

RESOLUTION NUMBER 2896

RESOLUTION OF INTENTION OF THE CITY COUNCIL OF THE CITY OF PERRIS TO ESTABLISH COMMUNITY FACILITIES DISTRICT NO. 2001-2 (VILLAGES OF AVALON) OF THE CITY OF PERRIS AND TO AUTHORIZE THE LEVY OF A SPECIAL TAX WITHIN COMMUNITY FACILITIES DISTRICT NO. 2001-2 (VILLAGES OF AVALON) OF THE CITY OF PERRIS

WHEREAS, the City Council (the “Council”) of the City of Perris (the “City”) has received a petition (including consent and waiver) (the “Petition”) requesting the institution of proceedings for formation of a community facilities district (the “District”) pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, commencing with Section 53311 of the Government Code of the State of California (the “Act”); and

WHEREAS, the Council has determined that the Petition complies with the requirements of Government Code Section 53318 and now intends to form Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris; and

WHEREAS, the Council desires to adopt this resolution of intention as provided in Section 53321 of the Act to establish a community facilities district consisting of the territory described in Exhibit “A” hereto and incorporated herein by this reference, which the Council hereby determines shall be known as “Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris” (the “Community Facilities District No. 2001-2” or the “District”) pursuant to the Act to finance (1) the purchase, construction, modification, expansion, improvement or rehabilitation of certain real or other tangible property described in Exhibit “B” hereto and incorporated herein by this reference, including all furnishings, equipment and supplies related thereto (collectively, the “Facilities”), which Facilities have a useful life of five years or longer; and (2) the incidental expenses to be incurred in connection with financing the Facilities and forming and administering the District (the “Incidental Expenses”); and

WHEREAS, it is the intention of the Council to consider financing the Facilities and the Incidental Expenses through the formation of Community Facilities District No. 2001-2 and the sale of bonded indebtedness in an amount not to exceed \$50,000,000 within the District and the levy of a special tax therein to pay for the Facilities and the Incidental Expenses and to pay debt service on the bonded indebtedness incurred by such District, provided that the bond sales and special tax levies are approved at an election to be held within the District;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF PERRIS DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:

Section 1. The above recitals are true and correct.

Section 2. A community facilities district is proposed to be established under the terms of the Act, pursuant to Section 53350 of the Act. It is further proposed that the boundaries of the community facilities district and the boundaries of each Improvement Area shall be as described in Exhibit "A" hereto, which boundaries shall, upon recordation of the boundary map for the District, include the entirety of any parcel subject to taxation by the District. The proposed boundaries of the District are depicted on the map of the proposed Community Facilities District No. 2001-2 which is on file in the office of the City Clerk entitled "Proposed Boundaries, Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris," which map indicates by a boundary line the extent of the territory included in the proposed community facilities district and shall govern for all details as to the extent of Community Facilities District No. 2001-2. On the original and one copy of the map of such Community Facilities District No. 2001-2 on file in the City Clerk's office, the City Clerk shall endorse the certificate evidencing the date and adoption of this resolution. The City Clerk shall file the original of such map in her office and, within fifteen (15) days after the adoption of this Resolution, the City Clerk shall file a copy of such map so endorsed in the records of the County Recorder, County of Riverside, State of California, all as required by Section 3111 of the Streets and Highways Code of the State of California.

Section 3. The name of the proposed City of Perris Community Facilities District shall be "Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris".

Section 4. The Facilities proposed to be provided within Community Facilities District No. 2001-2 and to be financed by the District are public facilities as defined in the Act, which the City is authorized by law to construct, acquire, own and operate. The Council hereby finds and determines that the description of the Facilities herein is sufficiently informative to allow taxpayers within the proposed District to understand what the funds of each Improvement Area may be used to finance. The Incidental Expenses expected to be incurred include the cost of planning and designing the Facilities, the costs of forming the District, issuing bonds and levying and collecting a special tax within the District. The Council hereby finds that the proposed Facilities are necessary to meet increased demands placed upon the City as a result of development occurring in the District. The Facilities may be acquired from one or more of the property owners as completed public improvements or may be constructed from bond or special tax proceeds. All or a portion of the Facilities may be purchased with District funds as completed public facilities pursuant to Section 53314.9 of the Act and/or constructed with District funds pursuant to Section 53316.2 of the Act. Any portion of the Facilities may be financed through a lease or lease-purchase arrangement if the District hereafter determines that such arrangement is of benefit to the District.

Section 5. Except where funds are otherwise available, it is the intention of the City Council to levy annually in accordance with procedures contained in the Act a special tax within each the District, secured by recordation of a continuing lien against all nonexempt real property in the District, sufficient to pay for: (i) the Facilities and Incidental Expenses; and (ii) the principal and interest and other periodic costs on bonds or other indebtedness issued for

the District to finance the Facilities and Incidental Expenses, including the establishment and replenishment of any reserve funds deemed necessary by the District, and any remarketing, credit enhancement and liquidity facility fees (including such fees for instruments which serve as the basis of a reserve fund in lieu of cash). The rate and method of apportionment and manner of collection of the special tax within the District is described in detail in Exhibit "C" attached hereto and incorporated herein by this reference. Exhibit "C" allows each landowner within the District to estimate the maximum amount that may be levied against each parcel. In the first year in which such special tax is levied, the levy shall include an amount sufficient to repay the District all amounts, if any, transferred to the District pursuant to Section 53314 of the Act and interest thereon.

Section 6. If special taxes of the District are levied against any parcel used for private residential purposes, (i) the maximum special tax rate shall not be increased over time except that it may be increased by an amount not to exceed two percent (2%) per year to the extent permitted in the rate and method of apportionment; (ii) such tax shall be levied for a period not to exceed fifty (50) years commencing with Fiscal Year 2001-2002, as further described in Exhibit "C" hereto; and (iii) under no circumstances will such special tax be increased as a consequence of delinquency or default by the owner of any other parcels within the District by more than ten percent.

Section 7. The special tax within the proposed District is based on the expected demand that each parcel of real property within the proposed District will place on the Facilities and on the benefit that each parcel derives from the right to access the Facilities. The Council hereby determines that the proposed Facilities are necessary to meet the increased demand placed upon the City and the existing infrastructure in the City as a result of the development of land proposed for inclusion in the District. The Council hereby determines the rate and method of apportionment of the special tax set forth in Exhibit "C" for the District to be reasonable. The special tax is apportioned to each parcel on the foregoing basis pursuant to Section 53325.3 of the Act and such special tax is not based upon the value or ownership of real property. In the event that a portion of the property within Community Facilities District No. 2001-2 shall become for any reason exempt, wholly or partially, from the levy of the special tax specified on Exhibit "C", the Council shall, on behalf of Community Facilities District No. 2001-2, cause the levy to be increased, subject to the limitation of the maximum special tax for a parcel as set forth in Exhibit "C," to the extent necessary upon the remaining property within the District which is not delinquent or exempt in order to yield the special tax revenues required for the purposes described in Section 5. The obligation to pay special taxes may be prepaid as set forth in Exhibit "C."

Section 8. A public hearing (the "Hearing") on the establishment of Community Facilities District No. 2001-2, the proposed rate and method of apportionment of the Special Tax and the proposed issuance of bonds by the District to finance the Facilities and the Incidental Expenses shall be held on January 8, 2002, at 6:00 o'clock p.m., or as soon thereafter as practicable, at the chambers of the City Council of the City of Perris, 101 North "D" Street, Perris, California 92570. Should the Council determine to form the District, a special election

will be held within the District to authorize the issuance of bonds and the levy of the Special Tax in accordance with the procedures contained in Government Code Section 53326. If held, the proposed voting procedure at the elections will be a landowner vote with each landowner who is the owner of record of land within the District at the close of the Hearing, or the authorized representative thereof, having one vote for each acre or portion thereof owned within the District. Ballots for the special elections may be distributed by mail or by personal service.

Section 9. At the time and place set forth above for the Hearing, any interested person, including all persons owning lands or registered to vote within the proposed District, may appear and be heard.

Section 10. Each City officer who is or will be responsible for the District, if it is established, is hereby directed to study the proposed District and, at or before the time of the above-mentioned Hearing, file a report with the City Council, and which is to be made a part of the record of the Hearing, containing a brief description of the public facilities by type which will in his or her opinion be required to meet adequately the needs of Community Facilities District No. 2001-2 and an estimate of the cost of providing those public facilities, including the cost of environmental evaluations of such facilities and an estimate of the fair and reasonable cost of any Incidental Expenses to be incurred.

Section 11. The City may accept advances of funds or work-in-kind from any sources, including, but not limited to, private persons or private entities, for any authorized purpose, including, but not limited to, paying the cost incurred in creating Community Facilities District No. 2001-2. The District may enter into an agreement with the person or entity advancing the funds or work-in-kind, to repay all or a portion of the funds advanced, or to reimburse the person or entity for the value, or cost, whichever is less, of the work-in-kind, as determined by the Council, with or without interest.

Section 12. The City Clerk is hereby directed to publish a notice (“Notice”) of the Hearing pursuant to Section 6061 of the Government Code in a newspaper of general circulation published in the area of the proposed District. Such Notice shall contain the text of this Resolution, state the time and place of the Hearing, a statement that the testimony of all interested persons or taxpayers will be heard, a description of the protest rights of the registered voters and landowners in the proposed District as provided in Section 53324 of the Act and a description of the proposed voting procedure for the election required by the Act. Such publication shall be completed at least 7 days prior to the date of the Hearing.

Section 13. Resolution No. 2875 is hereby repealed and of no further force or effect.

Section 14. Except to the extent limited in any bond resolution or trust indenture related to the issuance of bonds, the Council hereby reserves to itself all rights and powers set forth in Section 53344.1 of the Act (relating to tenders in full or partial payment).

ADOPTED, SIGNED and APPROVED this _____ day of _____, 2001.

MAYOR OF THE CITY OF PERRIS

Attest:

City Clerk

STATE OF CALIFORNIA)
COUNTY OF RIVERSIDE) §.
CITY OF PERRIS)

I, Margaret Rey, CITY CLERK OF THE CITY OF PERRIS, DO HEREBY CERTIFY that the foregoing Resolution Number 2896 was duly adopted by the City Council of the City of Perris at a regular meeting of said City Council on the 27th day of November, 2001, and that it was so adopted by the following vote:

Ayes: Busch, Yarbrough, Larios, Motte

Noes:

Absent: Rogers

City Clerk

EXHIBIT "A"

COMMUNITY FACILITIES DISTRICT NO. 2001-2 BOUNDARY

EXHIBIT “B”

**TYPES OF FACILITIES TO BE FINANCED BY
COMMUNITY FACILITIES DISTRICT NO. 2001-2**

The General Description of the Improvements along the perimeter of the property and in tract improvements as listed:

Mass Grading:	Mass grade major streets.
Ramona Expressway:	Widen street, install traffic signal at Bradley Road, underground electric utilities, landscape right-of-way, install storm drain and basins, build entry monument.
Bradley Road:	Widen street, install traffic signal at McCanna Ranch Road, underground electric utilities, landscape right-of-way, install storm drain system, relocate DWR drain line, install sewer main, install water main, realign Bradley Road to new intersection alignment, build public park and facilities, install all dry utilities, build intersection monument.
McCanna Ranch Road:	Construct street including all water, sewer, storm drain, dry utilities, landscape right-of-way. Build linear park along the MWD easement.
Rider Road:	Widen road, including storm drain, dry utilities, landscape right-of-way and underground electric utilities. Install traffic signal at Ramona Expressway and Rider Road.
Morgan Road:	Widen road, including water, sewer, dry utilities, and landscape right-of-way.
Evans Place:	Install traffic signal at Ramona Expressway and Evans Place, widen road, including dry utilities; landscape right-of-way.
Recreation Facilities:	Build recreation facilities, including a community pool, tot lot, basketball courts, volleyball court, spa and wading pool.

EXHIBIT “C”

**AMENDED RATE AND METHOD OF APPORTIONMENT
OF SPECIAL TAX FOR
COMMUNITY FACILITIES DISTRICT NO. 2001-2
(VILLAGES OF AVALON)
OF THE CITY OF PERRIS**

Provided that the lien of special taxes of Community Facilities District No. 88-2 of the City of Perris has first been cancelled, then a Special Tax of Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris (“CFD 2001-2”) shall be levied on all Assessor’s Parcels in CFD 2001-2 and collected each Fiscal Year commencing in Fiscal Year 2002-03 in an amount determined by the Council through the application of the rate and method of apportionment of the Special Tax set forth below. All of the real property in CFD No. 2001-2, unless exempted by law or by, the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

“**Acquisition Agreement**” means the Acquisition Agreement by and between the City, for itself and on behalf of CFD No. 2001-2, and Barratt American Incorporated, as it may be modified or supplemented from time to time.

“**Acre or Acreage**” means the land area of an Assessor’s Parcel as shown on an Assessor’s Parcel Map, or if the land area is not shown on an Assessor’s Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map. The square footage of an Assessor’s Parcel is equal to the Acreage multiplied by 43,560.

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

“**Administrative Expenses**” means the following actual or estimated costs incurred by the City as administrator of the CFD to determine, levy and collect the Special Taxes, including salaries of City employees and the fees of consultants, legal counsel, corporate paying agents, fiscal agents, and trustees; the costs of collecting installments of the Special Taxes upon the general tax rolls; cost of arbitrage calculation and arbitrage rebates, preparation of required reports; and any other costs required to administer the CFD as determined by the City.

“**Assessor’s Parcel**” means a lot or parcel shown in an Assessor’s Parcel Map with an assigned Assessor’s Parcel number.

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

“Assigned Special Tax” means the Special Tax for each Land Use Class of Developed Property, as determined in accordance with Section C below.

“Backup Special Tax” means the Special Tax applicable to each Assessor’s Parcel of Developed Property, as determined in accordance with Section C below.

“Bonds” means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2001-2 and secured by the levy of Special Taxes under the Act.

“City” means the City of Perris.

“CFD Administrator” means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

“CFD No. 2001-2” means Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris.

“County” means the County of Riverside.

“Council” means the City Council of the City of Perris, acting as the legislative body of CFD No. 2001-2.

“Developed Property” means all Taxable Property, exclusive of Property Owner Association Property, Public Property, or Water Company Property, for which a building permit was issued after January 1, 2001, but prior to the April 1st preceding the Fiscal Year in which the Special Tax is being levied.

“Fiscal Year” means the period starting July 1 and ending on the following June 30.

“Final Subdivision” means a subdivision of property creating buildable lots by recordation of a final map, parcel map, or lot line adjustment, pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.), or recordation of a condominium plan pursuant to California Civil Code 1352, that creates individual lots (a “Lot” or “Lots”) for which building permits may be issued without further subdivision.

“Indenture” means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

“Land Use Class” means any of the classes listed in Table 1.

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

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

“Outstanding Bonds” means all Bonds which are deemed to be outstanding under the Indenture.

“Property Owner Association Property” means any property within the boundaries of CFD No. 2001-2 that is owned by or dedicated to a property owner association, including any master or sub-association.

“Proportionately” means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor’s Parcels of Developed Property within CFD No. 2001-2. For Undeveloped Property, “Proportionately” means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Undeveloped Property in CFD No. 2001-2.

“Public Property” means any property within the boundaries of CFD No. 2001-2 that is used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to the federal government, the State, the County, the City or any other public agency, provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use. Property utilized for public schools shall be included in this category.

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

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

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

“Special Tax Requirement” means that amount required in any Fiscal Year for CFD No. 2001-2 to: (a) (i) pay debt service on all Outstanding Bonds for the calendar year that commences in such Fiscal Year; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable

Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for acquisition or construction of facilities identified on Exhibit A to the Acquisition Agreement except Undeveloped Property taxes shall not be levied for this purpose; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (b) a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

“State” means the State of California.

“Taxable Property” means all of the Assessor’s Parcels within the boundaries of CFD No. 2001-2 which are not exempt from the Special Tax pursuant to law or Section E below.

“Taxable Property Owner Association Property” means all Assessor’s Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

“Taxable Public Property” means all Assessor’s Parcels of Public Property that are not exempt pursuant to Section E below.

“Taxable Water Company Property” means all Assessor’s Parcels of Water Company Property that are not exempt pursuant to Section E below.

“Trustee” means the trustee or fiscal agent under the Indenture.

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

“Water Company Property” means property owned or used by McCanna Ranch Water Company, a California corporation.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within CFD No. 2001-2 shall be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Water Company Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Residential Property shall be assigned to Land Use Classes 1 through 3 and Non-Residential Property shall be assigned to Land Use Class 4.

The Assigned Special Tax for Residential Property shall be based on the Residential Floor Area located on the Assessor’s Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the Acreage of the Assessor’s Parcel.

C. MAXIMUM SPECIAL TAX RATE

I. Developed Property

a. Maximum Special Tax

The Maximum Special Tax for each Assessor’s Parcel classified as Developed Property shall be the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax.

b. Assigned Special Tax

The Assigned Special Tax for Fiscal Year 2002-03 for each Land Use Class is shown below in Table 1.

TABLE 1

**Assigned Special Taxes for Developed Property
For Fiscal Year 2002-03
Community Facilities District No. 2001-2**

Land Use Class	Description	Lot Size	Assigned Special Tax Per Unit/Acre
1	Residential Property	2,250 or more square feet	\$926.49 per Unit
2	Residential Property	1,600 - 2,249 square feet	\$773.12 per Unit
3	Residential Property	Less than 1,600 square feet	\$679.98 per Unit
4	Non-Residential Property	NA	\$5,858 per Acre

c. Backup Special Tax

The Backup Special Tax shall equal \$5,858 per Acre for Fiscal Year 2002-2003.

d. Increase in the Assigned Special Tax and Backup Special Tax

On each July 1, commencing on July 1, 2003, the Assigned Special Tax and the Backup Special Tax shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

e. Multiple Land Use Classes

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Class. The Assigned Special Tax levied on an Assessor's Parcel shall be the sum of the Assigned Special Taxes for all Land Use Classes located on that Assessor's Parcel. The Maximum Special Tax that can be levied on an Assessor's Parcel shall be the sum of the Maximum Special Taxes that can be levied for all Land Use Classes located on that Assessor's Parcel. For an Assessor's Parcel that contains both Residential Property and Non-Residential Property, the Acreage of such Assessor's Parcel shall be allocated to each type of property based on the amount of Acreage designated for each Land Use Class as determined by reference to the site plan approved for such Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

II. Undeveloped Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Water Company Property

a. Maximum Special Tax

The Fiscal Year 2002-03 Maximum Special Tax for Undeveloped Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Water Company Property in CFD No. 2001-2 shall be \$5,858 per Acre.

b. Increase in the Maximum Special Tax

On each July 1, commencing on July 1, 2003, the Maximum Special Tax for Undeveloped Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Water Company Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2002-03 and for each following Fiscal Year, the Council shall levy the Special Tax until the amount of Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

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

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

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

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

Notwithstanding the above the Council may, in any Fiscal Year, levy Proportionately less than 100% of the Assigned Special Tax in step one of Section D (above), when (i) the Council is no longer required to levy a Special Tax pursuant to steps two through four above in order to meet the Special Tax Requirement; (ii) all authorized CFD No. 2001-2 Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD No. 2001-2 Bonds (except refunding bonds) to be supported by Special Taxes; and (iii) all facilities identified in Exhibit A to the Acquisition Agreement have been acquired.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the CFD, except for those Developed Residential Properties whose owners are also delinquent or in default on their Special Tax payments for one or more other properties within CFD No. 2001-2.

E. EXEMPTIONS

No Special Tax shall be levied on up to 1.96 Acres of Property Owner Association Property and 68.08 Acres Public Property and 1.5 Acres of Water Company Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property, Public Property, or Water Company Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property, Public Property, or Water Company Property, its tax-exempt status will be revoked.

Property Owner Association Property, Public Property, or Water Company Property that is not exempt from Special Taxes under this section shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fourth step in Section D above, at up to 100% of the applicable Maximum Special Tax for Taxable Property Owner Association Property, Taxable Public Property, or Taxable Water Company Property.

F. REVIEW/APPEAL COMMITTEE

The Council shall establish as part of the proceedings and administration of CFD No. 2001-2 a special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax levied on their Assessor's Parcel is in error may file a notice with the Review/Appeal Committee appealing the amount of the Special Tax levied on such Assessor's Parcel. The Review/Appeal Committee shall interpret this Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding as to all persons.

G. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that CFD No. 2001-2 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section H:

“CFD Public Facilities” means either \$12,755,693 in 2001 dollars, which shall increase by the Construction Inflation Index on July 1, 2002, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 2001-2 under the authorized Mello-Roos financing program for CFD No. 2001-2, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

“Construction Fund” means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

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

“**Future Facilities Costs**” means the CFD Public Facilities minus (i) public facility costs available to be funded through existing construction or escrow accounts or funded by Outstanding Bonds, (ii) public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment, and (iii) public facilities costs paid directly with Special Taxes.

“**Outstanding Bonds**” means all bonds previously issued that are anticipated to be outstanding under the Indenture immediately after the first principal payment date following the current Fiscal Year.

I. Prepayment in Full

Any Assessor’s Parcel of Developed Property or Undeveloped Property for which a building permit has been issued may be prepaid. The Special Tax obligation applicable to such Assessor’s Parcel in CFD No. 2001-2 may be fully prepaid and the obligation of the Assessor’s Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor’s Parcel at the time of prepayment. An owner of an Assessor’s Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor’s Parcel. The CFD Administrator may charge a reasonable fee for providing this figure. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

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

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

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

1. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
2. For Assessor's Parcels of Developed Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property for which a building permit has been issued, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for the entire CFD No. 2001-2 based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 2001-2, excluding any Assessor's Parcels which have been prepaid, and

(b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the total estimated Backup Special Taxes at buildout for the entire CFD No. 2001-2, excluding any Assessor's Parcels which have been prepaid.
4. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").
6. Compute the current Future Facilities Costs.
7. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
8. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.

10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 8 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
12. Verify the administrative fees and expenses of No. 2001-2, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
13. If reserve funds for the Outstanding Prepayment Bonds, if any, are anticipated to be at or above 100% of the reserve requirement (as defined in the Indenture) immediately after the first principal payment date in the next Fiscal Year, the reserve fund credit shall equal the expected reduction in the reserve requirement, if any, associated with the redemption of Outstanding Prepayment Bonds as a result of the prepayment (the "Reserve Fund Credit"). No Reserve Fund Credit shall be granted if reserve funds are anticipated to be below 100% of the reserve requirement immediately after the first principal payment date in the next Fiscal Year.
14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").
15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").
16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 2001-2.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be

retained in the appropriate fund established under the Indenture to be used with the next prepayment of bonds or to make debt service payments.

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

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Maximum Special Taxes that may be levied on Taxable Property within CFD No. 2001-2 both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

II. Prepayment in Part

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

$$PP = P_E \times F.$$

These terms have the following meaning:

PP = the partial prepayment

PE = the Prepayment Amount calculated according to Section H. 1

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

The owner of an Assessor's Parcel who desires to partially prepay the Maximum Special Tax shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax, (ii) the percentage by which the Maximum Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if applicable. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Maximum Special Tax for an Assessor's Parcel within 30 days of the request and may charge a reasonable fee for providing this service.

With respect to any Assessor's Parcel that is partially prepaid, the City shall (i) distribute the funds remitted to it according to Paragraph 16 of Section H.1. and (ii) indicate in the records of CFD No. 2001-2 that there has been a partial prepayment of the Maximum

Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Assessor's Parcel pursuant to Section D.

I. TERM OF SPECIAL TAX

The Special Tax shall be levied for the period not to exceed 40 years commencing in Fiscal Year 2002-03, provided however that Special Taxes will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined (i) that all required interest and principal payments on the CFD No. 2001-2 Bonds have been paid; and (ii) all facilities have been acquired and all reimbursements to the developer have been paid pursuant to the Acquisition Agreement.