually on March 1 and September 1 in each year (each an "Interest Payment Date") commencing March 1, 2014, and will bear interest at the rates and on the dates as set forth in Exhibit A hereto. The purchase price for the Bonds shall be \$\_\_\_\_\_

(being 100% of the aggregate principal amount thereof, [plus/less] a net original issue [discount/premium] of \$ \_\_\_\_\_ and less an Underwriter's discount of \$ \_\_\_\_\_).

The Underwriter agrees to make a bona fide public offering of all of the Bonds initially at the public offering prices (or yields) set forth in Exhibit A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds, provided that the Underwriter shall not change the interest rates set forth in Exhibit A. The Bonds will be offered and sold to certain dealers at prices lower than such initial offering prices.

The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable from the Net Taxes as provided in the Indenture, the Preliminary Official Statement (as hereinafter defined), and the Mello-Roos Community Facilities Act of 1982, as amended (California Government Code section 53311 *et seq.*) (the "Act"). The issuance of the Bonds has been duly authorized by the City Council of the City (the "City Council") acting as the legislative body of the District pursuant to a resolution (the "Bond Resolution") adopted on June 19, 2013, by the City Council of the City, acting in its capacity as the legislative body of the District. The net proceeds of the Bonds, together with certain funds and other amounts held under the Indenture, will be used to: (i) refund all of the outstanding Special Tax Bonds Series 2006 (the "Refunded Bonds"); (ii) fund a Reserve Account for the Bonds; and (iii) pay the Costs of Issuance.

B. The District hereby acknowledges that the Underwriter is entering into this Purchase Agreement in reliance on the representations, warranties and agreements made by the District herein, and the District shall take all actions necessary to enforce its rights hereunder for the benefit of the Underwriter and shall immediately notify the Underwriter if it becomes aware that any representation, warranty or agreement made by the District herein is incorrect in any material respect.

The District acknowledges and agrees that: (i) the sale and purchase of the Bonds pursuant to this Purchase Agreement is an arm's-length commercial transaction between the District and the Underwriter; (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as a principal and is not acting as the agent or fiduciary of the District; (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the District with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the District on other matters); and (iv) the District has consulted its own legal, financial and other advisors to the extent that it has deemed appropriate.

C. Pursuant to the authorization of the District, the Underwriter has distributed copies of the Preliminary Official Statement dated \_\_\_\_\_, 2013, relating to the Bonds, which, together with the cover page, inside cover page and appendices thereto is herein called the "Preliminary Official Statement." By its acceptance of this Purchase Agreement, the District hereby ratifies the use by the Underwriter of the Preliminary Official Statement, and the District agrees to execute a final official statement relating to the Bonds (the "Official Statement") which will consist of the Preliminary Official Statement with such changes as may be made thereto, with the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, the District's bond counsel ("Bond Counsel") and the District's disclosure counsel ("Disclosure Counsel"), and the Underwriter, and to provide copies thereof to the Underwriter as set forth in Section 2(O) hereof. The District hereby

authorizes and requires the Underwriter to use and promptly distribute, in connection with the offer and sale of the Bonds, the Preliminary Official Statement, the Official Statement and any supplement or amendment thereto. The District further authorizes the Underwriter to use and distribute, in connection with the offer and sale of the Bonds, the Indenture, the Escrow Agreement (2006 Bonds) dated July 1, 2013 (the "Escrow Agreement"), by and between the District and The Bank of New York Mellon Trust, N.A. as the escrow bank (the "Escrow Bank"), this Purchase Agreement and all information contained herein, and all other documents, certificates and statements furnished by or on behalf of the District to the Underwriter in connection with the transactions contemplated by this Purchase Agreement.

D. To assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"), the District will undertake pursuant to the Continuing Disclosure Agreement, in the form attached to the Official Statement as Appendix E (the "Continuing Disclosure Agreement"), by and between the District and Special District Financing & Administration LLC as dissemination agent (the "Dissemination Agent"), to provide annual reports and notices of certain enumerated events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

E. Except as the Underwriter and the District may otherwise agree, the District will deliver to the Underwriter, at the offices of Bond Counsel in Newport Beach, California, or at such other location as may be mutually agreed upon by the Underwriter and the District, the documents hereinafter mentioned; and the District will deliver to the Underwriter through the facilities of The Depository Trust Company ("DTC") in New York, New York, the Bonds, in definitive form, duly executed by the District and authenticated by the Fiscal Agent in the manner provided for in the Indenture and the Act at 8:00 a.m. California time, on \_\_\_\_\_, 2013 (the "Closing Date"), and the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in paragraph (A) of this Section by wire transfer, payable in federal or other immediately available funds (such delivery and payment being herein referred to as the "Closing"). The Bonds shall be in fully registered book-entry form (which may be typewritten) and shall be registered in the name of Cede & Co., as nominee of DTC. CUSIP identification numbers shall be printed on the Bonds, but the failure to print such number on any Bond or any error with respect thereto shall not constitute cause for a failure or refusal of the Underwriter to accept delivery of, or pay for, the Bonds in accordance with the terms of this Purchase Agreement.

2. Representations, Warranties and Covenants of the District. The District represents, warrants and covenants to the Underwriter that:

A. The City is a municipal corporation of the State of California duly organized and validly existing under the Constitution and laws of the State of California. The City Council of the City is the legislative body of the District. The District is duly organized and validly existing as a community facilities district under the laws of the State of California. The District has, and at the Closing Date will have, full legal right, power and authority to: (i) enter into this Purchase Agreement; (ii) to issue, sell and deliver the Bonds to the Underwriter pursuant to the Bond Resolution and the Indenture and as provided herein; and (iii) carry out, give effect to and consummate the transactions on its part contemplated by this Purchase Agreement, the Bond Resolution, the Indenture, the Escrow Agreement, the Continuing Disclosure Agreement, and the Official Statement. The District has complied, and will at the Closing Date be in compliance, in all material respects, with the Bond Resolution, the Indenture, the Act and this Purchase Agreement. This Purchase Agreement, the Indenture, the Escrow Agreement, the Continuing Disclosure

Agreement, and the Official Statement are collectively referred to herein as the "District Documents."

B. The City Council has duly and validly: (i) held a public hearing and adopted resolutions forming the District, authorizing the levy of the Special Taxes and the incurrence of bonded indebtedness by the District; (ii) called, held, and conducted an election within the District to approve the levy of the Special Taxes on parcels of taxable property in the District; (iii) adopted a resolution authorizing the levying of the Special Taxes; (iv) adopted the Bond Resolution and approved and authorized the execution and delivery of the Bonds and the District Documents; and (v) authorized and approved the performance by the District of its obligations contained in, and the taking of any and all action on its part as may be necessary to carry out, give effect to and consummate the transactions on the part of the District contemplated by, each of said documents; and at the Closing Date, the Bonds, the Bond Resolution, the District Documents and any other applicable documents will constitute the valid, legal and binding obligations of the District and of the other parties thereto, enforceable as to the District in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer and other laws affecting the enforcement of creditors' rights generally and to the application of equitable principles and the exercise of judicial discretion in appropriate cases.

C. The information in the Preliminary Official Statement and in the Official Statement relating to the District, the City, and the Bonds (other than statements pertaining to the book-entry system, as to which no view is expressed), as of this date, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and, upon delivery and up to and including 25 days after the End of the Underwriting Period (as defined in paragraph (D) below), the Official Statement will be amended and supplemented so as to contain no misstatement of any material fact or omission of any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading.

D. Up to and including 25 days after the End of the Underwriting Period (as defined below), the District will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The District will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise materially affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds. As used herein, the term "End of the Underwriting Period" means the later of such time as: (i) the Bonds are delivered to the Underwriter; or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the End of the Underwriting Period shall be deemed to be the Closing Date. Any notice delivered pursuant to this provision shall be written notice delivered to the District at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the "End of the Underwriting Period."

E. As of the time of acceptance hereof and as of the Closing Date, except as otherwise disclosed in the Official Statement, the District is not, and as of the Closing Date, will not be, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust

agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the District is a party or is otherwise subject; and, to the District's knowledge, no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument which breach, default or event could have an adverse effect on the District's ability to perform its obligations under the District Documents; and, as of such times, except as disclosed in the Official Statement, the authorization, execution and delivery of the District Documents and compliance by the District with the provisions of each of such agreements or instruments does not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the District (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound; nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the District Documents.

F. At the time of acceptance hereof there is, and as of the Closing Date, there will be no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body (collectively and individually, an "Action") pending (notice of which has been served on the District) or to the best knowledge of the District threatened, in which any such Action: (i) in any way questions the corporate existence of the District or the titles of the officers of the District to their respective offices; (ii) affects, contests or seeks to prohibit, restrain or enjoin the issuance or delivery of any of the Bonds, or the payment or collection of the Special Taxes or any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contests or affects the validity of the District Documents or the consummation of the transactions on the part of the District contemplated thereby; (iii) contests the exclusion of the interest on the Bonds from federal or state income taxation or contests the powers of the District which may result in any material adverse change relating to the financial condition of the District; or (iv) contests the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserts that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and, as of the time of acceptance hereof, there is, and as of the Closing Date, there will be no known basis for any Action of the nature described in clauses (i) through (iv) of this sentence.

G. The District will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter and at the expense of the Underwriter as the Underwriter may reasonably request in order to: (i) qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; and (ii) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Bonds, provided; however, that the District will not be required to execute a special or general consent to service of process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction.

H. The District Documents conform as to form and tenor to the descriptions thereof contained in the Official Statement. The District represents that the Bonds, when issued, executed and delivered in accordance with the Indenture and sold to the Underwriter as provided herein, will be validly issued and outstanding obligations of the District, entitled to the benefits of the Indenture. The Indenture creates a valid pledge of the moneys in certain funds and accounts established pursuant to the Indenture, subject in all cases to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

I. The issuance and sale of the Bonds is not subject to any transfer or other documentary stamp taxes of the State or any political subdivision thereof.

J. The District has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the District is a bond issuer whose arbitrage certifications may not be relied upon.

K. Any certificate signed by any authorized officer of the District and delivered to the Underwriter in connection with the issuance and sale of the Bonds shall be deemed to be a representation and covenant by the District to the Underwriter as to the statements made therein.

L. The District will apply the proceeds of the Bonds in accordance with the Indenture.

M. Between the date of this Purchase Agreement and the Closing Date, the District will not offer or issue any bonds, notes or other obligations for borrowed money not previously disclosed to the Underwriter.

N. Until such time as moneys have been set aside in an amount sufficient to pay all then outstanding Bonds at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest thereon and premium, if any, to maturity or to the date of redemption if redeemed prior to maturity, the District will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture.

O. The Preliminary Official Statement was deemed final by a duly authorized officer of the District prior to its delivery to the Underwriter, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of the Rule. The District hereby covenants and agrees that, within seven (7) business days from the date hereof, or upon reasonable written notice from the Underwriter within sufficient time to accompany any confirmation requesting payment from any customers of the Underwriter, the District shall cause a final printed form of the Official Statement to be delivered to the Underwriter in sufficient quantity to comply with paragraph (b)(4) of the Rule and Rules G-12, G-15, G-32 and G-36 of the Municipal Securities Rulemaking Board.

The District hereby approves the preparation and distribution of the Official Statement, consisting of the Preliminary Official Statement with such changes as are noted thereon and as may be made thereto, with the approval of Bond Counsel, and the Underwriter, from time to time prior to the Closing Date. Except as disclosed in the Preliminary Official Statement, the City has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events in the last five years.

P. The District hereby ratifies any prior use of and authorizes the future use by the Underwriter, in connection with the offering and sale of the Bonds, of the Preliminary Official Statement, the Official Statement, this Purchase Agreement and all information contained herein, and all other documents, certificates and written statements furnished by the District to the Underwriter in connection with the transactions contemplated by this Purchase Agreement.

The execution and delivery of this Purchase Agreement by the District shall constitute a representation to the Underwriter that the representations and warranties contained in this Section 2 are true as of the date hereof.

3. [Reserved].

4. Conditions to the Obligations of the Underwriter. The obligation of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and warranties on the part of the District contained herein, to the accuracy in all material respects of the statements of the officers and other officials of the District made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the District of its obligations to be performed hereunder at or prior to the Closing Date and, to the following additional conditions:

A. At the Closing Date, the Bond Resolution and the District Documents shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and there shall have been taken in connection therewith, with the issuance of the Bonds, and with the transactions contemplated thereby, and by this Purchase Agreement, all such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate.

B. At the Closing Date, except as was described in the Preliminary Official Statement, the District shall not be, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the District is a party or is otherwise subject or bound, and the performance by the District of its obligations under the Bonds, the District Documents, the Bond Resolution, this Purchase Agreement and any other instruments contemplated by any of such documents, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the District is a party or is otherwise subject or bound, in any manner which would materially and adversely affect the performance by the District of its obligations under the District Documents, the Bonds or the Bond Resolution.

C. At the Closing Date, except as described in the Preliminary Official Statement, the District shall not be, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or

instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the District is a party or is otherwise subject or bound, and the performance of the conditions precedent to be performed hereunder will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the District is a party or is otherwise subject or bound, in any manner which would materially and adversely affect the performance of the conditions precedent to be performed by the District hereunder.

D. The information contained in the Official Statement is, as of the Closing Date and as of the date of any supplement or amendment thereto pursuant hereto, true and correct in all material respects and does not, as of the Closing Date or as of the date of any supplement or amendment thereto, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

E. Between the date hereof and the Closing Date, the market price or marketability, at the initial offering prices set forth on the cover page of the Official Statement, of the Bonds shall not have been materially adversely affected, in the judgment of the Underwriter (evidenced by a written notice to the District terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds), by reason of any of the following:

1. Legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America or recommended to the Congress by the President of the United States, the Department of the Treasury, the Internal Revenue Service, or any member of Congress, or favorably reported for passage to either House of Congress by any committee of such House to which such legislation had been referred for consideration, or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department of the United States of America or the Internal Revenue Service, with the purpose or effect, directly or indirectly, of imposing federal income taxation upon such interest as would be received by any owners of the Bonds beyond the extent to which such interest is subject to taxation as of the date hereof;

2. Legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise is or would be in violation of the federal securities laws as amended and then in effect;

3. A general suspension of trading in securities on the New York Stock Exchange, or a general banking moratorium declared by Federal, State of New York or State of California officials authorized to do so;

4. The introduction, proposal or enactment of any amendment to the Federal or California Constitution or any action by any Federal or California court, legislative body, or regulatory body materially adversely affecting the tax status of the District, its property, income, securities (or interest thereon), the validity or enforceability of Special Taxes;

5. Any event occurring, or information becoming known which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Preliminary Official Statement or in the Official Statement, or has the effect that the Preliminary Official Statement or the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

6. Any national securities exchange, the Comptroller of the Currency, or any other governmental agency, shall impose as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

7. There shall have occurred any material outbreak or escalation of hostilities or other calamity or crisis the effect of which on the financial markets of the United States is such as to make it impracticable, in the judgment of the Underwriter, following consultation with the District, to sell the Bonds; or

8. Any proceeding shall have been commenced or be threatened in writing by the Securities and Exchange Commission against the District.

F. At or prior to the Closing Date, the Underwriter shall have received a counterpart original or certified copy of the following documents, in each case satisfactory in form and substance to the Underwriter:

1. The Official Statement, executed on behalf of the District by the Mayor of the City or other authorized officer;

2. The Indenture, duly executed and delivered by the District and the Fiscal Agent;

3. The Bond Resolution, together with a certificate of the City Clerk of the City, dated as of the Closing Date, to the effect that such resolution is a true, correct and complete copy of the resolution duly adopted by the City Council;

4. The Escrow Agreement, duly executed and delivered by the District and the Escrow Bank;

5. The Continuing Disclosure Agreement duly executed and delivered by the District and Dissemination Agent;

6. An unqualified approving opinion for the Bonds, dated the Closing Date and addressed to the District, of Bond Counsel, to the effect that the Bonds are the valid, legal and binding obligations of the District and that the interest thereon is excluded from gross income for federal income tax purposes and exempt from personal income taxes of the State of California, in substantially the form included as Appendix B to the Official Statement, together with a letter of Bond Counsel, dated the Closing Date and addressed to the Underwriter, to the effect that such opinion addressed to the District may be relied upon by the Underwriter to the same extent as if such opinion was addressed to it;

7. A supplemental opinion or opinions, dated the Closing Date and addressed to the Underwriter, of Bond Counsel, to the effect that:

(i) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended;

(ii) the information contained in the Official Statement on the cover and under the captions "THE BONDS" (other than the caption "Debt Service Schedule") and information relating to The Depository Trust Company ("DTC"), "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," "TAX EXEMPTION," "LEGAL INFORMATION" and in Appendix D to the Official Statement, is accurate insofar as such information purports to summarize certain provisions of the Bonds, the Indenture, the Escrow Agreement, Bond Counsel's final approving opinion, the District Act, and the Act;

(iii) the Refunded Bonds have been legally defeased in accordance with the Indenture pursuant to which such Refunded Bonds were issued (the "Prior Indenture"), and the owners of the Refunded Bonds have ceased to be entitled to the pledge of Net Taxes, and all covenants, agreements and other obligations of the District, as applicable, to the owners of the Refunded Bonds and the under the Prior Indenture have ceased, terminated and become void and have been discharged and satisfied; the investment of the moneys deposited in the Escrow Fund under the Escrow Agreement will not adversely affect the exclusion from gross income of interest on the Refunded Bonds for purposes of federal income taxation.

8. A letter, dated the Closing Date and addressed to the Underwriter, of Disclosure Counsel, to the effect that Disclosure Counsel is not passing upon and has not undertaken to determine independently or to verify the accuracy or completeness of the statements contained in the Official Statement, and is, therefore, unable to make any representation to the Underwriter in that regard, but on the basis of its participation in conferences with representatives of the District, the City Attorney, Bond Counsel, Special District Financing & Administration LLC as special tax consultant (the "Special Tax Consultant"), representatives of the Underwriter and others, during which conferences the content of the Official Statement and related matters were discussed, and its examination of certain documents, and, in reliance thereon and based on the information made available to it in its role as Disclosure Counsel and its understanding of applicable law, Disclosure Counsel advises the Underwriter as a matter of fact, but not opinion, that no information has come to the attention of the attorneys in the firm working on such matter which has led them to believe that the Official Statement (excluding therefrom the financial and statistical data, forecasts, charts, numbers, estimates, projections, assumptions and expressions of opinion included in the Official Statement, information regarding DTC and its book entry system and the information set forth in Appendices A, B, C, D, E and F, as to all of which no opinion is expressed) as of its date and as of

the Closing Date contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and advising the Underwriter that, other than reviewing the various certificates and opinions required by this Purchase Agreement regarding the Official Statement, Disclosure Counsel has not taken any steps since the date of the Official Statement to verify the accuracy of the statements contained in the Official Statement;

9. A certificate, dated the Closing Date and signed by the [Finance Director] of the City or other authorized officer, to the effect that: (i) the representations and warranties of the District contained herein are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; (ii) to the best knowledge of such officer, no event has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect; (iii) the District has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied under the District Documents and the Bond Resolution at or prior to the Closing Date; and (iv) all information in the Official Statement relating to the District (other than information therein provided by the Special Tax Consultant) is true and correct in all material respects as of the date of the Official Statement and as of the Closing Date;

10. [Reserved];

11. An opinion of the City Attorney of the City, as counsel to the District, dated the date of Closing and addressed to the Underwriter and the District, to the effect that:

(i) The City is a municipal corporation, duly organized and validly existing under the Constitution and laws of the State of California;

(ii) The District is a public body, corporate and politic, duly organized and validly existing as community facilities district under the laws of the State of California;

(iii) The Bond Resolution authorizing the Bonds and execution and delivery of the District Documents was duly adopted at a meeting of the governing body of the District, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the Bond Resolution is in full force and effect and has not been modified, amended, rescinded or repealed since the date of its adoption;

(iv) The District Documents have been duly authorized, executed and delivered by the District and (assuming due authorization, execution and delivery by and validity against the other parties thereto) constitute the legal, valid and binding obligations of the District enforceable against the District in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles where equitable remedies are sought and to the exercise of judicial discretion in appropriate cases;

(v) To the best knowledge of such counsel, the execution and delivery of the District Documents and compliance with the provisions thereof under the circumstances contemplated thereby: (a) do not in any material respect conflict with or constitute on the part of the District a breach of or default under any agreement or other instrument to which the District is a party or by which it is bound; and (b) do not and will not in any material respect or constitute on the part of the District a violation, breach of or default under any court order or consent decree to which the District is subject;

(vi) no authorization, approval, consent, or other order of the State of California or any other governmental body within the State of California is required for the valid authorization, execution and delivery of the District Documents or the consummation by the District of the transactions on its part contemplated therein, except such as have been obtained and except such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Bonds by the Underwriter; and

(vii) Except as may be stated in the Official Statement, there is no action, suit, proceeding or investigation before or by any court, public board or body pending (notice of which has been served on the District) or, to the City Attorney's knowledge, threatened wherein an unfavorable decision, ruling or finding would: (a) affect the creation, organization, existence or powers of the District, or the titles of its members and officers to their respective offices; (b) enjoin or restrain the collection of the Special Taxes or the pledge Net Taxes; (c) in any way question or affect any of the rights, powers, duties or obligations of the District with respect to the Net Taxes or the moneys and assets pledged or to be pledged to pay the principal of, premium, if any, or interest on the Bonds; (d) in any way affect, contest or seek to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds, or the validity or enforceability of the Bonds; or (e) in any way question or affect the District Documents or the transactions contemplated by the District Documents, or any activity regarding the Bonds; and

(viii) Based on the information made available to the City Attorney, and without having undertaken to determine independently or assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to the attention of the City Attorney as of the date of Closing which would lead the City Attorney to believe that the Official Statement as of its date and as of the date of Closing (excluding therefrom the financial and statistical data and forecasts included therein, as to which no opinion is expressed and information relating to the DTC and its book entry system) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ix) the District has been duly formed, and the Special Taxes have been duly and validly levied in accordance with the provisions of the Act and, except to the extent prohibited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other similar laws affecting creditors' rights generally, a lien to secure payment of the Special Taxes has been imposed on taxable property within the District; and

12. A transcript of all proceedings relating to the authorization, issuance, sale and delivery of the Bonds, including certified copies of the District Documents, the Bond Resolution and all other resolutions of the District relating thereto;

13. A certificate dated the Closing Date from the Special Tax Consultant addressed to the District and the Underwriter to the effect that: (i) the Special Taxes if collected in the maximum amounts permitted pursuant to the Rate and Method of Apportionment of Special Taxes of the District as of the Closing Date would generate from Net Taxes at least 110% of the maximum annual debt service payable with respect to the Bonds, based on such assumptions and qualifications as shall be acceptable to the Underwriter; and (ii) the statements in the Official Statement concerning Special Taxes and Net Taxes, and all information supplied by it for use in the Official Statement were as of the date of the Official Statement and are as of the Closing Date true and correct, and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

14. Certified copies of the general resolution of the Fiscal Agent authorizing the execution and delivery of certain documents by certain officers of the Fiscal Agent, which resolution authorizes the execution of the Indenture and the authentication of the Bonds;

15. A certificate of the Fiscal Agent and Escrow Bank, addressed to the Underwriter and the District dated the Closing Date, to the effect that: (i) the Fiscal Agent and the Escrow Bank are authorized to carry out corporate trust powers, and have full power to perform their respective duties under the Indenture and the Escrow Agreement; (ii) the Fiscal Agent and the Escrow Bank are duly authorized to execute and deliver the Indenture and the Escrow Agreement, to accept the obligations created by the Indenture and the Escrow Agreement, and to authenticate the Bonds pursuant to the terms of the Indenture; (iii) no consent, approval, authorization or other action by any governmental or regulatory agency having jurisdiction over the Fiscal Agent and the Escrow Bank that has not been obtained is or will be required for the authentication of the Bonds or the consummation by the Fiscal Agent and the Escrow Bank of the other transactions contemplated to be performed by the Fiscal Agent and the Escrow Bank in connection with the authentication of the Bonds and the acceptance and performance of the obligations created by the Indenture and the Escrow Agreement; and (iv) to the best of its knowledge, compliance with the terms of the Indenture and the Escrow Agreement will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Fiscal Agent and the Escrow Bank is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Fiscal Agent and the Escrow Bank or any of its activities or properties;

16. An opinion of counsel to the Fiscal Agent and the Escrow Bank, dated the Closing Date, addressed to the Underwriter and the District to the effect that each of the Fiscal Agent and the Escrow Bank is a national banking association duly organized and validly existing under the laws of the United States having full power and being qualified to enter into, accept and agree to the provisions of the Indenture and the Escrow Agreement, and that each of such documents has been duly authorized, executed and delivered by the Fiscal Agent or the Escrow Bank, as applicable, and, assuming due execution and delivery by the other parties thereto, constitutes the legal, valid and binding obligation of the Fiscal Agent or the Escrow Bank, as applicable, enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights in general and except as such enforceability may be limited by the application of equitable principles if equitable remedies are sought;

17. A certificate of the District dated the Closing Date, in a form acceptable to Bond Counsel and the Underwriter, that the Bonds are not arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;

18. A letter addressed to the District, dated the date of the Closing, from Causey Demgen & Moore P.C., Denver, Colorado, verifying the accuracy of the mathematical computations concerning the adequacy of the maturing principal amounts of the government obligations, together with other moneys, if any, to be deposited with the District, in the Escrow Fund for the Refunded Bonds to pay when due pursuant to the stated maturity or call for redemption the principal of and interest and premium with respect to the Refunded Bonds;

19. [Evidence as of the Closing Date satisfactory to the Underwriter that the Bonds have received, at a minimum, a rating of "A-" from [Standard & Poor's Rating Services ("S&P"),] and that such rating has not been revoked or downgraded; and]

20. Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the material representations and warranties of the District contained herein, and of the statements and information contained in the Official Statement and the due performance or satisfaction by the District at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the District in connection with the transactions contemplated hereby and by the Indenture, the Escrow Agreement, the Continuing Disclosure Agreement, and the Official Statement.

If the District shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds contained in this Purchase Agreement, or if the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the District nor the Underwriter shall be under any further obligation hereunder, except that the respective obligations of the Underwriter and the District set forth in Section 6 hereof shall continue in full force and effect.

#### 5. Expenses.

A. Whether or not the Underwriter accepts delivery of and pays for the Bonds as set forth herein, it shall be under no obligation to pay, and the District shall pay out of the proceeds of the Bonds or any other legally available funds of the District, all expenses incidental to the performance of the District's obligations hereunder, including but not limited to the cost of printing and delivering the Bonds to the Underwriter; the costs of printing and shipping the Preliminary Official Statement and the Official Statement; the fees and disbursements of the District, the Fiscal Agent, the Escrow Bank, Bond Counsel, Disclosure Counsel, accountants and any other experts or consultants retained by the District in connection with the issuance and sale of the Bonds; and any other expenses not specifically enumerated in paragraph (A) of this Section incurred in connection with the issuance and sale of the Bonds.

B. Whether or not the Bonds are delivered to the Underwriter as set forth herein, the District shall be under no obligation to pay, and the Underwriter shall be responsible for and pay, CUSIP and CDIAAC fees and expenses to qualify the Bonds for sale under any "blue sky" laws; and all other expenses incurred by the Underwriter in connection with its public offering and distribution

of the Bonds not specifically enumerated in paragraph (A) of this Section, including the fees and disbursements of its counsel.

6. Undertakings of the District. The District agrees: (a) to inform the Underwriter, from time to time, upon the reasonable request of the Underwriter, of the amount then on deposit in Reserve Fund and all accounts thereunder; and (b) to make available to the Underwriter, upon reasonable request of the Underwriter, at the expense of the District, sufficient copies of its audited financial statements, if any, and any resolutions of its legislative body with respect to the Bond Resolution, the Bonds, the Indenture, the Escrow Agreement, the Official Statement, any amendments or supplements thereto, and other documents relating to the Bonds and pertaining to the District adopted or executed, as the case may be, after the Closing Date, to the extent that such documents are publicly available.

7. Notices. Any notice of other communication to be given to the District under this Purchase Agreement may be given by delivering the same in writing to the City of Escondido, One Civic Center Drive, Escondido, California 92069, Attention: [Finance Director]; any notice or other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to Stifel Nicolaus & Company, Incorporated, One Ferry Building, Suite 275, San Francisco, California 94111, Attention: Managing Director.

8. Parties In Interest. This Purchase Agreement is made solely for the benefit of the District and Underwriter (including any successors or assignees of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof.

9. Survival of Representations and Warranties. The representations and warranties of the District under this Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the District and regardless of delivery of and payment for the Bonds.

10. Execution in Counterparts. This Purchase Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

11. Effective. This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the District and shall be valid and enforceable as of the time of such acceptance.

12. No Prior Agreements. This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understanding among the parties hereto in relation to the sale of the Bonds by the District.

13. Governing Law. This Purchase Agreement shall be governed by the laws of the State of California.

14. Effective Date. This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the City and the District and shall be valid and enforceable as of the time of such acceptance.

Very truly yours,

STIFEL NICOLAUS & COMPANY, INC.

By: \_\_\_\_\_  
Its: Authorized Officer

ACCEPTED AS OF \_\_\_\_\_, 2013 at \_\_\_\_\_ .m.:

COMMUNITY FACILITIES DISTRICT NO.  
2006-01 OF THE CITY OF ESCONDIDO  
(EUREKA RANCH)

By: \_\_\_\_\_  
Finance Director of the City of  
Escondido, acting on behalf of the  
Community Facilities District No.  
2006-01 of the City of Escondido  
(Eureka Ranch)

**EXHIBIT A**

**§  
COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

**Schedule of Bond Maturities, Principal Amounts and Interest Rates**

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>
	\$	%	%

PRELIMINARY OFFICIAL STATEMENT DATED JUNE \_\_, 2013

RATING: S&P: “\_”  
See the caption “RATING”

NEW ISSUE – BOOK-ENTRY ONLY

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

§ \_\_\_\_\_  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

**Dated: Delivery Date**

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

The Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Refunding Bonds, Series 2013 (the “Bonds”) are being issued by Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the “District”) to refund the District’s outstanding Special Tax Bonds Series 2006 (the “Refunded Bonds”), to fund a Reserve Account for the Bonds and to pay Costs of Issuance of the Bonds. See the caption “THE REFUNDING PLAN.” The 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 that certain Bond Indenture (the “Indenture”), dated as of July 1, 2013, by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”).

The Bonds are special obligations of the District payable from Net Taxes (as defined herein) derived from a certain annual Special Tax (as defined herein) to be levied on taxable land within the District and from certain other funds pledged under the Indenture, all as further described herein. The Special Tax is to be levied according to the rate and method of apportionment approved by the City Council of the City of Escondido (the “City”) and the qualified electors within the District. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and Appendix A.

The 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 of the Bonds may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable on March 1 and September 1 of each year, commencing March 1, 2014. Principal of and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the Beneficial Owners of the Bonds. See the caption “THE BONDS—General Provisions.”

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND OTHER AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

The Bonds are subject to optional redemption and special mandatory redemption from Special Tax prepayments as set forth under the caption “THE BONDS—Redemption of the Bonds.”

Investment in the Bonds involves risks that are not appropriate for certain investors. Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the caption “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 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.*

MATURITY SCHEDULE  
(See Inside Cover Page)

*The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the District with respect to the Bonds. Certain legal matters will be passed on for the City and the District by Jeffrey Epp, Esquire, City Attorney. Certain legal matters will be passed on by Best Best & Krieger LLP, San Diego, California, as counsel to the Underwriter. It is anticipated that the Bonds in book-entry form will be available for delivery on or about July 24, 2013.*

[STIFEL LOGO]

Dated: June \_\_, 2013

\* Preliminary; subject to change.  
DOCSOC/1621102v3/022009-0039

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

\$ \_\_\_\_\_\*

**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

**MATURITY SCHEDULE**  
**BASE CUSIP<sup>®†</sup> \_\_\_\_\_**

<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>
2014	\$	%	%		
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					

\* Preliminary; subject to change.

† CUSIP<sup>®</sup> is a registered trademark of the American Bankers Association. Copyright<sup>®</sup> 1999-2013 Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business. All rights reserved. CUSIP<sup>®</sup> data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP<sup>®</sup> numbers are provided for convenience of reference only. None of the City, the District or the Underwriter takes any responsibility for the accuracy of such numbers.

**CITY OF ESCONDIDO  
COUNTY OF SAN DIEGO  
STATE OF CALIFORNIA**

**MAYOR AND MEMBERS OF THE CITY COUNCIL**

Sam Abed, Mayor  
Olga Diaz, Deputy Mayor  
Michael Morasco, Member  
Ed Gallo, Member  
John Masson, Member

**STAFF**

Clay Phillips, City Manager  
Jeffrey Epp, Esq., City Attorney  
Gil Rojas, City Finance Director  
Kenneth Hugins, City Treasurer  
Ed Domingue, City Director of Public Works  
Diane Halverson, City Clerk

**SPECIAL SERVICES**

**Bond Counsel and Disclosure Counsel**

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

**Special Tax Consultant**

Special District Financing & Administration LLC  
Escondido, California

**Fiscal Agent/Escrow Agent**

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

**Verification Agent**

Causey Demgen & Moore P.C.  
Denver, Colorado

Except where otherwise indicated, all information contained in this Official Statement has been provided by the City and the District. No dealer, broker, salesperson or other person has been authorized by the City, the District, the Fiscal Agent or the Underwriter to give any information or to make any representations in connection with the offer or sale of the 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 City, the District, the Fiscal Agent 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 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 owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

The information and expressions of 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 City 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 City for further information in connection therewith.

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

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 hereto as Appendix E, neither the District nor the City plans to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

A wide variety of other information, including financial information, concerning the City, is available from publications and websites of the City 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.

**IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT 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 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

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[INSERT REGIONAL MAP]

[INSERT AERIAL MAP]

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**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
SPECIAL TAX REFUNDING BONDS, SERIES 2013**

**INTRODUCTION**

The purpose of this Official Statement, which includes the 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. 2006-01 of the City of Escondido (Eureka Ranch) (the “District”) of its Special Tax Refunding Bonds, Series 2013 in the aggregate principal amount of \$ \_\_\_\_\_\* (the “Bonds”). The proceeds of the Bonds, together with certain existing funds of the District, will be used to defease all of the District’s outstanding Special Tax Bonds Series 2006, originally issued in the aggregate principal amount of \$18,080,000 and now outstanding in the principal amount of \$16,575,000 (the “Refunded Bonds”). A portion of the proceeds of the Bonds will be used to fund a deposit to the Reserve Account of the Bond Fund and to pay Costs of Issuance of the Bonds. See the captions “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The 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 that certain Bond Indenture dated, as of July 1, 2013 (the “Indenture”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”). The Bonds are secured under the Indenture by a pledge of and lien upon Net Taxes (as defined herein) and all moneys in the Bond Fund as described in the Indenture.

The Bonds are being sold pursuant to a purchase contract between Stifel, Nicolaus & Company, Incorporated, as underwriter (the “Underwriter”) and the District. For more complete information, see the captions “THE BONDS—General Provisions” and “UNDERWRITING.”

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 and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined have the meanings set forth in Appendix D.

**The District**

The District was formed on September 20, 2006. The Bonds are being issued pursuant to the Act and the Indenture. The Act was enacted by the State of California (the “State”) 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 community facilities 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 community facilities district acts on behalf of such community facilities district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such community facilities district to repay such indebtedness.

Pursuant to the Act, on August 16, 2006, the City Council (the “City Council”) of the City of Escondido, California (the “City”), adopted Resolution No. 2006-164(R), stating its intention to form the

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\* Preliminary; subject to change.

District and to authorize the levy of a special tax on the taxable property within the District, and Resolution No. 2006-165, stating its intention to incur bonded indebtedness in an aggregate principal amount not to exceed \$20,000,000 within the District for the purpose of financing the design, construction, expansion, acquisition, leasing and rehabilitation of certain public facilities within or serving the District. Subsequent to a noticed public hearing on September 20, 2006, the City Council adopted Resolution No. 2006-227 (the "Resolution of Formation"), which established the District and authorized the levy of a special tax within the District, and Resolution No. 2006-228 (the "Resolution to Incur Bonded Indebtedness"), which determined the necessity to incur bonded indebtedness in an amount not to exceed \$20,000,000 within the District and called an election within the District on the proposition of incurring bonded indebtedness, levying a special tax and setting an appropriations limit.

On September 20, 2006, an election was held within the District in which the landowners eligible to vote approved the proposition authorizing the issuance of bonds in an amount not to exceed \$20,000,000 to finance the design, construction, expansion, acquisition, leasing and rehabilitation of certain public facilities within or serving the District, the levying of the special taxes and the appropriations limit of \$20,000,000. On September 27, 2006, the City Council, acting as the legislative body of the District, adopted Resolution and Ordinance No. 2006-32 (the "Ordinance") which provides for the rate and method of apportionment (the "Rate and Method") and levying of the Special Tax. On October 3, 2006, a Notice of Special Tax Lien was recorded in the office of the Recorder of the County of San Diego (the "County") for the District.

### **Description of the Development**

The District consists of approximately 167 gross acres of taxable property. The District is located within the City, approximately 5 miles east of its downtown area, approximately 33 miles northeast of downtown San Diego and approximately 45 miles north of the United States/Mexico international border.

The District is fully built out and consists of 338 detached single family homes. The property within the District was developed by Eureka Escondido, LLC, a Delaware limited liability company (the "Developer"), of which Lennar Homes of California, Inc., a California corporation, was the managing member and Centex Homes, a Nevada general partnership, was a member. The Developer commenced construction of the first units in May 2006. The last building permit in the District was issued on June 29, 2010 and the Developer has conveyed all of the units in the District to individual homeowners. All of the 340 completed homes, including two homes the owners of which prepaid their Special Tax obligation in June and December 2008, respectively, are within Final Tract Map No. 839 recorded on December 15, 2009. As a result of the Special Tax prepayments described in the previous sentence, as well as the partial prepayment of the Special Tax obligation by another parcel owner in August 2008, Refunded Bonds were called for redemption in September 2008 and March 2009 in the aggregate principal amount of \$65,000 and \$85,000, respectively. See the caption "THE COMMUNITY FACILITIES DISTRICT."

### **Forward-Looking Statements**

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

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY

FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

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

As used in this Official Statement, the term “Special Tax” is that tax which has been authorized to be levied against certain land within the District pursuant to the Act and in accordance with the Rate and Method. See Appendix A. Under the Indenture, the principal of and interest on the Bonds are payable from Net Taxes and all amounts in the Bond Fund (including the Debt Service Account, the Redemption Account and the Reserve Account) established under the Indenture. The “Net Taxes” are the Special Tax proceeds, including all proceeds from foreclosure sales for delinquent Special Taxes, remaining after payment of the Administrative Expense Requirement (as defined below). The Bonds are secured only by the Net Taxes collected within the District. Amounts in the Surplus Fund are not pledged to the repayment of the Bonds.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND OTHER AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

The Net Taxes are the primary security for the repayment of the 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 Bonds are amounts held by the Fiscal Agent in certain funds under the Indenture, including amounts held in the Reserve Account of the Bond Fund. The District has covenanted for the benefit of the owners of the Bonds that it will, under certain circumstances described herein, commence, or cause to be commenced, and diligently prosecute to judgment (unless the delinquency is brought current) judicial foreclosure proceedings against assessor’s parcels with delinquent Special Taxes. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales.”

The District has covenanted not to issue additional indebtedness secured by the Special Taxes on a parity with the lien of the Bonds, except for bonds issued for the purpose of refunding all or a portion of outstanding Bonds or parity bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds.” Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes may also be levied on the property within the District. See the caption “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.”

EXCEPT FOR THE NET TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS.

### **Description of the Bonds**

The 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 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 Bonds. In the event that the book-entry system described herein is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Indenture. See Appendix F.

Principal of, premium, if any, and interest on the Bonds is payable by the Fiscal Agent 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. See Appendix F.

The Bonds are subject to optional redemption and special mandatory redemption from Special Tax prepayments as described herein. For a more complete descriptions of the Bonds and the basic documentation pursuant to which the Bonds are being sold and delivered, see the caption "THE BONDS" and Appendix D.

**Tax Exemption**

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

Set forth in Appendix B is the form of the opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain other tax consequences incidental to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see the caption "TAX EXEMPTION."

**Professionals Involved in the Offering**

The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, will act as Fiscal Agent under the Indenture and as Escrow Agent under the Escrow Agreement (as defined herein). Stifel, Nicolaus & Company, Incorporated is the Underwriter of the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel. Certain legal matters will be passed on for the City and the District by Jeffrey Epp, Esquire, City Attorney. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, San Diego, California. Other professional services have been performed by Special District Financing & Administration LLC, Escondido, California, as Special Tax Consultant and Causey Demgen & Moore P.C., as Verification Agent.

For information concerning whether certain of the above-mentioned professionals, advisors, counsel and consultants may have a financial or other interest in the offering of the Bonds, see the caption "FINANCIAL INTERESTS."

**Continuing Disclosure**

The District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system available on the Internet at <http://emma.msrb.org> ("EMMA") certain annual financial information and operating data. The 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 the caption "CONTINUING DISCLOSURE" and Appendix E for a description of the specific nature of the annual reports to be filed by the District and notices of listed events to be provided by the District. Within the last five years, the District has not failed to timely comply with its prior continuing disclosure obligations under Rule 15c2-12(b)(5) in all material respects.

**Parity Bonds**

The District may, at any time after the issuance and delivery of the Bonds under the Indenture, issue Parity Bonds, solely for the purpose of refunding all or a portion of the Bonds, payable from the Net Taxes and other amounts deposited in the Bond Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds."

**Bondowners' Risks**

Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the caption "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 Bonds. The purchase of the Bonds involves risks, and the Bonds may not be appropriate investments for some types of investors.

**Other Information**

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

Brief descriptions of the 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 Bonds and the Constitution and laws of the State as well as the proceedings of the City Council, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Indenture. Capitalized terms not otherwise defined herein have the meanings set forth in the Indenture.

Copies of the Indenture and other documents and information are available for inspection and (upon request and payment to the District of a charge for copying, mailing and handling) for delivery from the City at 201 North Broadway, Escondido, California 92025, Attention: Finance Director.

**ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the expected sources and uses of Bond proceeds, together with prior funds on hand.

<b>Sources of Funds<sup>(1)</sup></b>	
Principal Amount of Bonds	\$
Plus/Less Net Original Issue Discount/Premium	
Less Underwriter's Discount	
Prior Funds <sup>(2)</sup>	
<b>Total Sources</b>	<u><u>\$</u></u>
<b>Uses of Funds<sup>(1)</sup></b>	
Escrow Fund to Redeem Refunded Bonds	\$
Reserve Account of the Bond Fund	
Costs of Issuance Fund <sup>(3)</sup>	
<b>Total Uses</b>	<u><u>\$</u></u>

<sup>(1)</sup> Rounded to the nearest dollar.  
<sup>(2)</sup> Includes moneys held in funds and accounts established in connection with the Refunded Bonds.  
<sup>(3)</sup> Includes certain fees of Bond Counsel, Disclosure Counsel, the Special Tax Consultant, the Verification Agent, S&P and the Fiscal Agent, printing costs and other miscellaneous costs of issuance.

## THE REFUNDING PLAN

### General

The Refunded Bonds, which are currently outstanding in the aggregate principal amount of \$16,575,000, were issued by the District pursuant to Bond Indenture, dated as of October 1, 2006 (the "2006 Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as fiscal agent (the "2006 Fiscal Agent"). The District plans to apply a portion of the proceeds of the Bonds, together with certain moneys on deposit with the 2006 Fiscal Agent, to pay all principal of and interest on the 2006 Bonds pursuant to an early call for redemption on September 1, 2013 (the "Redemption Date") at a redemption price equal to 103% of the principal amount thereof plus accrued interest to the Redemption Date (the "Redemption Price").

Under an Escrow Agreement (2006 Bonds), dated as of July 1, 2013 (the "Escrow Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent") and as 2006 Fiscal Agent, the District will deliver a portion of the proceeds of the Bonds to the Escrow Agent for deposit in the escrow fund (the "Escrow Fund") established under the Escrow Agreement on or about the date of issuance of the Bonds. In addition, the 2006 Fiscal Agent will transfer certain moneys held in connection with the Refunded Bonds to the Escrow Agent for deposit in the Escrow Fund on or about the date of issuance of the Bonds. The Escrow Agent will invest a portion of the amounts so deposited in the Escrow Fund in Investment Securities (as described in the Escrow Agreement). From the maturing principal of the Investment Securities and related investment income and any uninvested moneys on deposit in the Escrow Fund, the 2006 Fiscal Agent will pay the Redemption Price of the Refunded Bonds on the Redemption Date in accordance with the Escrow Agreement.

Sufficiency of the deposits in the Escrow Fund for such purposes will be verified by Causey Demgen & Moore P.C. (the "Verification Agent"). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the Escrow Agreement, the Refunded Bonds will be defeased pursuant to the provisions of the 2006 Indenture as of the date of issuance of the Bonds 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.

The portion of the proceeds of the Bonds deposited with the 2006 Fiscal Agent is pledged solely to the payment of the Refunded Bonds and will not be available for the payments of principal of and interest on the Bonds.

### Verification

Upon the issuance of the Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to: (a) the adequacy of the maturing principal of and interest on the Investment Securities to pay when due the Redemption Price of the Refunded Bonds on the Redemption Date; and (b) the computations of yield of the Bonds and the Investment Securities which support Bond Counsel's opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes.

## THE BONDS

### Authority for Issuance

The Bonds in the aggregate principal amount of \$\_\_\_\_\_\* are authorized to be issued by the District under and subject to the terms of the Indenture, the Act and other applicable laws of the State of California.

### Purpose of the Bonds

The Bonds are being issued to provide funds to: (i) defease the Refunded Bonds; (ii) fund the Reserve Account of the Bond Fund; and (iii) pay Costs of Issuance of the Bonds. See the captions "ESTIMATED SOURCES AND USES OF FUNDS" and "THE REFUNDING PLAN."

### General Provisions

The Bonds will be issued and delivered in the aggregate principal amount of \$\_\_\_\_\_\* initially in book-entry form and will bear interest at the rates per annum and mature on the dates set forth on the inside front cover page hereof. Individual purchases of the Bonds may be made in principal amounts of \$5,000 and any integral multiple thereof. The Bonds will be dated the Delivery Date and interest will be payable thereon on March 1 and September 1 of each year, commencing March 1, 2014 (individually, an "Interest Payment Date"). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication of such Bond, unless: (i) the date of authentication is an Interest Payment Date, in which event it will bear interest from such date; (ii) the date of authentication is after the 15th day of the month, regardless of whether such day is a Business Day, but prior to the immediately succeeding Interest Payment Date (a "Record Date"), in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the Delivery Date; provided, however, that if at the time of authentication of such Bond, interest is in default, interest on such Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment, or if no interest has been paid or made available for payment on such Bond, interest on such Bond will be payable from the Delivery Date.

The Bonds are issued as fully-registered bonds and will be registered in the name of Cede & Co., as Nominee of DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 and any integral multiple thereof. See Appendix F.

### Debt Service Schedule

The Special Tax is to be levied against the property within the District and collected according to the Rate and Method. See Appendix A. The District has covenanted to levy the Special Tax each year in time to have it placed on the secured property tax roll of the County. Actual collections of the Special Tax will depend on the Special Tax delinquencies.

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\* Preliminary; subject to change.

**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
DEBT SERVICE SCHEDULE**

<i>Period Ending September 1</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Debt Service</i>
2013	\$	\$	\$
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
Totals	\$	\$	\$

Source: Underwriter.

**Redemption of the Bonds**

**Optional Redemption.** The Bonds are subject, at the option of the District, to call and redemption from any available source of funds prior to their stated maturity on any date, as a whole or in part, and by lot, at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

**Special Mandatory Redemption from Special Tax Prepayments.** The Bonds are subject to special mandatory redemption as a whole, or in part, on a pro rata basis among maturities, on any Interest Payment Date, and will be redeemed by the Fiscal Agent, from Special Tax Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account (see the caption "SECURITY AND SOURCES

OF PAYMENT FOR THE BONDS—Reserve Account”), at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

Special Tax Prepayments and amounts released from the Reserve Account in connection with Special Tax Prepayments will be allocated to the redemption of the Bonds as nearly as practicable on a proportionate basis based on the outstanding principal amount of the Bonds.

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

**Selection of Bonds for Redemption**

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

**Notice of Redemption**

When Bonds are to be called for redemption under the Indenture, and in the case of an optional redemption or special mandatory redemption, if the Fiscal Agent has received the required notice from the District, the Fiscal Agent will give notice, in the name and at the expense of the District, of the redemption of such Bonds. Such notice of redemption will: (a) specify the serial numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds subject to redemption, or all of the Bonds of one maturity are to be redeemed, the serial numbers thereof need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be surrendered for redemption; and (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed. Such notice will further state that on the date fixed for redemption, there will become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon will cease to accrue and be payable. At least 30 days but no more than 60 days prior to the redemption date, the Fiscal Agent will mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register. The actual receipt by the Owner of any Bond of notice of such redemption is not a condition precedent thereto, and neither the failure to receive such notice nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Fiscal Agent that notice of such redemption has been given as provided in the Indenture will be conclusive as against all parties, and the Owner will not be entitled to show that he or she failed to receive notice of such redemption.

With respect to any notice of optional redemption of the Bonds, such notice may state that such redemption is conditional upon the receipt by the Fiscal Agent, on or prior to the date fixed for such redemption, of moneys sufficient to pay the principal of, premium if any, and interest on the Bonds to be redeemed and upon other conditions set forth therein and that, if such moneys have not been so received and such other conditions have not been satisfied, said notice will be of no force and effect and the Fiscal Agent will not be required to redeem such Bonds. If any condition stated in the redemption notice for an optional redemption has not been satisfied on or prior to the redemption date: (i) the redemption notice will be of no force and effect; (ii) the District will not be required to redeem such Bonds; (iii) the redemption will not be made; and (iv) the Fiscal Agent will within a reasonable time thereafter give notice to the persons in the manner in which the conditional redemption notice was given that such condition or conditions were not met and that the redemption was canceled.

In addition to the foregoing notices, further notice will be given by the Fiscal Agent as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

Each further notice of redemption will be sent not later than the date that notice of redemption is mailed to the Bondowners pursuant to the Indenture by registered or certified mail or overnight delivery service to the Depository and to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds as determined by the Fiscal Agent and to one or more of the national information services that the Fiscal Agent determines are in the business of disseminating notice of redemption of obligations such as the Bonds.

Upon the payment of the redemption price of any Bonds being redeemed, each check or other transfer of funds issued for such purpose will to the extent practicable bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

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

Upon cessation of the book-entry system, the registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the Corporate Trust Office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney. Bonds may be exchanged at the Corporate Trust Office of the Fiscal Agent for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Fiscal Agent will not collect from the Bondowner any charge for any new Bond issued upon any exchange or transfer, but will require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bond is surrendered for registration of transfer or exchange, the District will execute and the Fiscal Agent will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount; provided that the Fiscal Agent is not required to register transfers or make exchanges of: (i) Bonds for a period of 15 days next preceding the date of any selection of the Bonds to be redeemed; or (ii) any Bonds chosen for redemption.

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

As described below, the principal of and interest on the Bonds are payable from Net Taxes (Special Taxes remaining after the payment of the Administrative Expense Requirement) and all amounts in the Bond Fund (including the Debt Service Account and the Reserve Account) established under the Indenture. Amounts in the Surplus Fund are not pledged to the repayment of the Bonds. The Net Taxes consist of the Special Tax proceeds, including all proceeds from foreclosure sales for delinquent Special Taxes, remaining after payment of the Administrative Expense Requirement. The Bonds are secured only by the Net Taxes collected within the District.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND OTHER AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

### **Special Taxes**

*General.* In accordance with the provisions of the Act, the City Council established the District on September 20, 2006 for the purpose of financing the design, construction, expansion, acquisition, leasing and rehabilitation of certain public facilities within or serving the District, as provided in the Resolution of Formation. The Resolution of Formation and the Resolution to Incur Bonded Indebtedness authorized the District to submit a proposition to the qualified electors of the District to authorize the issuance of an aggregate principal amount of bonds not to exceed \$20,000,000 and the annual levy and collection of the Special Tax pursuant to the terms and conditions of the Act. The levy of the Special Tax and the Rate and Method were approved by the qualified electors within the District on September 20, 2006. On September 27, 2006, the City Council, acting as the legislative body of the District, adopted the Ordinance, which provides for the levying of the Special Tax. The Rate and Method approved by the City Council and the qualified electors is set forth in Appendix A.

The City Council, as the legislative body of the District, has covenanted in the Indenture to cause the Treasurer-Tax Collector of the County to levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount anticipated to be sufficient, together with any moneys on deposit in the Bond Fund established under the Indenture (including such amounts deposited in the Reserve Account for the payment of debt service on the Bonds in the final Bond Year) and anticipated to be available in the next succeeding Bond Year, to pay in the following amounts in the following order of priority: (i) Administrative Expenses due or coming due equal to the Administrative Expense Requirement; (ii) the principal of and interest on the Bonds; (iii) the amount, if any, necessary to replenish the Reserve Account for the Bonds to an amount equal to the Reserve Requirement established by the Indenture; and (iv) rebatable arbitrage relating to the Bonds. See the caption “—Reserve Account” below. Notwithstanding the foregoing, the Special Taxes levied in any Fiscal Year of the District ending June 30 (each, a “Fiscal Year”) may not exceed the maximum rates authorized pursuant to the Rate and Method for the District. See Appendix A. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See the caption “SPECIAL RISK FACTORS—Insufficiency of Special Taxes.”

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

Under no circumstances will the Special Taxes levied against any parcel of Residential Property (as described in Appendix A and under the caption “—Rate and Method of Apportionment of Special Tax”) be increased by more than 10% per Fiscal Year as a consequence of delinquency or default by the owner of any other parcel within the District.

Although the Special Taxes constitute liens on taxed parcels within the District, such taxes do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the District or the landowners therein. See the caption “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.” There is no

assurance that the property owners in the District will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. See the caption "SPECIAL RISK FACTORS."

***Rate and Method of Apportionment of Special Tax.*** The District is legally authorized and has covenanted to cause the levy of the Special Taxes in an amount determined according to the Rate and Method, which the City Council and the qualified electors of the District have approved. The Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in the District as more particularly described in the Appendix A. The District adopted the Rate and Method following public hearings and elections conducted pursuant to the provisions of the Act. The full text of the Rate and Method is set forth in Appendix A.

The Rate and Method classifies property to be taxed as "Taxable Property" or property which is exempt from the Special Tax. Taxable Property is further classified as "Developed Property," "Undeveloped Property," "Provisional Property" or "Taxable Public Property." Developed Property consists of all Assessor's Parcels in the District for which Building Permits (as such term is defined in the Rate and Method) were issued on or before March 1 preceding the Fiscal Year for which Special Taxes being levied, provided that the Final Map (as such term is defined in the Rate and Method) for such Assessor's Parcels was created on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot (as such term is defined in the Rate and Method). Taxable Property is further classified as Residential Property or Non-Residential Property. Currently, all property within the District consists of Residential Property and Developed Property. See the caption "THE COMMUNITY FACILITIES DISTRICT."

The amount of Special Tax that the District may levy is limited by the Maximum Special Tax rates set forth in the Rate and Method. Under the Rate and Method, the Maximum Special Tax for a parcel of Residential Property classified as Developed Property is the greater of: (i) the amount derived from the application of the Assigned Special Tax, which varies by building square footage and is described in Part D of the Rate and Method; or (ii) the amount derived from the applicable of the Backup Special Tax, as described in Part E of the Rate and Method.

The City Council levies the Special Tax, which levy commenced in Fiscal Year 2006-07, to the extent necessary, in four steps: first, Proportionately on each Assessor's Parcel of Developed Property up to 100% of the applicable Assigned Special Tax; second, Proportionately on each Assessor's Parcel of Undeveloped Property up to 100% of the applicable Assigned Special Tax; third, for each Assessor's Parcel of Developed Property whose Maximum Special Tax is equal to the Backup Special Tax, increasing Proportionately up to the Backup Special Tax; and fourth, Proportionately on each Assessor's Parcel of Provisional Property and Taxable Public Property up to the applicable Assigned Special Tax. All Taxable Property within the District is now classified as Residential Property and Developed Property under the Rate and Method.

**UNDER NO CIRCUMSTANCES MAY THE SPECIAL TAX ON ANY ASSESSOR'S PARCEL EXCEED THE MAXIMUM RATES AS SET FORTH IN APPENDIX A.**

In connection with the issuance of the Bonds, Special District Financing & Administration LLC, the District's Special Tax Consultant, will certify that the Maximum Special Tax that may be levied on assessor's parcels within the District will be at least equal to 110% of maximum annual debt service on the Bonds plus the Administrative Expense Requirement. Actual collections of the Special Tax will depend on the amount of Special Tax delinquencies.

Under the Rate and Method, the owner of a parcel may voluntarily prepay the Special Tax obligation for a parcel in whole or in part. Any voluntary prepayment of Special Taxes will result in a special mandatory redemption of the Bonds and any Parity Bonds. See the caption "THE BONDS—Redemption of the Bonds—Special Mandatory Redemption from Special Tax Prepayments."

***Collection of Special Taxes and Flow of Funds.*** The District has covenanted to and will, on each date on which Special Taxes are apportioned to the District, deposit the Special Taxes in the Special Tax Fund maintained by the District. As the Special Taxes are received each Fiscal Year, the District may disburse from the Special Tax Fund an amount up to the Administrative Expense Requirement to pay Administrative Expenses. No other amounts will be disbursed from the Special Tax Fund in a Fiscal Year until the District has transferred to the Fiscal Agent an amount sufficient:

(i) to increase the amount on deposit in the Debt Service Account of the Bond Fund to an amount not less than the interest and principal due on the Bonds on the March 1 in such Fiscal Year and the September 1 of the following Fiscal Year (the "Required Debt Service Deposit"); and

(ii) to maintain the balance in the Reserve Account of the Bond Fund in an amount equal to the Reserve Requirement, as described under the caption "—Reserve Account."

Not later than the last day of each month in which Special Taxes are apportioned to the District, the District will transfer from the Special Tax Fund to the Fiscal Agent for deposit in the Bond Fund all Net Taxes in the Special Tax Fund until the amount in the Debt Service Account of the Bond Fund equals the Required Debt Service Deposit and the balance in the Reserve Account of the Bond Fund equals the Reserve Requirement.

Except for Special Tax Prepayments, which will be deposited in the Redemption Account of the Bond Fund and applied to redeem Bonds as described under the caption "THE BONDS—Redemption of the Bonds—Special Mandatory Redemption from Special Tax Prepayments," the Fiscal Agent will, on each date on which the Net Taxes are received from the District, deposit the Net Taxes in the Bond Fund to be held in trust for the Owners. The Fiscal Agent will transfer the Special Taxes on deposit in the Bond Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to: (1) the Debt Service Account of the Bond Fund; (2) the Reserve Account of the Bond Fund; (3) the Rebate Fund; and (4) the Surplus Fund. The amounts in the Surplus Fund are not pledged to the repayment of the Bonds and may be transferred to the District to be used for any lawful purpose.

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

The District has covenanted in the Indenture that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax so long as the Bonds are Outstanding, including the initiation of proceedings under the Act to reduce the maximum Special Tax rates on then existing Developed Property below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to 110% of annual debt service on the Outstanding Bonds.

The District has further covenanted that in the event that any initiative is adopted which purports to reduce maximum Special Tax rates or to limit the power of the District to levy Special Taxes for the purposes set forth above, it will commence and pursue legal action seeking to preserve its ability to comply with its covenants. There are no California court cases interpreting the enforceability of the foregoing covenants in light of Article XIIC of the State Constitution. See the caption "SPECIAL RISK FACTORS—Proposition 218."

#### **Existing Liens**

The lots within the District are subject to additional indebtedness as set forth under the heading "THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness."

The lien for the Special Taxes is co-equal to the lien for the overlapping assessments and special taxes and the lien for general property taxes. See the caption “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness.”

Except as disclosed in this Official Statement, the District is unaware of any present or contemplated assessment district or community facilities district that includes property within the District. See the caption “THE COMMUNITY FACILITIES DISTRICT.” The District has no control, and the City has only limited control, over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which, through the levy of a tax or an assessment, will be on a parity with the Special Taxes. See the caption “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.”

### **No Obligation of the City Upon Delinquency**

The City is under no obligation to transfer any funds of the City into the Special Tax Fund for payment of the principal of or interest on the Bonds if a delinquency occurs in the payment of any Special Taxes. See the caption “—Proceeds of Foreclosure Sales” for a discussion of the District’s obligation to foreclose Special Tax liens upon delinquencies.

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

The County operates under a statutory program entitled the Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”). Under the Teeter Plan, certain local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the County. The City does not participate in the Teeter Plan and community facilities districts such as the District are not eligible to participate in the Teeter Plan; the Special Taxes are therefore not subject to the Teeter Plan. Accordingly, the District’s receipt of Special Taxes is impacted by delinquencies in payment, as well as by the collection of interest and penalties on past delinquencies. See the caption “THE COMMUNITY FACILITIES DISTRICT—Delinquency History” for historical delinquencies within the District.

### **Proceeds of Foreclosure Sales**

The net proceeds received following a judicial foreclosure sale of land within the District resulting from a property owner’s failure to pay the Special Tax when due are pledged to the payment of principal of and interest on the Bonds. See the caption “—Special Taxes.”

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 District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the 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 District has covenanted for the benefit of the owners of the Bonds that it will order, and cause to be commenced as hereinafter provided and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the Superior Court of the County to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following paragraphs.

On or about July 1 of each Fiscal Year, the District will compare the amount of Special Taxes theretofore levied in the District to the amount of Special Taxes theretofore received by the District, and:

(A) Individual Delinquencies. If the District determines that parcels under common ownership subject to the Special Tax in the District are delinquent in the payment of Special Taxes in the aggregate amount of \$5,000 or more, then the District will send or cause to be sent a notice of delinquency (and a

demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings will be commenced by the District within 90 days of such determination.

(B) Aggregate Delinquencies. If the District determines that both: (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under clause (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year; and (ii) the balance on deposit in the Reserve Account of the Special Tax Fund is either: (a) less than the Reserve Requirement; or (b) is anticipated to be less than the Reserve Requirement as a result of such Special Tax delinquencies, then the District will notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and will commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

If foreclosure is necessary and other funds (including amounts in the Reserve Account of the Special Tax Fund) have been exhausted, debt service payments on the 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 District. See the caption "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure." 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 the caption "SPECIAL RISK FACTORS—Land Values." Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City 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.

### **Reserve Account**

In order to further secure the payment of principal of and interest on the Bonds, upon delivery of the Bonds, the District will deposit in the Reserve Account an amount equal to the Reserve Requirement with respect to the Bonds. Thereafter, the District is required, subject to the limits on the levy of the Special Tax, to deposit and to maintain the Reserve Requirement in the Reserve Account at all times while any of the Bonds are outstanding. The Reserve Requirement for the Bonds is defined as the amount equal to the lowest of: (i) 10% of the original proceeds of the Bonds; (ii) maximum annual principal and interest requirements on all Bonds outstanding; or (iii) 125% of the average annual principal and interest requirements on all Bonds outstanding. See Appendix D.

Subject to the limits on the maximum annual Special Tax which may be levied within the District, as described in Appendix A, the District has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement while any Bonds are outstanding. Moneys in the Reserve Account will be used solely for the purposes of: (i) paying the principal of, including Sinking Fund Payments, and interest on the Bonds when due in the event that the moneys in the Debt Service Account of the Bond Fund are insufficient therefor; and (ii) making any required transfer to the Rebate Fund pursuant to the Indenture upon written direction from the District; provided, however, that amounts in the Reserve Account may be applied to pay the principal and interest due on any Bonds in the final Bond Year in which any Bonds are Outstanding.

If the amounts in the Debt Service Account of the Bond Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent will withdraw from the

Reserve Account for deposit in the Debt Service Account of the Bond Fund or the Rebate Fund, as applicable, moneys necessary for such purposes. Following any transfer to the Debt Service Account of the Bond Fund or to the Rebate Fund as described above, the District will then take the steps necessary to cause to be deposited to the Reserve Account the amount needed to replenish the Reserve Account to the Reserve Requirement by transferring such amount from the Special Tax Fund or, if the District so elects, by including such amount in the next annual Special Tax levy to the extent of the permitted maximum Special Tax rates.

### **Issuance of Parity Bonds**

The District may, at any time after the issuance and delivery of the Bonds under the Indenture, issue additional bonds (“Parity Bonds”) payable from the Net Taxes and other amounts deposited in the Special Tax Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds; provided that Parity Bonds may be issued only to refund outstanding Bonds or Parity Bonds. See Appendix D.

### **Priority of Bonds and Pledge of Net Taxes**

The District has pledged and assigned to the Fiscal Agent all Net Taxes for the payment of principal of, premium, if any, and interest on the Bonds. Pursuant to the Act and the Indenture, the Bonds will be and are equally secured by a pledge of and lien upon the Net Taxes, and certain other amounts on deposit in the Bond Fund. So long as any of such Bonds are Outstanding and unpaid, the Net Taxes and the interest thereon may be used only as provided in the Indenture unless the Bondowners authorize other uses of such Net Taxes pursuant to the provisions of the Indenture. Nothing in the Indenture or in any Supplemental Indenture precludes the redemption prior to maturity of any Bonds subject to call and redemption or the payment of the Bonds from proceeds of refunding bonds issued under the Act or under any other law of the State.

## **THE COMMUNITY FACILITIES DISTRICT**

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

The District was formed on September 20, 2006 and consists of approximately 167 gross acres. The District is located within the City approximately 5 miles east of its downtown area, approximately 33 miles northeast of downtown San Diego and approximately 45 miles north of the United States/Mexico international border. The District is fully built out and consists of 340 detached single family homes ranging in size from 2,328 square feet to 3,844 square feet.

The property within the District was developed by the Developer, of which Lennar Homes of California, Inc., a California corporation, was managing member and Centex Homes, a Nevada general partnership, was a member. The Developer commenced construction of the first units in May 2006. The last building permit in the District was issued on June 29, 2010 and the Developer has conveyed all of the units in the District to individual homeowners. All of the 340 completed homes, including two homes the owners of which prepaid their Special Tax obligation in June and December 2008, respectively, are within Final Tract Map No. 839 recorded on December 15, 2009.

The average Assigned Special Tax levied for Fiscal Year 2012-13 per parcel within the District was \$3,602.90, or \$1.19 per building square foot (“BSF”). The actual Assigned Special Tax was levied at 87.8% of the maximum Assigned Special Tax for Fiscal Year 2012-13.

### **Direct and Overlapping Indebtedness**

The ability of an owner of land within the District to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon the property. These taxes consist of the direct and overlapping debt set forth in Table 2 below. As of January 15, 2013, the sum of the direct and overlapping tax

and assessment debt applicable to the property within the District, including the Refunded Bonds, was \$20,236,844. In addition, other public agencies whose boundaries overlap those of the District could, without the consent of the District, and in certain cases without the consent of the owners of the land within the District, impose additional taxes or assessment liens on the property within the District in order to finance public improvements to be located inside of or outside of such area. The lien created on the property within the District through the levy of such additional taxes or assessments may be on a parity with the lien of the Special Taxes. See the caption "SPECIAL RISK FACTORS—Parity Taxes and Special Assessments."

Set forth below is a direct and overlapping debt report prepared by California Municipal Statistics, Inc. as of January 2013. The table provides that the assessed value of the taxable property within the District has been determined to be \$133,276,540 for Fiscal Year 2012-13. The debt report sets forth those entities which have issued debt and does not include entities which only levy or assess fees, charges, *ad valorem* taxes or other special taxes. The debt report is included for general information purposes only. Although the District has reviewed the debt report, it makes no representations as to its completeness or accuracy.

**TABLE 1  
COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
DIRECT AND OVERLAPPING DEBT**

2012-13 Local Secured Assessed Valuation: \$133,276,540<sup>(1)</sup>

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt<sup>(2)</sup></u>
The Metropolitan Water District of Southern California	0.006%	\$ 12,481
Palomar Community College District	0.147	469,836
Escondido Union High School District	0.905	909,288
Escondido Union School District	0.938	406,977
City of Escondido	1.108	838,294
Palomar Pomerado Hospital District	0.215	1,024,968
<b>Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) 100.</b>		<b><u>16,575,000*</u></b>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$20,236,844</b>
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
San Diego County General Fund Obligations	0.035%	\$ 142,993
San Diego County Pension Obligations	0.035	262,941
San Diego County Superintendent of Schools Obligations	0.035	6,492
Palomar Community College District General Fund Obligations	0.147	8,001
Escondido Union High School District Certificates of Participation	0.905	547,174
Escondido Union School District Certificates of Participation	0.938	199,409
City of Escondido General Fund Obligations	1.108	<u>470,716</u>
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>		<b>\$ 1,637,726</b>
 <b>COMBINED TOTAL DEBT</b>		 <b>\$21,874,570<sup>(3)*</sup></b>

Ratios to 2012-13 Assessed Valuation:

<b>Direct Debt (\$16,575,000)</b> .....	<b>12.44%*</b>
Total Direct and Overlapping Tax and Assessment Debt.....	15.18%
Combined Total Debt.....	16.41%*

<sup>(1)</sup> Taxable parcels only. Excludes two parcels for which Special Taxes have been prepaid. See the caption "—General Description of the District."

<sup>(2)</sup> As of January 15, 2013 for all entities other than the District.

<sup>(3)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity

Source: California Municipal Statistics, Inc.

\* Preliminary; subject to change.

Table 2 below sets forth the Fiscal Year 2012-13 effective tax rate within the District. The estimated tax rates and amounts presented below are based on currently available information and actual amounts may vary and increase or decrease in future years. The below estimated Fiscal Year 2012-13 effective tax rate is an average for a typical home within the District and does not represent the actual tax rate for any parcel or parcels.

**TABLE 2  
COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
ESTIMATED FISCAL YEAR 2012-13 EFFECTIVE TAX RATE**

**ASSESSED VALUATION AND PROPERTY TAXES**

Total Assessed Value of Taxable Property <sup>(1)</sup>	\$ 133,276,540
Number of Dwelling Units	338
Weighted Average Assessed Value of Taxable Dwelling Unit	\$ 394,309
Weighted Average Home Size (Tax Class 3) in Square Feet	3,038

	<i>Tax Rate</i>	<i>Expected Levy<sup>(2)</sup></i>
<b>AD VALOREM PROPERTY TAXES</b>		
General Purpose	1.00000%	\$ 3,943.09
Palomar Pomerado Health 2005A	0.02350	92.66
General Bond Escondido Prop A 2007A Refunding	0.01365	53.82
General Bond Escondido Prop K 2002A Refunding	0.00844	33.28
General Bond Escondido Prop K 2007B Refunding	0.01158	45.66
High School Bond Escondido Prop A Series 1996A	0.02724	107.41
Palomar Community College Prop M 2006A	0.00964	38.01
Palomar Community College Prop M 2006B	0.00401	15.81
Escondido City Public Safety Facilities Improvement Bond	0.03923	154.69
Metropolitan Water District Debt Service SDCWA	0.00350	13.80
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</b>		
Metropolitan Water District Water Standby Charge	--	\$ 11.50
City of Escondido Landscape Maintenance District No. 1, Zone 28	--	274.58
Mosquito Surveillance	--	2.28
Community Facilities District No. 2006-01 (Eureka Ranch)	--	3,601.85
SDCWA Water Availability Charge	--	10.00
Vector Disease Control	--	5.86
<b>PROJECTED TOTAL PROPERTY TAXES</b>		<b>\$ 8,404.31</b>
<b>Percent of Property Taxes to Average Assessed Value<sup>(3)</sup></b>	<b>2.13140%</b>	

<sup>(1)</sup> Source: County of San Diego Assessor data roll dated July 1, 2012.

<sup>(2)</sup> Reflects estimated property taxes based on Fiscal Year 2012-13 assessed values and Fiscal Year 2012-13 tax rates.

<sup>(3)</sup> Projected Total Property Taxes divided by Weighted Average Assessed Value of Taxable Dwelling Unit.

Source: Special District Financing & Administration LLC.

## Summary of Special Tax Levy

A summary of the District's Fiscal Year 2012-13 Special Tax levy is set forth in Table 3 below.

**TABLE 3  
COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
FISCAL YEAR 2012-13 SPECIAL TAX LEVY**

<i>Tax Class</i>	<i>Building Square Foot ("BSF")</i>	<i>Number of Taxable BSF/Acres</i>	<i>Maximum Assigned Special Tax Per BSF/Acres</i>	<i>Actual<sup>(1)</sup> Assigned Special Tax Levy Per BSF/Acres</i>	<i>Fiscal Year 2012-13 Levy Total</i>
Residential Property					
Tax Class 1	> 3,600 sq. ft.	98,780	\$ 1.214	\$ 1.0662	\$ 105,322.22
Tax Class 2	3,251 - 3,600 sq. ft.	274,660	1.275	1.1198	307,437.27
Tax Class 3	2,851 - 3,250 sq. ft.	376,450	1.350	1.1856	446,274.16
Tax Class 4	2,551 - 2,850 sq. ft.	104,756	1.407	1.2357	128,148.10
Tax Class 5	< 2,550 sq. ft.	172,056	1.526	1.3402	230,598.73
Non-Residential Property					
Tax Class 6	NA	0	20,750.00	18,223.56	0.00
Undeveloped Property		0	20,750.00	0.00	0.00
<b>Total</b>		<b>1,026,702</b>			<b>\$ 1,217,779.12</b>

<sup>(1)</sup> Actual tax rates multiplied by the number of taxable units may not match parcel listing due to rounding and partial prepayments.

### Ad Valorem Overrides

**The Metropolitan Water District of Southern California.** Property within the District is subject to a tax by The Metropolitan Water District of Southern California for debt service. The rate on such property is 0.00350% of assessed value. The tax is used to pay debt service on \$850,000,000 in bonds which were issued by The Metropolitan Water District of Southern California under an authorization of \$850,000,000, and of which approximately \$165,085,000 was outstanding as of June 1, 2013.

**Palomar Community College District.** Property within the District is subject to a tax by Palomar Community College District resulting from the issuance of \$334,998,901 in general obligation bonds (of which \$318,573,901 is currently outstanding), of which, according to California Municipal Statistics, Inc., \$469,836 is allocable to property in the District. These bonds have been, and are intended to be, issued to maintain and modernize the community college district's San Marcos college campus and to create new educational opportunities in underserved areas of the District. The bond authorization approved by the qualified voters in November 2006 was \$694,000,000. There remains approximately \$359,001,099 in authorized but unissued bonds.

**Escondido Union High School District.** Property within the District is subject to a tax by Escondido Union High School District resulting from the issuance of \$42,974,777.85 in general obligation bonds pursuant to a 1996 authorization and \$81,213,747.60 in general obligation bonds pursuant to a 2008 authorization (of which \$20,235,464.30 of the 1996 authorization and \$81,213,747.60 of the 2008 authorization is currently outstanding), of which, according to California Municipal Statistics, Inc., \$909,288 is allocable to property in the District. These bonds have been, and are intended to be, issued to finance high school facilities, including design, construction, acquisition, improvement, installation, restoration, rehabilitation, modernization and improvement of public schools, school sites, school facilities and support facilities. The bond authorization approved by the qualified voters in 1996 and 2008 was \$43,976,000 and \$98,000,000, respectively. This tax is

scheduled to end in or about 2051 based on the currently issued debt. The estimated Fiscal Year 2012-13 tax rate is approximately 0.905% of assessed value.

***Escondido Union School District.*** Property within the District is subject to a tax by Escondido Union School District resulting from the issuance of general obligation bonds, of which, according to California Municipal Statistics, Inc., \$406,977 is allocable to property within the District. Under the June 1989 authorization of \$27,000,000, \$13,100,000 in general obligation refunding bonds were issued in May 2007, of which \$3,960,000 remains outstanding. The term of these bonds ends in 2015. A second bond issuance was approved by the qualified voters in March 2002 in the amount of \$46,300,000. Subsequently, \$46,299,622.30 in general obligation bonds was issued in July 2002, of which \$2,534,622 remains outstanding. The term of these bonds ends in 2027. A portion of the original issue of the second authorization was refunded in April 2007 through the sale of \$39,180,000 of refunding general obligation bonds, of which \$38,145,000 remains outstanding. The term of the refunding bonds of the second authorization ends in 2026. These bonds have been, and are intended to be, issued to finance school facilities. The estimated Fiscal Year 2012-13 tax rate is approximately 0.938% of assessed value.

***City of Escondido.*** Property within the District is subject to a tax by the City resulting from the issuance of \$84,350,000 in general obligation bonds (of which \$75,665,000 is currently outstanding), of which, according to California Municipal Statistics, Inc., \$838,294 is allocable to property in the District. These bonds have been, and are intended to be, issued to finance construction, upgrades and acquisition of land for City fire stations and police headquarters. The bond authorization approved by the qualified voters in 2004 was \$84,350,000. This tax is scheduled to end in or about 2036. The estimated Fiscal Year 2012-13 tax rate is approximately 1.108% of assessed value.

***Palomar Pomerado Hospital District.*** Property within the District is subject to a tax by Palomar Pomerado Hospital District resulting from the issuance of \$495,999,997.60 in three series of general obligation bonds (of which \$477,631,554.20 is currently outstanding), of which, according to California Municipal Statistics, Inc., \$1,024,968 is allocable to property in the District. These bonds have been, and are intended to be, issued to finance land acquisition, and to build, renovate and improve existing or new medical facilities within the hospital district. The bond authorization approved by the qualified voters in 2004 was \$496,000. This tax is scheduled to end in or about 2040. The estimated Fiscal Year 2012-13 tax rate is approximately 0.215% of assessed value.

#### **Direct Assessments**

The following direct assessments are applicable to properties within the District.

***City of Escondido Landscape Maintenance District No. 1, Zone 28.*** This assessment pays for the maintenance of landscape improvements on public right-of-ways within the boundaries of Final Tract Map No. 839, including the District. The current authorized maximum assessment for Fiscal Year 2013-14 is \$496.36 per dwelling unit. The actual proposed levy for Fiscal Year 2013-14 is \$274.58 or approximately 55% of the maximum authorized levy. The authorized maximum assessment increases annually in accordance with the consumer price index. Any additional increase in the assessment in excess of the consumer price index must be approved by the voters.

***Metropolitan Water District Water Standby Charge.*** The standby charge is a pay-as-you-go assessment for capital improvements of the distribution systems, the construction and maintenance of reservoirs, as well as the California State Water Project costs. The current assessment rate is \$7.29 per parcel. Any increase in the assessment must be approved by the voters.

**Historical Assessed Values**

The following table sets forth the assessed valuation within the District for the current and four prior Fiscal Years. The in-process February 2013 secured tax roll indicates a total assessed valuation of \$132,428,585, which is a slight reduction in the assessed valuation as of July 1, 2012. Such reduction reflects reassessments upon home sales and reassessments requested by non-selling homeowners.

**TABLE 4  
COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
HISTORICAL ASSESSED VALUES**

<i>Fiscal Year</i>	<i>Valuation Date</i>	<i>Taxable Assessed Value<sup>(1)</sup></i>	<i>Number of Taxable Developed Parcels</i>	<i>Number of Prepaid Parcels</i>	<i>Number of Developed Units</i>	<i>Number of Undeveloped Lots</i>
2008-09	1/1/2008	\$ 94,695,681	200	2	201	139
2009-10	1/1/2009	108,748,987	275	2	277	63
2010-11	1/1/2010	128,342,931	337	2	339	1
2011-12	1/1/2011	137,870,855	338	2	340	0
2012-13	1/1/2012	133,276,540	338	1	340	0

<sup>(1)</sup> Excludes the value of all prepaid developed units and includes the value of all lots classified as undeveloped.  
Source: Special District Financing & Administration LLC.

**Estimated Value-to-Lien Ratios**

The following table sets forth the estimated assessed value-to-lien ratios for parcels within the District by various ranges based on the Fiscal Year 2012-13 assessed valuation and the direct and overlapping debt information included in Table 1. As summarized below, the estimated assessed value-to-lien ratio for all parcels within the District is approximately 6.73\* to 1, but the ratios over individual parcels vary widely. The value of the individual parcels is significant because, in the event of a delinquency in payment, the District's only remedy is to foreclose on the delinquent parcel. A parcel with a lower value-to-lien ratio may be less likely to sell at foreclosure or provide sale proceeds adequate to pay all delinquent Special Tax installments.

**TABLE 5  
COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS BY RANGES<sup>(1)</sup>**

Value-to-Lien <sup>(1)</sup>	Parcels	% of Total Parcels	Fiscal Year 2012-13		% of Fiscal Year 2012-13		Fiscal Year 2012-13 Assessed Value <sup>(3)</sup>	Share of Aggregate Outstanding Debt <sup>(4)</sup>	Share of District's Outstanding Debt <sup>(5)*</sup>	Share of Total Outstanding Debt <sup>(6)</sup>	% Share of Total Outstanding Debt <sup>(6)</sup>	Value-to-Lien Ratio <sup>(6)*</sup>
			Actual Special Tax Levy <sup>(2)</sup>	Special Tax Levy <sup>(2)</sup>	Actual Assessed Value	Assessed Value						
Less than 5:1 <sup>(1)</sup>	3	0.89%	\$ 9,638	0.79%	\$ 461,306	0.35%	\$ 12,675	\$ 127,745	\$ 140,420	0.71%	3.29	
5:1 to 5.99:1	41	12.13	150,624	12.37	13,852,370	10.39	380,601	1,996,318	2,376,920	12.00	5.83	
6:1 to 6.99:1	159	47.04	576,520	47.34	60,028,735	45.04	1,649,322	7,640,996	9,290,318	46.92	6.46	
7:1 to 7.99:1	132	39.05	471,312	38.70	57,473,377	43.12	1,579,112	6,246,599	7,825,710	39.52	7.34	
Above 8:1	3	0.89	9,684	0.80	1,460,752	1.10	40,135	128,342	168,477	0.85	8.67	
<b>Total</b>	<b>338</b>	<b>100.00%</b>	<b>\$1,217,779</b>	<b>100.00%</b>	<b>\$ 133,276,540</b>	<b>100.00%</b>	<b>\$ 3,661,844</b>	<b>\$ 16,140,000</b>	<b>\$ 19,801,844</b>	<b>100.00%</b>	<b>6.73</b>	

<sup>(1)</sup> Columns may not add up due to rounding.

<sup>(2)</sup> Reflects Special Tax Levy for Developed Property and Residential Property, which constitutes 100% of Taxable Property within the District.

<sup>(3)</sup> Source: County of San Diego Assessor data roll dated July 1, 2012. In-process February 2013 secured tax roll indicates a total assessed valuation of \$132,428,585, reflecting reassessments upon home sales and reassessments requested by non-selling homeowners.

<sup>(4)</sup> Share of Aggregate Outstanding Debt was allocated based on assessed value and sourced from Table 1, including all items shown with the exception of the District.

<sup>(5)</sup> Share of District's Outstanding Debt was allocated based on the Fiscal Year 2012-13 actual Special Tax Levy.

<sup>(6)</sup> Fiscal Year 2012-13 Assessed Value divided by Share of Total Outstanding Debt.

<sup>(7)</sup> Reflects parcels the assessed values of which were transferred pursuant to Revenue and Taxation Code § 69.5, which allows persons aged 55 and over to transfer the assessed value of an existing primary residence to a replacement primary residence within the same county.

Source: Special District Financing & Administration LLC.

\* Preliminary; subject to change.

**Delinquency History**

The following table is a summary of Special Tax levies, collections and delinquency rates in the District for Fiscal Years 2008-09 through the first installment of Fiscal Year 2012-13.

**TABLE 6  
COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
DELINQUENCY HISTORY**

<i>Fiscal Year</i>	<i>Amount Levied</i>	<i>Parcels Levied</i>	<i>Delinquencies as of June 30 of Fiscal Year in which Special Taxes Were Levied</i>			<i>Delinquencies as of May 31, 2013</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>
2008-09	\$1,318,667	339	14	\$44,685	3.39%	0	\$ 0	0.00%
2009-10	1,327,160	338	6	18,811	1.42	0	0	0.00
2010-11	1,129,373	337 <sup>(1)</sup>	2	6,687	0.59	0	0	0.00
2011-12	1,197,847	338	2	5,483	0.46	1	3,620	0.30
2012-13 <sup>(2)</sup>	1,217,779	338	N/A	N/A	N/A	3	7,503	0.62

<sup>(1)</sup> Decrease in number of parcels levied in Fiscal Year 2010-11 reflects Special Tax prepayment for two parcels and one undeveloped parcel upon which Special Taxes were not levied.

<sup>(2)</sup> For Fiscal Year 2012-13, delinquencies reported are for both installments and are as posted through May 31, 2013 only.

Source: Special District Financing & Administration LLC.

## Debt Service Coverage

The following table shows projected coverage of debt service on the Bonds from Net Taxes.

**TABLE 7  
COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
PROJECTED DEBT SERVICE COVERAGE\***

<i>Fiscal Year</i>	<i>Maximum Assigned Special Tax Levy<sup>(1)</sup></i>	<i>Administrative Expenses</i>	<i>Net Maximum Assigned Special Taxes</i>	<i>Debt Service</i>	<i>Debt Service Coverage</i>
2014	\$1,386,553.35	\$45,947.43	\$1,340,605.92	\$1,190,374.03	112.62%
2015	1,386,553.35	46,866.38	1,339,686.97	1,191,150.00	112.47
2016	1,386,553.35	47,803.70	1,338,749.65	1,187,650.00	112.72
2017	1,386,553.35	48,759.78	1,337,793.57	1,188,850.00	112.53
2018	1,386,553.35	49,734.97	1,336,818.38	1,189,600.00	112.38
2019	1,386,553.35	50,729.67	1,335,823.68	1,189,900.00	112.26
2020	1,386,553.35	51,744.27	1,334,809.08	1,189,750.00	112.19
2021	1,386,553.35	52,779.15	1,333,774.20	1,188,750.00	112.20
2022	1,386,553.35	53,834.73	1,332,718.62	1,191,500.00	111.85
2023	1,386,553.35	54,911.43	1,331,641.92	1,187,750.00	112.11
2024	1,386,553.35	56,009.66	1,330,543.69	1,187,750.00	112.02
2025	1,386,553.35	57,129.85	1,329,423.50	1,191,250.00	111.60
2026	1,386,553.35	58,272.45	1,328,280.90	1,188,000.00	111.81
2027	1,386,553.35	59,437.90	1,327,115.45	1,188,250.00	111.69
2028	1,386,553.35	60,626.65	1,325,926.70	1,191,750.00	111.26
2029	1,386,553.35	61,839.19	1,324,714.16	1,188,250.00	111.48
2030	1,386,553.35	63,075.97	1,323,477.38	1,188,000.00	111.40
2031	1,386,553.35	64,337.49	1,322,215.86	1,190,750.00	111.04
2032	1,386,553.35	65,624.24	1,320,929.11	1,186,250.00	111.35
2033	1,386,553.35	66,936.72	1,319,616.63	1,184,750.00	111.38
2034	1,386,553.35	68,275.46	1,318,277.89	1,181,000.00	111.62
2035	1,386,553.35	69,640.97	1,316,912.38	1,185,000.00	111.13
2036	1,386,553.35	71,033.79	1,315,519.56	<u>1,181,250.00</u>	111.37
TOTAL				\$27,327,524.03	

<sup>(1)</sup> Pursuant to Government Code § 53321(d), the Special Tax for public facilities levied against any parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency or default by the owner of any other parcel within the District by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults

Source: Special District Financing & Administration LLC.

## THE CITY OF ESCONDIDO

*The following information relating to the City is included only for the purpose of supplying general information regarding the City. Neither the faith and credit nor taxing power of the City have been pledged to the payment of the Bonds and the Bonds will not be payable from any of City's revenues or assets.*

*Further information relating to the City is set forth in Appendix C.*

## General Information

The City is located approximately 30 miles northeast of San Diego, California. The City was incorporated in 1888 and is a general law city operating under a council/manager form of government. The

\* Preliminary; subject to change.

City had a 2012 estimated population of 146,064, to which it provides police, fire, water and wastewater utilities, parks and recreation, public works, planning, engineering and other services.

The City had approximately 1,073 full and part-time employees as of June 30, 2012. City employees are represented by six labor unions and associations. A total of approximately 145 management and confidential employees are exempt from collective bargaining. Salaries for exempt employees are set by the City Council. The City has never experienced a strike, slowdown or work stoppage.

### **Government and Administration**

The City operates under a council/manager form of government. The City Manager, appointed by the City Council, serves as the City's chief executive officer and is responsible for overseeing the daily operations of City departments. The City Manager serves as an advisor to the City Council on policy matters impacting the community and the City's organization, supports the informational and policymaking needs of the City Council, implements City Council decisions and prepares, manages, and implements the annual budgets for the City, as well as the City's Capital Improvement Program.

Clay Phillips is the City Manager. Mr. Phillips began his career with the City of Santa Ana from 1980 to 1983, as an accountant. Mr. Phillips also served as Deputy Finance Officer for the City of Irvine from 1983 to 1986. Mr. Phillips continued his career by accepting the Director of Finance position with the City in January of 1986. In 1993, Mr. Phillips was promoted to Director of Financial and Administrative Services. In 1997, Mr. Phillips was promoted to Deputy City Manager. On July 3, 2003, Mr. Phillips accepted his present position as City Manager for the City. Mr. Phillips graduated from Loma Linda University with a Bachelor of Science in Business Administration. Mr. Phillips has a Master of Business Administration from Pepperdine University.

Other key personnel responsible for management of the City include the Director of Finance. In addition, the City Attorney provides legal services to the City and the Authority.

Gil Rojas is the Director of Finance for the City. Mr. Rojas has served in that capacity since 2000. Prior to that time, Mr. Rojas was Assistant Finance Director with the City of Bakersfield, California. Mr. Rojas' tenure with the City of Bakersfield spanned 21 years, during which he held various positions within the Finance Department as well as the Bakersfield Police Department. Mr. Rojas received his Bachelor's degree in 1977 from San Jose State University. Mr. Rojas is a member of the Government Finance Officer's Association and the California Society of Municipal Finance Officers.

Jeffrey R. Epp is the City Attorney. Mr. Epp has been with the City since 1985. Prior to that time, Mr. Epp served as a prosecutor for the City Attorney's Office of Cheyenne, Wyoming. Mr. Epp obtained a Bachelor's degree in Political Science and a Juris Doctorate degree from the University of Wyoming, where he was also the Senior Editor of the Land and Water Law Review of the University of Wyoming School of Law. Mr. Epp is a member of the International Municipal Lawyers Association, and both the North County and San Diego Bar Association. He has served as the President of the San Diego/Imperial County City Attorneys Association, the League of California Cities Committee on Transportation, Communications and Public Works, on the League's Legal Advocacy Committee and has been a member of the Executive Committee of the Public Law Section of the California State Bar.

### **Insurance**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City maintains liability insurance coverage through the San Diego Pooled Insurance Program Authority ("SANDPIPA"), a joint exercise of powers authority of which the City is a member. The City carries a self-insured retention of \$500,000 for liability and is insured for amounts between \$500,000 and \$2,500,000. In addition, SANDPIPA has purchased

excess insurance coverage for amounts between \$2,500,000 and \$47,000,000 for its members, including the City. The City maintains workers' compensation insurance coverage through the California Public Entity Insurance Authority. The City carries a self-insured retention of \$500,000 for workers' compensation and is insured for amounts between \$500,000 and \$5,000,000 through the California State Association of Counties Excess Insurance Authority, a joint exercise of powers authority, with additional reinsurance of \$300,000,000 per occurrence. Claims have not exceeded the City's insurance coverage in any of the last three years.

The City purchases all risk, replacement cost value property insurance coverage through the Public Entity Property Insurance Program, issued through Alliant Insurance Services. The City is one of 12 cities insured by a joint policy with a shared limit of \$1,000,000,000. The City has a deductible of \$10,000 per loss. The City does not carry earthquake coverage.

### **SPECIAL RISK FACTORS**

The purchase of the Bonds involves significant risks and, therefore, the Bonds are not suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. Furthermore, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See the captions "—Land Values" and "—Limited Secondary Market" below.

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

The Bondowners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation: (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the 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.

No assurance can be given that the individual property owners will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See the caption "—Bankruptcy and Foreclosure" for a discussion of certain limitations on the District's ability to pursue judicial proceedings with respect to delinquent parcels.

#### **Limited Obligations**

The Bonds and interest thereon are not payable from the general funds of the City. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District or the City is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Indenture, no Owner of the Bonds may compel the exercise of any taxing power by the District or the City or force the forfeiture of any City or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of the City's or the District's property or upon

any of the City's or the District's income, receipts or revenues, except the Special Taxes and other amounts pledged under the Indenture.

The amount of annual installments of Special Taxes that are collected could be insufficient to pay principal of and interest on the Special Tax Refunding Bonds due to non-payment of such Special Taxes levied or due to insufficient proceeds received from a judicial foreclosure sale of land within the District following delinquency. The City's and District's legal obligations with respect to any delinquent Special Taxes are limited to: (1) payments from the Reserve Account to the extent of funds on deposit therein; and (2) the institution of judicial foreclosure proceedings under certain circumstances with respect to any parcels for which Special Taxes are delinquent. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales." The Bonds cannot be accelerated in the event of any default.

The obligation to pay Special Taxes does not constitute a personal obligation of the current or subsequent owners of the respective parcels which are subject to such liens. Enforcement of Special Tax payment obligations by the District is limited to judicial foreclosure in the Superior Court. There is no assurance that any current or subsequent owner of a parcel subject to a Special Tax lien will be able to pay the amounts due or that such owner will choose to pay such amounts even though financially able to do so.

### **Insufficiency of Special Taxes**

The principal source of payment of principal of and interest on the Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the 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 Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the 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 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. The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to

pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to the problems of collecting taxes from public agencies, if a substantial portion of land within the District were to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay principal of and interest on the Bonds when due, and a default could occur with respect to the payment of such principal and interest. See the caption “—FDIC/Federal Government Interests in Properties.”

Except as set forth above under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Special Taxes,” 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 under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

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

In addition, under no circumstances will the Special Taxes levied against any parcel of Residential Property be increased by more than 10% per Fiscal Year as a consequence of delinquency or default by the owner of any other parcel within the District. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—General.”

### **Natural Disasters**

The District, like all California communities, may be subject to unpredictable seismic activity, wildfires, flood, landslide, high winds or other natural disasters. Southern California is a seismically active area. Seismic activity represents a potential risk for damage to buildings, roads, bridges and property within the District. A safety report for parts of the City’s municipal water system states that there are four known earthquake fault zones located approximately 10 miles to 60 miles from portions of the City. There is significant potential for destructive ground-shaking during the occurrence of a major seismic event. In addition, land along the aforementioned fault lines may be subject to liquefaction during the occurrence of such an event.

In recent years, portions of Southern California have experienced outbreaks of wildfires that have burned thousands of acres at a time and destroyed thousands of homes and structures. In October 2003 and, most recently, in October 2007, such wildfires occurred in the County and the adjacent counties of Los Angeles, Orange, Riverside and San Bernardino, affecting parts of the City near the District and resulting in the destruction of homes.

In the event of a severe earthquake, wildfire, flood, landslide, high winds or other natural disaster, there may be significant damage to both property and infrastructure in the 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 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**

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel

relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but State 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 substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The value of the property within the District, as set forth in the various tables herein, does not reflect the presence of any hazardous substance or the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the property. The District has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within the District has such a current liability with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels 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. Such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

#### **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 District has no recourse against the owner and its only remedy is to pursue judicial foreclosure proceedings on the delinquent parcel.

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

Property within the District is subject to taxes and assessments imposed by public agencies that also have jurisdiction over the land within the District. See the caption "THE COMMUNITY FACILITIES DISTRICT—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 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 (the "FDIC"). See the caption "—FDIC/Federal Government Interests in Properties."

**Neither the District nor the City, however, have 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 District. In addition, the landowners within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Accordingly, the debt on the property within the District could increase without any corresponding increase in the value of the**

property therein. 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 the property within the District described herein or the willingness or ability of property owners within the District to pay the Special Taxes when due. Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness.”

### **Land Values**

The value of land within the District is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in the payment of a Special Tax installment, the District’s only remedy is to commence foreclosure proceedings on such property. Prospective purchasers of the Bonds should not assume that the property within the District could be sold for the assessed value described herein at a foreclosure sale for delinquent Special Tax installments or for an amount adequate to pay delinquent Special Tax installments. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales.” Reductions in property values within the District due to a downturn in the economy or the real estate market, events such as earthquakes, wildfires, droughts, or floods, stricter land use regulations, threatened or endangered species or other events may adversely impact the security underlying the liens. The property within the District is fully developed.

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 County Assessor, generally not to exceed an increase of more than 2% per Fiscal Year as limited by Proposition 13, as amended by Proposition 8. Recently, several counties in the State, including the County, have reassessed certain properties acquired in recent years at the peak of the real estate market. The District is aware that the County Assessor made reductions in Fiscal Year 2008-09 and 2009-10 assessed values within the District and the City generally. See Table 4 under the caption “THE COMMUNITY FACILITIES DISTRICT—Historical Assessed Values” for the assessed values within the District in such Fiscal Years. The District cannot predict whether the County will further reduce assessed values within the District in future years. However, all of the homes within the District were purchased after 2004 at the height of the San Diego real estate market. Accordingly, if the County did decide to broadly reassess recent home transactions in the County, it is possible that in future years the assessed values shown in this Official Statement could be adjusted downward from the values reflected on the Fiscal Year 2012-13 Assessor’s Roll. No assurance can be given that Fiscal Year 2012-13 assessed values reflect market values or that a parcel could actually be sold for its assessed value.

The actual market value of the property is subject to future events such as a downturn in the economy, occurrences of certain acts of nature and the decisions of various governmental agencies as to land use, all of which could adversely impact the value of the land in the District, which is the security for the Bonds. As discussed herein, many factors could adversely affect property values within the District.

### **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 when the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel, was informed of the maximum tax rate and the risk of such a levy and the ability of such owner to pay the Special Tax as well as other expenses and obligations. The City 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 when purchasing a property within the District or lending money with respect to such property.

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 that is 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 § 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.

### **Concentration of Ownership**

No property owner in the District is presently responsible for more than 0.64% of the Special Taxes levied within the District. See the caption "THE COMMUNITY FACILITIES DISTRICT." There may be subsequent transfers of ownership of the property within the District. Failure of the owners of property to pay the annual Special Taxes when due could result in a default in payments of the principal of and interest on the Bonds. Such risk may be greater or its consequence more severe when ownership is concentrated and may be expected to decrease when ownership is diversified.

### **Potential Early Redemption of Bonds from Prepayments**

Property owners within the District are permitted to prepay their Special Taxes at any time. Such prepayments will result in a redemption of Bonds on the first March 1 or September 1 which is more than 30 days following the receipt of the prepayment. See the caption "THE BONDS—Redemption of the Bonds—Special Mandatory Redemption from Special Tax Prepayments."

### **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 Bonds are derived, are customarily billed to the properties within the 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 the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales" for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special Taxes. See the caption "—FDIC/Federal Government Interests in Properties" for a discussion of the policy of FDIC regarding the payment of special taxes and assessments and limitations on the District's ability to foreclose on the lien of the Special Taxes in certain circumstances.

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

**General.** The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the FDIC, the Drug Enforcement Agency, the Internal Revenue Service, or other federal agencies such as the Federal National Mortgage Association ("FNMA") or Freddie Mac, has or obtains an interest.

The supremacy clause of the United States Constitution reads as follows: "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every

State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding.”

The foregoing is generally interpreted to mean that, unless the United States Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within the District 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 the United States Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. In *Rust v. Johnson* 597 F.2d 174 (9th Cir. 1979), the United States Court of Appeal, Ninth Circuit (the “Ninth Circuit”), held that FNMA is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States. For a discussion of risks associated with taxable parcels within the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see the caption “—Insufficiency of Special Taxes.”

The District has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

**FDIC.** In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent that the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC’s consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC’s consent.

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent that it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC’s federal immunity. The Ninth Circuit issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from Act special taxes.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes from being foreclosed at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the Bonds.

### **Bankruptcy and Foreclosure**

Bankruptcy, insolvency and other laws generally affecting creditors' rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners' taxes and the ability of the District to foreclose the lien of delinquent unpaid Special Taxes pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights (such as the Soldiers' and Sailors' Relief Act of 1940) or by the laws of the State relating to judicial foreclosure. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales." In addition, the prosecution of a foreclosure could be delayed for many reasons, including crowded local court calendars or lengthy procedural delays.

Second, the United States Bankruptcy Code might prevent moneys on deposit in the Special Tax Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against a landowner in the District and if the court found that any of such landowners had an interest in such moneys within the meaning of Section 541(a)(1) of the United States Bankruptcy Code.

Although a bankruptcy proceeding would not cause the lien of the Special Taxes to become extinguished, the amount and priority 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 a bankruptcy court. In addition, the bankruptcy of a property owner could result in a stay of enforcement or other delay in procuring Superior Court foreclosure proceedings or adversely affect the willingness of a property owner to pay the Special Taxes. If enough parcels were subject to bankruptcy proceedings, court delays would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full.

The various legal opinions to be delivered concurrently with the delivery of the 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, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Other laws generally affecting creditors' rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of military service to redeem property sold to enforce the collection of a tax or assessment and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if a court concludes that the ability to pay such taxes or assessments is materially affected by reason of such service.

### **Funds Invested in the County Investment Pool**

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county. Following payment of the Special Taxes to the District, such funds may be invested in the name of the City or the District for a period of time in

the County investment pool. In the event of a petition of or the adjustment of County debts under Chapter 9 of the United States Bankruptcy Code, a court might hold that the Bondowners do not have a valid and/or prior lien on the Special Taxes or debt service payments where such amounts are deposited in the County investment pool and may not provide the Bondowners with a priority interest in such amounts. In that circumstance, unless the Bondowners could “trace” the funds that have been deposited in the County investment pool, the Bondowners would be unsecured (rather than secured) creditors of the County. There can be no assurance that the Bondowners could successfully so trace the Special Taxes or debt service payments.

### **No Acceleration Provision**

The Act, the Bonds and the Indenture do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Indenture or in the event that interest on the Bonds becomes included in gross income for federal income tax purposes. Pursuant to the Indenture and further subject to the prior lien of owners of Bonds, an owner is given the right for the equal benefit and protection of all owners of a series similarly situated to pursue certain remedies described in Appendix D. See the caption “—Limitations on Remedies.”

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the 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 Bondowners on a timely basis. See the caption “CONTINUING DISCLOSURE” and Appendix E. Any failure to provide annual financial information, if required, 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 entitled the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State at the November 5, 1996, general election. The Initiative added Articles XIII C and XIII D to the State Constitution. According to the “Title and Summary” of the Initiative prepared by the State Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” The provisions of the Initiative have not yet been interpreted by the courts, although a number of lawsuits have been filed requesting the courts to interpret various aspects of the Initiative. The Initiative could potentially impact the Special Taxes otherwise available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article XIII C 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 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 C 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 Bonds.

It may be possible, however, for voters of the District or the City Council, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 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 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 District has covenanted that it will initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels of Developed Property within the District to less than an amount projected to equal to 110% of annual debt service each year on the Outstanding Bonds plus the Administrative Expense Requirement. In connection with the foregoing covenant, the District has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The District also has covenanted that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

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

The Initiative was adopted pursuant to a measure that qualified for the ballot pursuant to the State’s Constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. 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 State voters or legislation enacted by the State Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the City, or local districts to increase revenues or appropriations.

### **Loss of Tax Exemption**

As discussed under the caption “TAX EXEMPTION,” the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of acts or omissions of the District or the City in violation of certain provisions of the Internal Revenue Code of 1986, as amended (the “Code”) and the covenants of the Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the District has covenanted in the Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption provisions of the Indenture. See the caption “THE BONDS—Selection of Bonds for Redemption.”

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

### **IRS Audit of Tax-Exempt Bond Issues**

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

### **Limitations on Remedies**

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

Bond Counsel has limited its opinion as to the enforceability of the 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. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. 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 Owners.

Enforceability of the rights and remedies of the Owners of the Bonds, and the obligations incurred by the District, may become subject to the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the federal Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against governmental entities in the State. See the captions “—Bankruptcy and Foreclosure” and “—FDIC/Federal Government Interests in Properties.”

### **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Agreement, dated as of July 1, 2013 (the “Disclosure Agreement”), by and between the District and Special District Financing & Administration LLC, as disclosure dissemination agent, the District has agreed to provide, or cause to be provided, to EMMA, on an annual basis certain financial information and operating data concerning the District. The District has further agreed to provide notice to EMMA of certain listed events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12 adopted by the Securities and Exchange Commission. See Appendix E for a description of the specific nature of the annual reports to be filed by the District and notices of listed events to be provided by the District. Within the last five years, the District has not failed to timely comply with its prior continuing disclosure obligations under Rule 15c2-12(b)(5) in all material respects. The full text of the form of Disclosure Agreement is set forth in Appendix E.

## TAX EXEMPTION

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

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

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds (including any original issue discount) is based upon certain representations of fact and certifications made by the District, the Underwriter and others and is subject to the condition that the District complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds (including any original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds (including any original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District will covenant to comply with all such requirements.

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

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

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

SUBSEQUENT TO THE ISSUANCE OF THE BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

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

Should interest on the Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

The proposed form of Bond Counsel's opinion with respect to the Bonds is attached as Appendix B.

#### **LEGAL OPINION**

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, approving the validity of the Bonds in substantially the form set forth as Appendix B will be made available to purchasers at the time of original delivery. Certain legal matters will be passed upon for the City and the District by Jeffrey Epp, Esquire, City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, San Diego, California.

#### **ABSENCE OF LITIGATION**

No litigation is pending or threatened concerning the validity of the Bonds and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds. Neither the City nor the District is aware of any litigation pending or threatened which questions the existence of the District or the City or contests the authority of the District to levy and collect the Special Taxes or to issue and retire the Bonds.

## **RATING**

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned the Bonds the rating of "\_\_\_". There is no assurance that the credit rating given to the Bonds will be maintained for any period of time or that the rating may not be lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. Such rating reflects only the views of S&P, and an explanation of the significance of such rating may be obtained from S&P.

## **UNDERWRITING**

The Bonds are being purchased by the Underwriter. The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_\_ (being \$\_\_\_\_\_ aggregate principal amount thereof, plus/less net original issue discount/premium of \$\_\_\_\_\_, and less Underwriter's discount of \$\_\_\_\_\_). The purchase contract relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

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

## **FINANCIAL INTERESTS**

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel, Best Best & Krieger LLP, as counsel to the Underwriter, the Fiscal Agent and the Escrow Agent are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

## **NEW LEGISLATION**

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

## **ADDITIONAL INFORMATION**

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the 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. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representatives of fact.

The execution and delivery of this Official Statement by the Mayor of the City has been duly authorized by the City Council of the City, acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 2006-01 OF  
THE CITY OF ESCONDIDO (EUREKA RANCH)

By: \_\_\_\_\_  
Mayor of the City of Escondido, which is acting in its  
capacity as the legislative body of Community Facilities  
District No. 2006-01 of the City of Escondido (Eureka  
Ranch)

**APPENDIX A**

**RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX**

[TO COME]

**APPENDIX B**

**FORM OF OPINION OF BOND COUNSEL**

*Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:*

[Closing Date]

Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch)  
c/o City of Escondido  
201 North Broadway  
Escondido, California 92025-2798

Re: \$ \_\_\_\_\_ *Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch)*  
*Special Tax Refunding Bonds, Series 2013*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of Escondido (the "City") taken in connection with the formation of Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the "District") and the authorization and issuance of the District's Special Tax Refunding Bonds, Series 2013 in the aggregate principal amount of \$ \_\_\_\_\_ (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), Resolution No. 2013-\_\_ (the "Resolution of Issuance"), adopted by the City Council (the "City Council") of the City on June 19, 2013, and a Bond Indenture dated as of July 1, 2013 (the "Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent. All capitalized terms not defined herein shall have the meanings set forth in the Indenture.

The Bonds are dated the date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on each September 1 and March 1, commencing on March 1, 2014, at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture redeemable in the amounts, at the times and in the manner provided for in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the City, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes,

neither the faith and credit nor the taxing power of the City, the State of California, or any of its political subdivisions is pledged for the payment thereof.

2. The Indenture has been duly executed and delivered by the City Council on behalf of the District. The Indenture creates a valid pledge of and the Bonds are secured by the Net Taxes and the amounts on deposit in certain funds and accounts established under the Indenture, as and to the extent provided in the Indenture. The Indenture is enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California; provided, however, that we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses or as to any indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

3. Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 3. above) and is exempt from State of California personal income tax.

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

The opinion expressed in paragraphs 3. and 5. above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs 3. through 6. above, we express no opinion as to any tax consequences related to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate executed by the District and other documents related to the Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on any Bond if any such change occurs or action is taken or omitted upon advice or approval of bond counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement or other offering material.

Respectfully submitted,

## APPENDIX C

### GENERAL INFORMATION CONCERNING THE CITY OF ESCONDIDO

*The following information is presented as general background data. The Bonds are payable solely from the Net Taxes as described in the Official Statement. The taxing power of the City, the State or any political subdivision thereof is not pledged to the payment of the Bonds.*

#### Location

The City of Escondido (the "City") is located in a long valley surrounded by coastal mountains about eighteen miles inland and thirty miles north of downtown San Diego.

The City has diversified from its origins as an agricultural center for the surrounding citrus and avocado farms. Today, more than 175 industrial firms are located in the City. In addition, the City serves as a focal point for north San Diego County ("North County") recreation and entertainment. Interstate 15 and Highway 78 bisect the City, making the City easily accessible for regional commerce and recreation.

#### Population

The City is the largest inland city in North County with an estimated current population of 146,064. Table C-1 sets forth total population for the City, the County of San Diego (the "County") and the State of California (the "State").

**Table C-1**  
**City of Escondido, County of San Diego and State of California**  
**Population**

<i>January 1</i>	<i>City of Escondido</i>	<i>County of San Diego</i>	<i>State of California</i>
2008	140,785	3,032,689	36,704,375
2009	142,161	3,064,436	36,966,713
2010	144,008	3,091,579	37,223,900
2011	144,998	3,115,810	37,427,946
2012	146,064	3,143,429	37,678,563

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Counts and E-1 Population Estimates for Cities, Counties and the State, 2011-2012, Sacramento, California, August 2011.*

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**Employment and Industry**

Table C-2 summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2007 through 2011 in the City, the County, the State of California and the United States.

**Table C-2  
City of Escondido, County of San Diego, State of California and United States  
Labor Force, Employment and Unemployment Yearly Average**

<i>Year and Area</i>	<i>Civilian Labor Force</i>	<i>Civilian Employment<sup>(1)</sup></i>	<i>Civilian Unemployment<sup>(2)</sup></i>	<i>Civilian Unemployment Rate<sup>(3)</sup></i>
2007				
Escondido	70,600	67,300	3,400	4.8%
San Diego County	1,517,600	1,448,500	69,100	4.6
California	17,921,000	16,960,700	960,300	5.4
United States	153,124,000	146,047,000	7,078,000	4.6
2008				
Escondido	72,100	67,600	4,500	6.2
San Diego County	1,548,200	1,455,600	92,700	6.0
California	18,203,100	16,890,000	1,313,100	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
2009				
Escondido	72,500	65,300	7,200	10.0
San Diego County	1,554,200	1,405,000	149,200	9.6
California	18,208,300	16,144,500	2,063,900	11.3
United States	154,142,000	139,877,000	14,265,000	9.3
2010				
Escondido	73,400	65,400	8,000	10.9
San Diego County	1,572,600	1,407,100	165,600	10.5
California	18,316,400	16,051,500	2,264,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
2011				
Escondido	73,900	66,200	7,700	10.4
San Diego County	1,583,800	1,426,100	157,700	10.0
California	18,384,900	16,226,600	2,158,300	11.7
United States	153,617,000	139,869,000	13,747,000	8.9

<sup>(1)</sup> Includes persons involved in labor-management trade disputes.

<sup>(2)</sup> Includes all persons without jobs who are actively seeking work.

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

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

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Table C-3 sets forth the industry employment and the labor force estimates for the years 2007 through 2011 for the San Diego-Carlsbad-San Marcos MSA. Annual industry employment information is not compiled by sector for the City.

**Table C-3**  
**San Diego-Carlsbad-San Marcos MSA**  
**Industry Employment and Labor Force**  
**Annual Average**

<i>TITLE</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Total Farm	10,900	10,500	9,500	10,500	10,000
Total Nonfarm	1,308,800	1,298,700	1,231,400	1,222,800	1,231,200
Total Private	1,086,500	1,073,600	1,006,900	992,400	1,002,700
Goods Producing	189,800	179,200	156,800	148,600	148,400
Natural Resources & Mining	400	400	400	400	400
Construction	87,000	76,100	61,100	55,300	55,200
Manufacturing	102,500	102,800	95,300	92,900	92,800
Durable Goods	77,300	78,100	73,100	71,000	70,800
Nondurable Goods	25,200	24,700	22,200	21,900	21,900
Service Providing	1,119,000	1,119,500	1,074,600	1,074,200	1,082,800
Private Service Producing	896,600	894,400	850,100	843,800	854,400
Trade, Transportation & Utilities	222,300	215,900	199,600	197,300	199,000
Wholesale Trade	45,500	44,900	40,600	40,100	40,700
Retail Trade	148,100	142,000	131,600	130,700	132,200
Transportation, Warehousing & Utilities	28,800	29,000	27,400	26,500	26,100
Information	31,300	31,400	28,200	25,100	24,000
Financial Activities	80,300	75,200	69,800	67,200	66,800
Professional & Business Services	223,200	222,300	206,800	207,700	211,500
Educational & Health Services	129,500	137,300	144,300	145,500	149,100
Leisure & Hospitality	161,800	164,000	154,800	154,800	156,900
Other Services	48,300	48,400	46,800	46,200	47,100
Government	222,400	225,100	224,500	230,400	228,400
Total, All Industries	1,319,700	1,309,300	1,240,900	1,233,300	1,241,200

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, Labor Market Information Division, San Diego-Carlsbad-San Marcos MSA *Industry Employment & Labor Force - by Annual Average, March 2011 Benchmark*.

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**Major Employers**

Table C-4 sets forth the largest employers in the City as of June 30, 2011.

**Table C-4  
City of Escondido  
Largest Employers**

<i>Employer</i>	<i>Number of Employees</i>
Palomar Medical Center	2,689
Escondido Union School District	1,981
City of Escondido	1,091
San Diego Safari Park	953
Escondido Union High School District	766
Nordstrom Inc.	720
Welk Group Inc.	465
Vons Grocery Stores	391
Palomar Community College District	340
Home Depot	333

Source: City of Escondido Finance Department.

**Commercial Activity**

Trade outlet and retail sales activity are summarized in Tables C-5 and C-6 based on reports of the State Board of Equalization.

**Table C-5  
City of Escondido  
Total Taxable Transactions and Number of Sales Permits  
2007 through 2011<sup>(1)</sup>**

<i>Calendar Year</i>	<i>Retail Sales<sup>(2)</sup></i>	<i>Retail Sales Permits</i>	<i>Total Taxable Transactions<sup>(2)</sup></i>	<i>Issued Sales Permits</i>
2007	2,195,572	1,783	2,696,218	4,091
2008	1,924,432	1,898	2,395,108	4,074
2009	1,611,325	2,312	2,040,596	3,576
2010	1,782,265	2,414	2,132,167	3,706
2011 <sup>(1)</sup>	1,408,957	2,549	1,722,325	3,830

<sup>(1)</sup> Through 3rd Quarter 2011.

<sup>(2)</sup> Dollar amounts are in thousands.

Source: California State Board of Equalization.

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**Table C-6**  
**City of Escondido**  
**Taxable Retail Sales**  
**2007 through 2011<sup>(1)</sup>**  
**(\$000)**

<i>Type of Business</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011<sup>(1)</sup></i>
Apparel Stores	\$ 106,999	\$ 130,736	\$ 160,564	\$ 170,763	\$ 125,911
General Merchandise Stores	268,491	212,857	133,896	134,120	90,593
Food Stores	126,489	116,684	120,048	120,970	93,276
Eating/Drinking Places	174,338	170,032	162,468	169,879	133,479
Home Furnishings/Appliances	32,261	20,507	30,602	33,286	32,774
Building Materials/Farm Implements	243,426	183,154	157,370	167,646	128,045
Auto Dealers	753,082	606,190	481,614	529,178	465,942
Service Stations	250,484	282,099	218,496	254,285	234,209
Other Retail Stores	<u>240,002</u>	<u>202,172</u>	<u>146,267</u>	<u>148,138</u>	<u>104,730</u>
Retail Stores Totals	2,195,572	1,924,432	1,611,325	1,728,265	1,408,957
All Other Outlets	<u>500,646</u>	<u>470,676</u>	<u>429,271</u>	<u>403,902</u>	<u>313,368</u>
Total All Outlets	<u>\$ 2,696,218</u>	<u>\$ 2,395,108</u>	<u>\$ 2,040,596</u>	<u>\$ 2,132,167</u>	<u>\$ 1,722,325</u>

<sup>(1)</sup> Through 3rd Quarter 2011.

Source: California State Board of Equalization.

### Building Activity

Table C-7 summarizes building activity in the City of Escondido from 2007 through 2011.

**Table C-7**  
**City of Escondido**  
**Building Permit Valuations**  
**2007 through 2011**

	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
<u>Residential</u>					
Single Family	\$ 35,253,451	\$ 33,144,125	\$ 31,276,919	\$ 21,709,519	\$ 8,852,193
Multi-Family	14,028,209	8,715,433	4,625,512	5,166,958	12,919,403
Alteration/Additions	<u>10,419,656</u>	<u>5,194,468</u>	<u>3,743,437</u>	<u>3,032,618</u>	<u>3,585,270</u>
Total	59,701,316	47,054,026	39,645,868	\$29,909,095	25,356,866
<u>Non-Residential</u>					
New Commercial	14,773,541	45,028,783	1,124,405	3,480,411	2,303,428
New Industry	2,789,464	0	535,136	1,362,179	0
Other <sup>(1)</sup>	22,647,445	9,045,233	3,176,047	1,914,091	2,279,369
	<u>19,858,697</u>	<u>16,859,229</u>	<u>9,991,810</u>	<u>15,334,778</u>	<u>8,984,967</u>
Total	60,069,147	70,933,245	14,827,398	22,091,459	13,567,764
<u>Total All Industry</u>	<u>\$119,770,463</u>	<u>\$117,987,271</u>	<u>\$54,473,266</u>	<u>\$52,000,554</u>	<u>\$38,924,630</u>
<u>Total</u>					
Single Family Units	131	120	114	84	32
Multi-Family Units	<u>105</u>	<u>63</u>	<u>63</u>	<u>55</u>	<u>112</u>
Total	236	183	177	139	144

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

Source: Construction Industry Research Board.

## **Transportation**

Interstate 15 serves the City, extending from San Diego through to Riverside and Las Vegas, Nevada. State Highway 78 runs west to east from the coastline between Oceanside and Carlsbad through the City to Interstate 10 and is one of the main east/west corridors through the County.

The Santa Fe Railroad has a freight service line serving the City, and Amtrak provides passenger service from Oceanside on the San Diego/Los Angeles line. The Sprinter provides commuter rail service from the City to Oceanside.

Two airports serve North County. San Diego International Airport (Lindbergh Field), 35 minutes from the City, provides access to fourteen major national and international commercial airlines and fourteen freight forwarding companies. The smaller McClellan-Palomar Airport, 15 minutes from downtown of the City, offers commercial service to Los Angeles, Las Vegas, Nevada and Phoenix, Arizona. McClellan-Palomar also offers complete private aircraft service.

## **Education**

The City has 16 elementary schools (plus eight private schools), five middle schools, and three public high schools (plus three private schools). In addition, the City has a charter elementary school, middle school and night school.

The largest university in the County is San Diego State University, part of the California State University system. California State University at San Marcos is the closest university to the City. The University of California, San Diego in La Jolla is one of nine campuses of the University of California system. The statewide Community College System has nine colleges in San Diego County.

Private universities in San Diego County include United States International University, the University of San Diego, Point Loma Nazarene University and National University.

## **Recreation and Culture**

The City is a 60 minute drive from Cleveland National Forest and a 30 minute drive from the Pacific Ocean and all of the outdoor activities associated with these areas. Thousands of acres of nearby recreation areas provide opportunities for picnicking, boating, fishing, tennis, softball and swimming. Over 25 golf courses are located within a 20 minute drive of the City.

Spectator sports fans can choose among professional football and baseball at nearby Qualcomm, Petco Park, professional indoor soccer at the San Diego Sports Arena, and thoroughbred horse racing at Del Mar Racetrack. The City's recreation department offers amateur athletes softball, football, tennis and other organized sporting activities at 12 parks and 6 playgrounds.

Concerts, plays, and museums are popular in and around the City. The California Center for the Arts, Escondido, an \$81.0 million cultural center complex including a performing arts theater, a community theater, a museum and a conference center, opened in October 1994. The Patio Playhouse and the Lawrence Welk Theatre also offer dramatic productions. The San Diego Arts Gallery and the La Jolla Museum of Art are two of the many art galleries in the area and the Mingei International Museum offers various art exhibitions.

## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

*The following is a summary of certain definitions and 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.*

[TO COME]

**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE DISTRICT**

*Upon issuance of the Bonds, the District proposes to enter into a Continuing Disclosure Agreement in substantially the following form:*

[TO BE INSERTED]

## 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 District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 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 to the District which the District believes to be reliable, but the District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited through the facilities of DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has 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 Bonds 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 affect any change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 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 District or the Fiscal 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, the Fiscal Agent, or the 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 District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Fiscal 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 Fiscal 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 Fiscal 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 District or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

THE FISCAL AGENT, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of July 1, 2013, is executed and delivered by Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the “District”) and Special District Financing & Administration LLC, as dissemination agent, in connection with the issuance and delivery by the District of its Special Tax Refunding Bonds, Series 2013 (the “Bonds”). The Bonds are being issued pursuant to Resolution No. \_\_\_\_\_ of the City adopted June 19, 2013 and that certain Bond Indenture (the “Indenture”), dated as of July 1, 2013, by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”). The District covenants as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the District for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

**SECTION 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*Beneficial Owner*” shall mean any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income purposes.

“*City*” shall mean the City of Escondido, California.

“*Disclosure Representative*” shall mean the City Manager or the Finance Director of the City, or his or her designee, or such other officer or employee as the City shall designate in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” shall mean, initially, Special District Financing & Administration LLC, or any successor Dissemination Agent designated in writing by the District which has filed with the then current Dissemination Agent a written acceptance of such designation.

“*EMMA*” shall mean the Electronic Municipal Market Access system of the MSRB.

“*Listed Events*” shall mean any of the events listed in Section 5 of this Disclosure Agreement.

“*MSRB*” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“*Official Statement*” shall mean the Official Statement, dated June \_\_, 2013, relating to the Bonds.

“*Participating Underwriter*” shall mean Stifel, Nicolaus & Company, Incorporated.

“*Repository*” shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the EMMA website, currently located at <http://emma.msrb.org>.

“*Rule*” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“*State*” shall mean the State of California.

“*Tax-exempt*” shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

### SECTION 3. Provision of Annual Reports.

(a) Not later than 270 days following the end of the District’s fiscal year, commencing March 31, 2014, the District shall provide, or shall cause the Dissemination Agent to provide, to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The District’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The District will promptly notify the Repository of a change in its fiscal year.

(b) In the event that the Dissemination Agent is an entity other than the District, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repository, the District shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District will be filing the Annual Report in compliance with subsection (a). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(c) If the District is the Dissemination Agent and the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the District shall send a notice to the Repository in the manner prescribed by the MSRB. If the Dissemination Agent is other than the District and if the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository in the manner prescribed by the MSRB.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository if other than the MSRB; and

(ii) promptly after receipt of the Annual Report, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

(e) Notwithstanding any other provision of this Disclosure Agreement, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the City for the most recent fiscal year of the District then ended. If the audited financial statements are not available by the time that the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the District in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the District shall be audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the District may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the District shall modify the basis upon which its financial statements are prepared, the District shall provide a notice of such modification to the Repository, including a reference to the specific federal or State law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Bond Indenture and the Reserve Requirement as of the September 2 preceding the filing of the Annual Report;

(iii) any changes to the Rate and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors for approval prior to the filing of the Annual Report and a description of any parcels for which the Special Taxes have been prepaid in the Fiscal Year for which the Annual Report is being prepared;

(iv) an update of the estimated assessed value-to-lien ratios within the District substantially in the form of Table 5 in the Official Statement based upon the most recent Special Tax levy preceding the date of the Annual Report and on the assessed values of property for

the current fiscal year; provided, however, that all parcels which constitute Developed Property may be grouped as a single category;

(v) an update of Table 1 in the Official Statement;

(vi) the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes;

(vii) the total Special Taxes levied and the total Special Taxes collected for the prior fiscal year and the total Special Taxes that remain unpaid for each prior fiscal year in which Special Taxes were levied; and

(viii) any information not already included under (i) through (vii) above that the District is required to file in its annual report to the California Debt and Investment Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

In addition to any of the information expressly required to be provided under paragraphs (a) or (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements set forth in clauses (i) to (vii), in the light of the circumstances under which they were made, not misleading.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5(a), the District shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
6. tender offers;

7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), 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 United States 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 5(b), the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. modifications to the rights of Bond holders;

3. optional, unscheduled or contingent Bond redemptions;

4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the City or the District or the sale of all or substantially all of the assets of the City or the District, 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; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event under Section 5(b) above, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a

notice of such occurrence with the Repository in a timely manner not more than 10 business days after the event.

(e) The District hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the District and that the Dissemination Agent shall not be responsible for determining whether the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the District and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Special District Financing & Administration LLC. The Dissemination Agent may resign: (i) by providing thirty days written notice to the District; and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the District or the type of business conducted thereby; (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the District shall have delivered to the Dissemination Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District and the Participating Underwriter, to the same effect as set forth in clause (2) above; (4) the District shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners, or such amendment shall have been approved by the Owners in the same manner as an amendment to the Indenture; and (5) the District shall have delivered copies of such opinion and amendment to the Repository.

(b) This Disclosure Agreement also may be amended by written agreement of the parties upon obtaining consent of Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Owners of the Bonds; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied.

(c) To the extent that any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the

reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The District acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as amended, may apply to the District, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the District under such laws.

SECTION 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent other than the District shall be paid: (i) compensation by the District for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District pursuant to this Disclosure Agreement. The obligations of the District under this Section shall survive resignation or removal of the

Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the 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.

SECTION 14. Governing Law. This Disclosure Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 15. Notices. Any notice or communications to be among any of the parties to this Disclosure Agreement may be given as follows:

To the District: Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch)  
c/o City of Escondido  
201 North Broadway  
Escondido, California 92025  
Attention: Finance Director

To the Fiscal Agent: The Bank of New York Mellon Trust Company, N.A.  
400 South Hope Street, Suite 400  
Los Angeles, California 90071  
Attention: Corporate Trust Services

To the Dissemination Agent: Special District Financing & Administration LLC  
437 West Grand Avenue  
Escondido, California 92025

To the Participating Underwriter: Stifel, Nicolaus & Company, Incorporated  
One Ferry Building  
San Francisco, California 94111  
Attention: Municipal Research Department  
Email: tlockard@stifel.com

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 16. Future Determination of Obligated Persons. In the event that the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the District to meet the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Agreement shall be deemed

to obligate the District to disclose information concerning any owner of land within the District except as required as part of the information required to be disclosed by the District pursuant to Sections 4 and 5 hereof. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

SECTION 17. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

SECTION 18. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

COMMUNITY FACILITIES DISTRICT NO.  
2006-01 OF THE CITY OF ESCONDIDO (EUREKA  
RANCH)

By: \_\_\_\_\_  
Its: Finance Director of the City of Escondido,  
acting in its capacity as the legislative body of  
Community Facilities District No. 2006-01 of  
the City of Escondido (Eureka Ranch)

SPECIAL DISTRICT FINANCING &  
ADMINISTRATION LLC, as Dissemination Agent

By: \_\_\_\_\_  
Its: Authorized Officer