

RESOLUTION NUMBER 3794

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PERRIS AUTHORIZING THE CHANGES TO THE FACILITIES AND SPECIAL TAXES WITHIN IMPROVEMENT AREA NOS. 3 AND 4 OF COMMUNITY FACILITIES DISTRICT NO. 2005-1 (PERRIS VALLEY VISTAS) OF THE CITY OF PERRIS; AND TAKING CERTAIN OTHER ACTIONS RELATING TO SAID DISTRICT

WHEREAS, the City Council (the “Council”) of the City of Perris, California (the “City”), on August 31, 2006, has heretofore adopted its resolution of consideration (the “Resolution of Consideration”) stating its intention to make certain changes within Improvement Area Nos. 3 and 4 (the “Improvement Areas”) of Community Facilities District No. 2005-1 (Perris Valley Vistas) of the City of Perris (the “District”) pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, (the “Act”) being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California; and

WHEREAS, the changes to the Improvement Areas of the District include (i) changes to the description of the facilities to be financed by the Improvement Areas; (ii) changes to the maximum bonded indebtedness for each of the Improvement Areas; and (iii) changes to the special tax and the rate and method of apportionment of the special tax (the “Changes”); and

WHEREAS, a copy of the Resolution of Consideration, incorporating a description of the boundaries of the Improvement Areas of the District, setting forth the rate and method of apportionment and manner of collection of the special tax to be levied within the Improvement Areas of the District, and describing the facilities authorized to be financed in the Improvement Areas, is on file with the City Clerk and incorporated herein by reference, with such changes to the terms thereof, including, but not limited to, revisions to the rate and method of apportionment of the special tax, as have been made and submitted with the Resolution of Consideration; and

WHEREAS, the City Council has heretofore received a request from the landowners (“Owners”) of all the property within Improvement Area Nos. 3 and 4 of the District, requesting certain changes to the amount of bonded indebtedness and the maximum special taxes within the Improvement Areas; and

WHEREAS, a report by each City officer who is or will be responsible for the Improvement Areas of the District (the “Report”) has been filed with the Council pursuant to the Resolution of Consideration; and

WHEREAS, the Resolution of Consideration set October 31, 2006, as the date of the public hearings on the changes within the Improvement Areas of the District; and

WHEREAS, at said hearings all persons within each Improvement Area and not exempt from the special tax desiring to be heard on all matters pertaining to the changes within the Improvement Areas of the District were heard and full and fair hearings were held; and

WHEREAS, at said hearings evidence was presented to the Council on said matters before it, and this Council at the conclusion of said hearings is fully advised in the premises; and

WHEREAS, following such public hearing, this Council adopted a resolution determining necessity to incur bonded indebtedness within each of the Improvement Areas and calling a special election to be held within each of the Improvement Areas (the "Resolution Calling Special Elections"); and

WHEREAS, on October 31, 2006, an election in each Improvement Area on the proposition identified in the Resolution Calling Special Elections was duly held; and

WHEREAS, following such elections, this Council adopted a resolution declaring the results of the special elections, wherein this Council determined that the propositions within each Improvement Area were approved by more than two-thirds of the qualified electors within such Improvement Areas ("Resolution Declaring Results");

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Perris, California, as follows:

Section 1. That the above recitals are all true and correct.

Section 2. Pursuant to Section 53325.1(b) of the Government Code, the Council finds and determines that the proceedings prior hereto were valid and in conformity with the requirements of the Act including, without limitation, the following:

- A. Filing of a petition of a landowner requesting institution of change proceedings to the District;
- B. Adoption of a Resolution of Consideration regarding the changes to the Improvement Areas of the District;
- C. Adoption of a Resolution of Intention to Incur Bonded Indebtedness in an amount not to exceed \$9,500,000 within Improvement Area No. 3 and \$4,500,000 within Improvement Area No. 4 of the District;
- D. Publication and mailing of notice of public hearings on the changes to the Improvement Areas of the District and of the proposed debt issue;

- E. Conducting of public hearings on the changes to the District, the proposed public facilities and services, and the incurring of the proposed debt, at which time all interested persons or taxpayers not exempt from the special tax within each Improvement Area of the District were permitted to protest orally or in writing against the changes to the Improvement Areas of the District, were permitted to file written protests to the regularity or sufficiency of the proceedings, and any persons interested, including persons owning property within the Improvement Areas of the District, were permitted to appear and present any matters material to the questions set forth in the Resolution of Intention to Incur Bonded Indebtedness.
- F. Adoption of a Resolution Calling Special Elections.
- G. Holding of Special Elections within each of the Improvement Areas on the proposition of approving the Changes.
- H. Adoption of the Resolution Declaring Results.

Section 3. The Report, as now submitted, has been approved and is made a part of the record of the hearing,

Section 4. The description and map of the boundaries of the District on file in the City Clerk's office has been recorded in the Office of the County Recorder of Riverside County, California as Document No. 2005-0058264 in Book 60, Page 81-82 of the Books of Maps of Assessments and Community Facilities Districts.

Section 5. The type of public facilities and fees ("Facilities") authorized to be provided within the Improvement Areas of the District include certain real and other tangible property with an estimated useful life of five years or longer, including public infrastructure facilities and other governmental facilities which the City is authorized by law to construct, own or operate, within or without the District, which is necessary to meet increased demands placed upon the City as a result of development or rehabilitation occurring within the District. The Facilities are more fully described in Exhibit "B" attached hereto and by this reference incorporated herein.

Section 6. Except where funds are otherwise available, there shall be levied annually, in accordance with procedures contained in the Act, a special tax within each Improvement Area of 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 to finance the Facilities and Incidental Expenses, including the establishment and replenishment of any reserve funds deemed necessary by the District with respect to each Improvement Area, 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 "A-1" with respect to Improvement Area No. 3 and Exhibit "A-2" with respect to Improvement Area No. 4 (collectively, Exhibit "A") attached hereto and incorporated herein by this reference.

Section 7. If special taxes of an Improvement Area 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 forty (40) years commencing with Fiscal Year 2007-2008, as further described in Exhibit "A" 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 (10%).

Section 8. The special tax within each Improvement Area of the District is based on the expected demand that each parcel of real property within each Improvement Area of the District will place on the Facilities, on the benefit that each parcel derives from the right to access the Facilities, and on other factors. The Council hereby determines the rate and method of apportionment of the special tax set forth in Exhibit "A" to be reasonable. The special tax within each Improvement Area of the District 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 an Improvement Area of the District shall become for any reason exempt, wholly or partially, from the levy of the special tax specified on Exhibit "A", the Council shall, on behalf of the District, cause the levy to be increased, subject to the limitation of the maximum special tax for a parcel as set forth in Exhibit "A," to the extent necessary upon the remaining property within such Improvement Area of the District which is not delinquent or exempt, in order to yield the special tax revenues required for the purposes described herein. The obligation to pay special taxes may be prepaid as set forth in Exhibit "A."

Section 9. Pursuant to and in compliance with the provisions of Government Code Section 50075.1, the City Council hereby establishes the following accountability measures pertaining to the levy by the District of the Special Tax with respect to each Improvement Area as described in Section 7 above:

- A. Such Special Tax within each Improvement Area shall be levied for the specific purposes set forth in Section 6 hereof.
- B. The proceeds of the levy of such Special Tax within each Improvement Area shall be applied only to the specific purposes set forth in Section 6 hereof.
- C. Each Improvement Area of the District shall establish an account or accounts into which the proceeds of such Special Tax with respect to such Improvement Area shall be deposited.

- D. The City Manager or Finance Director, or his or her designee, acting for and on behalf of the CFD, shall annually file a report with the City Council as required pursuant to Government Code Section 50075.3.

Section 10. Upon recordation of a notice of the amended special tax lien pursuant to Section 3114.5 of the Streets and Highways Code, a continuing lien to secure each levy of the special tax shall attach to all nonexempt real property in each Improvement Area of the District, and this lien shall continue in force and effect until the special tax obligation is prepaid or otherwise permanently satisfied and the lien cancelled in accordance with law, or until collection of the tax by the Improvement Area of the District ceases. The City Clerk is hereby ordered to promptly record an Amended and Restated Notice of Special Tax Lien, in the form approved by the City's bond counsel, for each of the Improvement Areas.

Section 11. The Council finds that the Facilities are necessary to meet the increased demand put upon the City as a result of the development within the Improvement Areas of the District.

Section 12. The Council finds that there is not an *ad valorem* property tax currently being levied on property within the Improvement Areas of the District for the exclusive purpose of paying principal of or interest on bonds or other indebtedness incurred to finance construction of capital facilities which provide the same services to the territory of the District as provided by the Facilities.

Section 13. An appropriation limit for each Improvement Area of the District is hereby established as an amount equal to all the proceeds of the special tax collected annually and as defined by Article XIII B of the California Constitution, as adjusted for changes in the cost of living and changes in population.

Section 14. Pursuant to Section 53338(b) of the Government Code, the Council finds and determines that the new special taxes and Changes within each Improvement Area of the District are lawfully authorized.

Section 15. Upon adoption of this Resolution, the Clerk of the City shall record the amended notice of special tax lien with respect to the Improvement Areas of the District pursuant to Section 3117.5 of the California Streets and Highways Code (the "Notice of Special Tax Lien"). The Notice of Special Tax Lien with respect to the Improvement Areas described therein shall supercede Document No. 2005-0332411 recorded on April 28, 2005 (the "Original Lien"), as such Original Lien applies to Improvement Areas Nos. 3 and 4, and the City Clerk is hereby authorized to take whatever action is necessary to effectuate the purposes of this Section.

Section 16. The Office of the City Clerk, 101 North "D" Street, Perris, California, or its designee, is designated to be responsible for preparing annually a current roll of special tax levy obligations by assessor's parcel number and for estimating future special tax

levies within each Improvement Area of the District pursuant to 53340.2 of the Government Code.

ADOPTED, SIGNED and APPROVED this 31st day of October, 2006.

Mayor, Daryl R. Busch

ATTEST:

City Clerk, Judy L. Haughney

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

I, Judy L. Haughney, CITY CLERK OF THE CITY OF PERRIS, CALIFORNIA, DO HEREBY CERTIFY that the foregoing Resolution Number 3794 was duly and regularly adopted by the City Council the City of Perris at a regular meeting thereof held the 31st day of October, 2006, and that it was so adopted by the following called vote:

AYES: Motte, Rogers, Yarbrough, Landers, Busch

NOES:

ABSENT:

ABSTAIN:

City Clerk, Judy L. Haughney

EXHIBIT “A-1”
(RESOLUTION NUMBER 3794)

CITY OF PERRIS
COMMUNITY FACILITIES DISTRICT NO. 2005-1
(PERRIS VALLEY VISTAS)
MODIFIED RATE AND METHOD OF APPORTIONMENT
FOR IMPROVEMENT AREA NO. 3

A Special Tax shall be levied on all Taxable Property within the boundaries of Improvement Area No. 3 of Community Facilities District No. 2005-1 (Perris Valley Vistas) of the City of Perris (“CFD No. 2005-1”) and collected according to the tax liability determined by the Council, through the application of this Modified Rate and Method of Apportionment of the Special Tax to the extent and in the manner herein provided.

1. DEFINITIONS

The terms hereinafter set forth have the following meanings.

“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, other recorded County parcel map, or other similar instrument. An Acre means 43,560 square feet of land.

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

“Administrative Fees” or “Administrative Expenses” means the following actual or reasonably estimated costs directly related to the administration of IA No. 3, including, but not limited to: the costs of computing the Special Taxes; the costs of preparing the annual Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the City, the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, CFD No. 2005-1, or any designee thereof complying with arbitrage rebate requirements, including, without limitation, rebate liability costs and periodic rebate calculations; the costs to the City, CFD No. 2005-1, or any designee thereof complying with disclosure or reporting requirements of the City or CFD No. 2005-1, associated with applicable federal and State laws; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs to the City, CFD No. 2005-1, or any designee thereof related to an appeal of the Special Tax; and the City’s annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD No. 2005-1 for any other administrative purposes of IA No. 3, including attorney’s fees and other costs related to commencing and pursuing any foreclosure of delinquent Special Taxes.

“Annual Special Tax” means the Special Tax actually levied in any Fiscal Year on any Assessor’s Parcel.

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

“Assessor's Parcel” means a lot or parcel in IA No. 3 shown on an Assessor's Parcel Map with an assigned Assessor's Parcel Number.

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

“Assessor's Parcel Number” means the number assigned to an Assessor's Parcel by the County for purposes of identification.

“Backup Special Tax” means a one-time special tax that may be required to be paid prior to the approval of a proposed land use, entitlement change or permit issuance, subject to the conditions and as set forth in Section 5.

“Backup Special Tax Fund” means the fund (regardless of its name) established pursuant to the Indenture in which Backup Special Taxes are deposited.

“Bonds” means any bonds or other indebtedness (as defined in the Act) of CFD No. 2005-1 for Improvement Area No. 3, whether in one or more series, secured by the levy of Special Taxes.

“Builder” means a home builder other than the Developer acting as the builder of Residential Units within IA No. 3.

“Building Permit” means a building permit for the construction of one or more Residential Units within IA No. 3 issued by the City.

“Building Square Footage” means all of the square footage of usable area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, or similar area. The determination of Building Square Footage shall be made by reference to the Building Permit(s) issued for such Assessor’s Parcel.

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

“CFD No. 2005-1” means the Community Facilities District No. 2005-1 (Perris Valley Vistas) of the City of Perris.

“CFD Administrator” means an authorized representative of the City, or designee thereof, responsible for determining the Special Tax Requirement, for preparing the Annual Special Tax roll and/or calculating the Backup Special Tax.

“CFD Formation” means the date at which the City Council approved the formation of CFD No. 2005-1 in accordance with the provisions of the Act.

“City” means the City of Perris, California.

“Council” means the City Council of the City acting as the legislative body of CFD No. 2005-1 under the Act.

“County” means the County of Riverside, California.

“Debt Service” means, for each Fiscal Year, the total amount of principal and interest payable on any Outstanding Bonds during the Calendar Year commencing on January 1 of such Fiscal Year.

“Developed Property” means, for each Fiscal Year, all Taxable Property, exclusive of Provisional Undeveloped Property, for which a Building Permit for new construction or renovations was issued prior to April 1 of the previous Fiscal Year.

“Developer” means Perris Valley Vistas, and their successors, if any, acting as the developer of the property in IA No. 3.

“Development Plan” means a plan of (i) the actual number of Residential Units and (ii) the proposed number of Residential Units to be built within IA No. 3 as provided by the Developer or Builder(s). The Development Plan shall include the number, Building Square Footage, and base sales price of the Residential Units. The Developer or Builder shall file with the City a Development Plan each Fiscal Year as of March 1 or prior to the issuance of any Building Permits if there is a change in the number and square footage of the Residential Units. If the Development Plan is not submitted on or before April 1, the CFD Administrator shall then prepare or cause to be prepared a Development Plan.

“Exempt Property” means Assessor’s Parcels designated as being exempt from Special Taxes pursuant to Section 10.

“Expected Land Uses” means the total number of Residential Units and Building Square Footage expected to be constructed within IA No. 3, as determined from time to time by the CFD Administrator by applying the steps described in Section 5 below. The Expected Land Uses at CFD Formation are summarized in Exhibit A hereto; the CFD Administrator shall update Exhibit A if (i) a Mandatory Maximum Special Tax Reduction is applied in accordance with Section 8 below; or (ii) a change occurs to the Development Plan that would change the number of Residential Units within each Land Use Classification as shown in Exhibit A.

“Expected Maximum Special Tax Revenues” means the amount of annual revenue that would be available if the Maximum Special Tax was levied on the Expected Land Uses. The Expected Maximum Special Tax Revenues as of CFD Formation are shown in Exhibit A to this Rate and Method of Apportionment.

“Facilities” means facilities, fees or improvements authorized to be funded by IA No. 3.

“Final Bond Sale” means the last series of Bonds that will be issued on behalf of IA No. 3 (excluding any Bond refundings), as determined in the sole discretion of the City.

“Final Subdivision Map” means a subdivision of IA No. 3 property created by recordation of a final map or parcel map, 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, or lot line adjustment that creates individual lots for which building permits may be issued without further subdivision.

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

“Improvement Area No. 3” or “IA No. 3” means Improvement Area No. 3 of CFD No. 2005-1, as identified on the boundary map for CFD No. 2005-1 or as amended.

“Indenture” means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which IA No. 3 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 under Section 3 below.

“Lot” means a parcel created by a Final Subdivision on which a single-family residential home can be constructed.

“Mandatory Maximum Special Tax Reduction” means a mandatory reduction of a portion of the Maximum Special Tax prior to the issuance of bonds as set forth in Section 8 below.

“Maximum Annual Debt Service” means the largest Debt Service for any Calendar Year.

“Maximum Special Tax” means the amount of Special Tax, determined in accordance with Section 3 below, which may be levied in any Fiscal Year on any Assessor’s Parcel of Taxable Property.

“Outstanding Bonds” means all IA No. 3 Bonds which are deemed to be outstanding under the Indenture.

“Partial Prepayment Amount” means a prepayment of a portion of the Special Tax Obligation applicable to a parcel of Taxable Property as set forth in Section 7.B below.

“Property Owner Association Property” means any Assessor’s Parcel within the boundaries of IA No. 3 owned in fee by a property owner association, including any master or sub-association.

“Property Tax Burden” means the total estimated amount of taxes a residential owner would expect to pay, including *ad valorem* property taxes, special assessments, fees and charges placed on the County property tax bill.

“Proportionately” or “Proportionate” means, for Developed Property, that the ratio of the actual Special Tax levy to the Maximum Special Tax is equal for all Assessor’s Parcels of Developed Property. 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. The term "**Proportionately**" may similarly be applied to other categories of Taxable Property as listed in Section 4 below.

“Provisional Undeveloped Property” means all Assessor’s Parcels of Public Property, Property Owner Association Property, or property that would otherwise be classified as Exempt Property pursuant to the provisions of Section 10, but cannot be classified as Exempt Property because to do so would reduce the Acreage of all Taxable Property below the required minimum Acreage as set forth in Section 10.

“Public Property” means any property within the boundaries of IA No. 3 which is owned by, or irrevocably offered for dedication to, the federal government, the State of California, the County, the City or any other public agency; provided, however, that any property owned by a public agency and leased 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.

"Residential Unit" means each separate residential dwelling unit that comprises an independent facility capable of conveyance or rental separate from adjacent residential dwelling units.

“Special Tax” means any special tax levied within IA No. 3 pursuant to the Act and this Rate and Method of Apportionment.

“Special Tax Obligation” means the total obligation of an Assessor’s Parcel of Taxable Property to pay the Special Tax for the remaining life of IA No. 3.

“Special Tax Requirement” means that amount required in any Fiscal Year to: (i) pay regularly scheduled Debt Service on all Outstanding Bonds; (ii) pay periodic costs on the Outstanding Bonds, including, but not limited to, credit enhancement and rebate payments on the Outstanding Bonds; (iii) pay Administrative Fees and Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) accumulate funds to pay directly for acquisition or construction of facilities, provided that the inclusion of such amount does not cause an increase in the Special Tax to be levied on Undeveloped Property, and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (vii) 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 IA No. 3 which are not exempt from the levy of the Special Tax pursuant to law or Section 10 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 or Provisional Undeveloped Property.

2. LAND USE CLASSIFICATION

Each Fiscal Year, beginning with Fiscal Year 2007-2008, each Assessor’s Parcel within IA No. 3 shall be classified as Taxable Property or Exempt Property. In addition, all Taxable Property shall be classified as Developed Property, Undeveloped Property or Provisional Undeveloped Property, and all such Taxable Property shall be subject to the levy of Special Taxes in accordance with this Rate and Method of Apportionment determined pursuant to Sections 3, 4 and 5 below. Furthermore, each Assessor’s Parcel of Developed Property shall be further classified to its applicable Land Use Class based on its Building Square Footage.

3. MAXIMUM SPECIAL TAX RATES

A. Developed Property

The Maximum Special Tax applicable to an Assessor's Parcel classified as Developed Property for Fiscal Year 2007-2008 shall be determined pursuant to Table 1 below.

**Table 1
Maximum Special Tax Rates
Fiscal Year 2007-2008**

Land Use Class	Building Square Footage	Maximum Special Tax
1	Less than 2,201 Sq. Ft.	\$2,028 per Residential Unit
2	2,201 to 2,400 Sq. Ft.	\$2,222 per Residential Unit
3	2,401 to 2,600 Sq. Ft.	\$2,465 per Residential Unit
4	2,601 to 2,800 Sq. Ft.	\$2,514 per Residential Unit
5	2,801 to 3,000 Sq. Ft.	\$2,659 per Residential Unit
6	3,001 to 3,200 Sq. Ft.	\$2,727 per Residential Unit
7	Greater than 3,200 Sq. Ft.	\$2,883 per Residential Unit

Each July 1, commencing July 1, 2008, the Maximum Special Tax for Developed Property shall be increased by two percent (2.0%) of the amount in effect in the prior Fiscal Year.

B. Provisional Undeveloped Property Undeveloped Property

The Maximum Special Tax for Provisional Undeveloped Property and Undeveloped Property shall be \$17,562 per Acre for Fiscal Year 2007-2008. On July 1st of each Fiscal Year, commencing July 1, 2008, the Maximum Special Tax for Provisional Undeveloped Property and Undeveloped Property shall increase by two percent (2.0%) of the amount in effect in the prior Fiscal Year.

4. METHOD OF APPORTIONMENT

For each Fiscal Year, commencing Fiscal Year 2007-2008, the CFD Administrator shall calculate the Annual Special Tax on all Taxable Property in accordance with the following steps:

Step 1: The Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property in an amount up to 100% of the applicable Maximum Special Tax as necessary to satisfy the Special Tax Requirement;

Step 2: If additional monies are needed to satisfy the Special Tax Requirement after Step 1 has been completed, the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to 100% of the Maximum Special Tax;

Step 3: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the Annual Special Tax shall be levied in equal percentages on each Assessor's Parcel of Provisional Undeveloped Property at up to 100% of the Maximum Special Tax for Provisional Undeveloped Property.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Developed Property for which an occupancy permit for private residential use has been issued be increased from the previous Fiscal Year by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within IA No. 3, except for those Assessor's Parcels of Developed Property whose owners are also delinquent or in default on their Special Tax payments for one or more properties within IA No. 3.

5. CALCULATION, PAYMENT, APPLICATION, AND RELEASE OF BACKUP SPECIAL TAX

The Maximum Special Taxes set forth in Section 3 were calculated based on the Expected Land Uses at CFD Formation. Each Fiscal Year, or upon submittal of a Development Plan, the CFD Administrator shall review all applicable Final Subdivision Maps and the Development Plan of IA No. 3 to confirm that the Final Subdivision Maps and Development Plan reflect the number and size of Residential Units that were anticipated at the time of CFD Formation.

Prior to Final Bond Sale

If, prior to the issuance of the Final Bond Sale, a change to the Expected Land Uses (“Land Use/Entitlement Change”) is submitted by the Developer or Builder that will result in a reduction in the Expected Maximum Special Tax Revenues, or a Mandatory Maximum Special Tax Reduction is applied pursuant to Section 8 of this Rate and Method of Apportionment, or any combination thereof, no action shall be required pursuant to this Section 5, provided that the reduction in Expected Maximum Special Tax Revenues does not reduce the amount of Maximum Special Taxes less Administrative Expenses for each Fiscal Year that may be levied on Taxable Property to less than 1.1 times the annual Debt Service on all Outstanding Bonds. The CFD Administrator shall update Exhibit A to show the reduced Expected Maximum Special Tax Revenues, and the reduced Expected Maximum Special Tax Revenues shall be the amount used by the City to make future decisions with respect to Bonds.

Subsequent to Final Bond Sale

If a proposed Land Use/Entitlement Change or Development Plan submitted by the Developer or Builder would reduce the amount of Maximum Special Taxes less Administrative Expenses for each Fiscal Year that may be levied on Taxable Property to less than 1.1 times the annual Debt Service on all Outstanding Bonds, the following steps shall be applied:

Step 1: By reference to Exhibit A (which shall be updated by the CFD Administrator in accordance with this Section 5 each time a Land Use/Entitlement change is processed, the Development Plan is changed, or a Mandatory Maximum Special Tax Reduction is applied) and by computing the Maximum Special Tax rates in accordance with Section 3 for the current Fiscal Year, the CFD Administrator shall calculate the Expected Maximum Special Tax Revenues for IA No. 3.

Step 2: The CFD Administrator shall calculate the Maximum Special Tax revenues that could be collected from IA No. 3 if the Land Use/Entitlement Change is approved or the Development Plan is changed (“Proposed Maximum Special Tax Revenues”);

Step 3: If the amount determined in the second step is higher than that calculated in the first step, the Land Use/Entitlement Change may be approved or the Development Plan may change without further action. If the revenues calculated in the Step 2 are less than those calculated in Step 1, the Developer or Builder shall pay a one-time Backup Special Tax in an amount equal to the difference in the Maximum Special Tax Revenues calculated in Steps 1 and 2, utilizing the methodology set forth in Section 7. The Backup Special Tax required by this Step shall be paid prior to the approval of the proposed Land Use/Entitlement Change or the issuance of additional Building Permits.

If multiple Land Use/Entitlement Changes are proposed at one time, the CFD Administrator may consider the combined effect of all Land Use/Entitlement Changes to determine if a reduction in Expected Maximum Special Tax Revenues necessitates

implementation of Step 3. If the CFD Administrator determines that there is a reduction in Expected Maximum Special Tax Revenues, and all of the Land Use/Entitlement Changes are being proposed by the same property owner, the CFD Administrator shall determine the amount to be prepaid (pursuant to Step 3) by analyzing the combined effects of all of the proposed Land Use/Entitlement Changes. Notwithstanding the foregoing, if the CFD Administrator analyzes the combined effects of all the proposed Land Use/Entitlement Changes, and the City subsequently does not approve any one or more of the proposed Land Use/Entitlement Changes, then the CFD Administrator shall again apply the three steps set forth above to determine the combined effect of the multiple Land Use/Entitlement Changes that were approved simultaneously by the City.

Step 4: Application/Release of Backup Special Taxes

Any Backup Special Tax payments received (less Prepayment Administrative Fees and Expenses) shall be deposited into the Backup Special Tax Fund and disbursed pursuant to the Indenture and this Section as described below. The Maximum Special Taxes applicable to Developed Property shall not be reduced or relieved as a result of payment of the Backup Special Tax.

a. Prior to Release of Backup Special Taxes

Prior to the release of the Backup Special Taxes or the redemption of Bonds as described below, the CFD Administrator shall annually calculate the amount required to be withdrawn from the Backup Special Tax Fund to pay (i) interest on the Bond Redemption Amount computed pursuant to Section 7 and (ii) a pro rata amount of principal scheduled to be paid on the Bonds, such amount to be in proportion to the quotient computed pursuant to paragraph 3 of Section 7.

b. Release of Backup Special Taxes

At the earlier of (i) three years from the date of Bond issuance or (ii) all expected Building Permits for Residential Units have been issued (i.e., buildout), the CFD Administrator shall calculate the Expected Maximum Special Tax Revenues.

If the Expected Maximum Special Tax Revenue is less than the sum of the Administrative Expenses for each Fiscal Year that may be levied on Taxable Property and 1.1 times the Maximum Annual Debt Service on all Outstanding Bonds, then to the extent necessary to meet the preceding coverage test, money then on deposit in the Backup Special Tax Fund shall be used to redeem Bonds on the next available redemption date. The Administrative Expenses and Debt Service on the Bonds shall be as determined by the CFD Administrator. Upon a receipt of a written request from the Developer or Builder who paid such Backup Special Tax, any moneys remaining in the Backup Special Tax Fund shall be returned after Bonds have been redeemed.

If the Expected Maximum Special Tax Revenues are greater than or equal to the sum of the Administrative Expenses for each Fiscal Year that may be levied on Taxable

Property and 1.1 times the Maximum Annual Debt Service on all Outstanding Bonds, then upon a receipt of a written request from the Developer or Builder who paid such Backup Special Tax, any moneys remaining in the Backup Special Tax Fund shall be returned.

If Backup Special Taxes have been paid by more than one Developer or Builder, the amount of the Backup Special Taxes returned to each shall be Proportionate to the amount paid by each.

6. COLLECTION OF SPECIAL TAXES

Collection of the Annual Special Tax shall be made by the County in the same manner as ordinary *ad valorem* property taxes are collected, and the Annual Special Tax shall be subject to the same penalties and the same lien priority, in the case of delinquency, as *ad valorem* taxes; provided, however, that the Council may provide for (i) other means of collecting the Special Tax, including direct billings thereof to the property owners; and (ii) judicial foreclosure of delinquent Special Taxes.

7. PREPAYMENT OF SPECIAL TAX OBLIGATION

Property owners may prepay and permanently satisfy the Special Tax Obligation by a cash settlement with the City as permitted under Government Code Section 53344. Prepayment is permitted only under the following conditions:

The following definitions apply to this Section 7:

“CFD Public Facilities Costs” means \$7,500,000 in 2006 dollars, which shall increase by the Construction Inflation Index on July 1, 2008, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to acquire or construct the facilities to be financed under the authorized Mello-Roos financing program for IA No. 3, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more IA No. 3 Bonds (except refunding bonds) to be supported by Special Taxes.

“Construction Fund” means the fund (regardless of its name) established pursuant to the Indenture to hold funds which are currently available for expenditure to acquire or construct the facilities or pay fees.

“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 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 Costs minus (i) costs previously paid from the Construction Fund to acquire or construct the facilities, (ii)

monies currently on deposit in the Construction Fund, and (iii) monies currently on deposit in an escrow or other earmarked fund that are expected to be available to finance CFD Public Facilities Costs.

“Outstanding Bonds” means all Previously Issued Bonds which remain outstanding as of the first interest and/or principal payment date following the current Fiscal Year, excluding Bonds to be redeemed at a later date with proceeds of prior prepayments of Maximum Special Taxes.

“Previously Issued Bonds” means all IA No. 3 Bonds that have been issued prior to the date of prepayment.

A. Prepayment in Full

The Special Tax Obligation applicable to an Assessor’s Parcel may be prepaid and the obligation of the Assessor’s Parcel to pay any Special Tax permanently satisfied as described herein, provided that a prepayment may be made with respect to a particular Assessor’s Parcel 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 and the company or agency that will be acting as the escrow agent, if any. The CFD Administrator shall provide the owner with a statement of the Prepayment Amount for such Assessor’s Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service. Prepayment must be made more than 60 days prior to any redemption date for the IA No. 3 Bonds to be redeemed with the proceeds of such prepaid Special Taxes, unless a shorter period is acceptable to the Trustee and the City.

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 Prepayment Amount
plus	Defeasance Amount
plus	Prepayment Administrative Fees and Expenses
less	Reserve Fund Credit
<u>less</u>	<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:

Paragraph No.:

1. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
2. For Assessor's Parcels of Developed Property, determine the Maximum Special Tax. For Assessor's Parcels of Undeveloped Property for which a Building Permit has been issued, compute the Maximum 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. Divide the Maximum Special Tax computed pursuant to paragraph 2 by the total estimated Maximum Special Taxes for IA No. 3 based on the Developed Property Special Taxes which could be levied in the current Fiscal Year on all expected development through buildout of IA No. 3 as determined by the CFD Administrator, excluding any Assessor's Parcels for which the Special Tax Obligation has been prepaid.
4. Multiply the quotient computed pursuant to paragraph 3 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium (expressed as a percentage), if any, on the Outstanding Bonds to be redeemed at the first available call date (the "Redemption Premium").
6. Compute the current Future Facilities Costs.
7. Multiply the quotient computed pursuant to paragraph 3 by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Prepayment 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. Compute the amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Prepayment Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
10. Take the amount computed pursuant to paragraph 8 and subtract the amount computed pursuant to paragraph 9 (the "Defeasance Amount").

11. Verify the administrative fees and expenses of IA No. 3, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming IA No. 3, and the costs of recording any notices to evidence the prepayment and the redemption (the “Prepayment Administrative Fees and Expenses”).
12. If reserve funds for the Outstanding Bonds, if any, are at or above 100% of the reserve requirement (as defined in the Indenture) on the prepayment date, a reserve fund credit shall be calculated as a reduction in the applicable reserve fund for the Outstanding Bonds to be redeemed pursuant to the prepayment (the “Reserve Fund Credit”). No Reserve Fund Credit shall be granted if reserve funds are below 100% of the reserve requirement.
13. 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 quotient computed pursuant to paragraph 3 by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the “Capitalized Interest Credit”).
14. The Special Tax Obligation is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 10, and 11, less the amounts computed pursuant to paragraphs 12 and 13 (the “Prepayment Amount”).
15. From the Prepayment Amount, the sum of the amounts computed pursuant to paragraphs 4, 5, and 10, less the amounts computed pursuant to paragraphs 12 and 13, shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make Debt Service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 11 shall be retained by IA No. 3.

The Prepayment Amount may be sufficient to redeem an amount other than a \$5,000 increment of IA No. 3 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 redeem IA No. 3 Bonds to be used with the next prepayment of IA No. 3 Bonds.

The CFD Administrator will confirm that all previously levied Special Taxes have been paid in full. With respect to any Assessor's Parcel that is prepaid in full, once the CFD Administrator has confirmed that all previously levied Special Taxes have been paid, 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 Special Tax 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 aggregate amount of Maximum Special Taxes less Administrative Expenses that may be levied on Taxable Property, respectively, after the proposed prepayment is at least 1.1 times the maximum annual Debt Service on all Outstanding Bonds.

B. Partial Prepayment

The Special Tax on an Assessor’s Parcel of Developed Property or 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 7.A., except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meaning:

- PP = the partial prepayment
- P_E = the Prepayment Amount calculated according to Section 7.A.
- F = the percentage by which the owner of the Assessor’s Parcel(s) is partially prepaying the Special Tax.

The owner of any Assessor’s Parcel who desires such prepayment shall notify the CFD Administrator of (i) such owner’s intent to partially prepay the Special Tax, (ii) the percentage by which the Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if any. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor’s Parcel within sixty (60) 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 Section 7.A., and (ii) indicate in the records of IA No. 3 that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor’s Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax, shall continue to be levied on such Assessor’s Parcel pursuant to Section 3.

Notwithstanding the foregoing, no partial prepayment shall be allowed unless the amount of Maximum Special Taxes less Administrative Expenses for each Fiscal Year that may be levied on Taxable Property, respectively, after the proposed partial prepayment is at least 1.1 times the annual Debt Service on all Outstanding Bonds.

8. MANDATORY MAXIMUM SPECIAL TAX REDUCTION

Prior to the issuance of Bonds, the Property Tax Burden shall be calculated pursuant to the Land Secured Financing Policy adopted pursuant to City Council Resolution in effect at the time of CFD Formation (the “Goals and Policies”) on Developed Property by the CFD Administrator. The Maximum Special Tax on Developed Property set forth in Section 3.A of

this Rate and Method of Apportionment shall be reduced if it is reasonably determined by the CFD Administrator that the Property Tax Burden exceeds the maximum level allowed in the Goals and Policies.

If the Mandatory Maximum Special Tax Reduction is implemented, then the Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the lower Maximum Special Taxes.

9. TERM OF SPECIAL TAX

The Annual Special Tax shall be levied for a period of thirty-five (35) years after the last series of Bonds for IA No. 3 has been issued, but shall not be levied for a period to exceed forty (40) Fiscal Years commencing with Fiscal Year 2007-2008.

10. EXEMPTIONS

The CFD Administrator shall classify as Exempt Property (i) Assessor's Parcels owned by the State of California, Federal or other local governments, (ii) Assessor's Parcels of Property Owner Association Property, or (iii) Assessor's Parcels which are used as places of worship and are exempt from ad valorem property taxes because they are owned by a religious organization (iv) Assessor's Parcels developed or planned to be developed exclusively for any type of non-residential use, (v) Assessor's Parcels with public utility easement by the restriction, as determined reasonably by the CFD Administrator, provided that no such classification would reduce the sum of all Taxable Property in IA No. 3 to less than 25.07 acres of Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the sum of all Taxable Property in IA No. 3 to less than 25.07 acres of Acreage shall be classified as Provisional Undeveloped Property, and will continue to be subject to the IA No. 3 Special Taxes accordingly. Tax exempt status for this purpose of this paragraph will be assigned by the CFD Administrator in the chronological order in which property becomes eligible for classification as Exempt Property.

If the use of an Assessor's Parcel of Exempt Property changes so that such Assessor's Parcel is no longer classified as one of the uses set forth in the first paragraph of Section 10 above that would make such Assessor's Parcel eligible to be classified as Exempt Property, such Assessor's Parcel shall cease to be classified as Exempt Property and shall be deemed to be Taxable Property.

11. APPEALS

Any landowner who pays the Special Tax and claims the amount of the Special Tax levied on his or her Assessor's Parcel is in error shall first consult with the CFD Administrator regarding such error not later than twelve (12) months after first having paid the first installment of the Special Tax that is disputed. If following such consultation, the CFD Administrator determines that an error has occurred, the CFD Administrator may amend the amount of the Special Tax levied on such Assessor's Parcel. If following such consultation and action, if any by the CFD Administrator, the landowner believes such error still exists,

such person may file a written notice with the City Manager or designee of the City appealing the amount of the Special Tax levied on such Assessor's Parcel. Upon the receipt of such notice, the City Manager or designee may establish such procedures as deemed necessary to undertake the review of any such appeal. The City Manager or designee thereof shall interpret this Modified Rate and Method of Apportionment and make determinations relative to the administration of the Special Tax and any landowner appeals are herein specified. The decision of the City Manager or designee shall be final and binding as to all persons.

EXHIBIT A

EXPECTED LAND USES AND EXPECTED MAXIMUM SPECIAL TAX REVENUES

Land Use Class	Building Square Footage	Number of Expected Units	Maximum Special Tax FY 2007-2008*	Total Expected Annual Special Tax Revenues*
<u>1</u>	< 2,201	20	\$2,028	\$40,562
<u>2</u>	2,201 – 2,400	0	2,222	0
<u>3</u>	2,401 – 2,600	29	2,465	71,490
<u>4</u>	2,601 – 2,800	22	2,514	55,303
<u>5</u>	2,801 – 3,000	36	2,659	95,740
<u>6</u>	3,001 – 3,200	28	2,727	76,368
<u>7</u>	≥3,200	35	<u>2,883</u>	<u>100,899</u>
Total	NA	170	NA	\$440,362

TOTAL EXPECTED ANNUAL MAXIMUM SPECIAL TAX REVENUES \$440,362

*Amounts are shown in Fiscal Year 2007-2008 dollars and shall escalate by two percent (2.0%) for each Fiscal Year thereafter.

EXHIBIT “A-2”
(RESOLUTION NUMBER 3794)

CITY OF PERRIS
COMMUNITY FACILITIES DISTRICT NO. 2005-1
(PERRIS VALLEY VISTAS)
MODIFIED RATE AND METHOD OF APPORTIONMENT
FOR IMPROVEMENT AREA NO. 4

A Special Tax shall be levied on all Taxable Property within the boundaries of Improvement Area No. 4 of Community Facilities District No. 2005-1 (Perris Valley Vistas) of the City of Perris (“CFD No. 2005-1”) and collected according to the tax liability determined by the Council, through the application of this Modified Rate and Method of Apportionment of the Special Tax to the extent and in the manner herein provided.

1. DEFINITIONS

The terms hereinafter set forth have the following meanings.

“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, other recorded County parcel map, or other similar instrument. An Acre means 43,560 square feet of land.

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

“Administrative Fees” or “Administrative Expenses” means the following actual or reasonably estimated costs directly related to the administration of IA No. 4, including, but not limited to: the costs of computing the Special Taxes; the costs of preparing the annual Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the City, the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, CFD No. 2005-1, or any designee thereof complying with arbitrage rebate requirements, including, without limitation, rebate liability costs and periodic rebate calculations; the costs to the City, CFD No. 2005-1, or any designee thereof complying with disclosure or reporting requirements of the City or CFD No. 2005-1, associated with applicable federal and State laws; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs to the City, CFD No. 2005-1, or any designee thereof related to an appeal of the Special Tax; and the City’s annual administration fees and third-party expenses. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD No. 2005-1 for any other administrative purposes of IA No. 4, including attorney’s fees and other costs related to commencing and pursuing any foreclosure of delinquent Special Taxes.

“Annual Special Tax” means the Special Tax actually levied in any Fiscal Year on any Assessor’s Parcel.

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

“Assessor's Parcel” means a lot or parcel in IA No. 4 shown on an Assessor's Parcel Map with an assigned Assessor's Parcel Number.

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

“Assessor's Parcel Number” means the number assigned to an Assessor's Parcel by the County for purposes of identification.

“Backup Special Tax” means a one-time special tax that may be required to be paid prior to the approval of a proposed land use, entitlement change or permit issuance, subject to the conditions and as set forth in Section 5.

“Backup Special Tax Fund” means the fund (regardless of its name) established pursuant to the Indenture in which Backup Special Taxes are deposited.

“Bonds” means any bonds or other indebtedness (as defined in the Act) of CFD No. 2005-1 for Improvement Area No. 4, whether in one or more series, secured by the levy of Special Taxes.

“Builder” means a home builder other than the Developer acting as the builder of Residential Units within IA No. 4.

“Building Permit” means a building permit for the construction of one or more Residential Units within IA No. 4 issued by the City.

“Building Square Footage” means all of the square footage of usable area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, or similar area. The determination of Building Square Footage shall be made by reference to the Building Permit(s) issued for such Assessor’s Parcel.

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

“CFD No. 2005-1” means the Community Facilities District No. 2005-1 (Perris Valley Vistas) of the City of Perris.

“CFD Administrator” means an authorized representative of the City, or designee thereof, responsible for determining the Special Tax Requirement, for preparing the Annual Special Tax roll and/or calculating the Backup Special Tax.

“CFD Formation” means the date at which the City Council approved the formation of CFD No. 2005-1 in accordance with the provisions of the Act.

“City” means the City of Perris, California.

“Council” means the City Council of the City acting as the legislative body of CFD No. 2005-1 under the Act.

“County” means the County of Riverside, California.

“Debt Service” means, for each Fiscal Year, the total amount of principal and interest payable on any Outstanding Bonds during the Calendar Year commencing on January 1 of such Fiscal Year.

“Developed Property” means, for each Fiscal Year, all Taxable Property, exclusive of Provisional Undeveloped Property, for which a Building Permit for new construction or renovations was issued prior to April 1 of the previous Fiscal Year.

“Developer” means Perris Valley Vistas, and their successors, if any, acting as the developer of the property in CFD No. 2005-1 IA No. 4.

“Development Plan” means a plan of (i) the actual number of Residential Units and (ii) the proposed number of Residential Units to be built within IA No. 4 as provided by the Developer or Builder(s). The Development Plan shall include the number, Building Square Footage, and base sales price of the Residential Units. The Developer or Builder shall file with the City a Development Plan each Fiscal Year as of March 1 or prior to the issuance of any Building Permits if there is a change in the number and square footage of the Residential Units. If the Development Plan is not submitted on or before April 1, the CFD Administrator shall then prepare or cause to be prepared a Development Plan.

“Exempt Property” means Assessor’s Parcels designated as being exempt from Special Taxes pursuant to Section 10.

“Expected Land Uses” means the total number of Residential Units and Building Square Footage expected to be constructed within IA No. 4, as determined from time to time by the CFD Administrator by applying the steps described in Section 5 below. The Expected Land Uses at CFD Formation are summarized in Exhibit A hereto; the CFD Administrator shall update Exhibit A if (i) a Mandatory Maximum Special Tax Reduction is applied in accordance with Section 8 below; or (ii) a change occurs to the Development Plan that would change the number of Residential Units within each Land Use Classification as shown in Exhibit A.

“Expected Maximum Special Tax Revenues” means the amount of annual revenue that would be available if the Maximum Special Tax was levied on the Expected Land Uses. The Expected Maximum Special Tax Revenues as of CFD Formation are shown in Exhibit A to this Rate and Method of Apportionment.

“Facilities” means facilities, fees or improvements authorized to be funded by IA No. 4.

“Final Bond Sale” means the last series of Bonds that will be issued on behalf of IA No. 4 (excluding any Bond refundings), as determined in the sole discretion of the City.

“Final Subdivision Map” means a subdivision of IA No. 4 property created by recordation of a final map or parcel map, 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 or lot line adjustment that creates individual lots for which building permits may be issued without further subdivision.

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

“Improvement Area No. 4” or “IA No. 4” means Improvement Area No. 4 of CFD No. 2005-1, as identified on the boundary map for CFD No. 2005-1 or as amended.

“Indenture” means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which IA No. 4 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 under Section 3 below.

“Lot” means a parcel created by a Final Subdivision on which a single-family residential home can be constructed.

“Mandatory Maximum Special Tax Reduction” means a mandatory reduction of a portion of the Maximum Special Tax prior to the issuance of bonds as set forth in Section 8 below.

“Maximum Annual Debt Service” means the largest Debt Service for any Calendar Year.

“Maximum Special Tax” means the amount of Special Tax, determined in accordance with Section 3 below, which may be levied in any Fiscal Year on any Assessor’s Parcel of Taxable Property.

“Outstanding Bonds” means all IA No. 4 Bonds which are deemed to be outstanding under the Indenture.

“Partial Prepayment Amount” means a prepayment of a portion of the Special Tax Obligation applicable to a parcel of Taxable Property as set forth in Section 7.B below.

“Property Owner Association Property” means any Assessor’s Parcel within the boundaries of IA No. 4 owned in fee by a property owner association, including any master or sub-association.

“Property Tax Burden” means the total estimated amount of taxes a residential owner would expect to pay, including *ad valorem* property taxes, special assessments, fees and charges placed on the County property tax bill.

“Proportionately” or “Proportionate” means for Developed Property, that the ratio of the actual Special Tax levy to the Maximum Special Tax is equal for all Assessor’s Parcels of Developed Property. 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. The term "**Proportionately**" may similarly be applied to other categories of Taxable Property as listed in Section 4 below.

“Provisional Undeveloped Property” means all Assessor’s Parcels of Public Property, Property Owner Association Property, or property that would otherwise be classified as Exempt Property pursuant to the provisions of Section 10, but cannot be classified as Exempt Property because to do so would reduce the Acreage of all Taxable Property below the required minimum Acreage as set forth in Section 10.

“Public Property” means any property within the boundaries of IA No. 4 which is owned by, or irrevocably offered for dedication to, the federal government, the State of California, the County, the City or any other public agency; provided, however, that any property owned by a public agency and leased 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.

"Residential Unit" means each separate residential dwelling unit that comprises an independent facility capable of conveyance or rental separate from adjacent residential dwelling units.

“Special Tax” means any special tax levied within IA No. 4 pursuant to the Act and this Rate and Method of Apportionment.

“Special Tax Obligation” means the total obligation of an Assessor’s Parcel of Taxable Property to pay the Special Tax for the remaining life of IA No. 4.

“Special Tax Requirement” means that amount required in any Fiscal Year to: (i) pay regularly scheduled Debt Service on all Outstanding Bonds; (ii) pay periodic costs on the Outstanding Bonds, including, but not limited to, credit enhancement and rebate payments on the Outstanding Bonds; (iii) pay Administrative Fees and Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) accumulate funds to pay directly for acquisition or construction of facilities provided that the inclusion of such amount does not cause an increase in the Special Tax to be levied on Undeveloped Property, and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (vii) 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 IA No. 4 which are not exempt from the levy of the Special Tax pursuant to law or Section 10 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 or Provisional Undeveloped Property.

2. LAND USE CLASSIFICATION

Each Fiscal Year, beginning with Fiscal Year 2007-2008, each Assessor’s Parcel within IA No. 4 shall be classified as Taxable Property or Exempt Property. In addition, all Taxable Property shall be classified as Developed Property, Undeveloped Property or Provisional Undeveloped Property, and all such Taxable Property shall be subject to the levy of Special Taxes in accordance with this Rate and Method of Apportionment determined pursuant to Sections 3, 4 and 5 below. Furthermore, each Assessor’s Parcels of Developed Property shall be further classified to its applicable Land Use Class based on its Building Square Footage.

3. MAXIMUM SPECIAL TAX RATES

A. Developed Property

The Maximum Special Tax applicable to an Assessor's Parcel classified as Developed Property for Fiscal Year 2007-2008 shall be determined pursuant to Table 1 below.

Table 1
Maximum Special Tax Rates
Fiscal Year 2007-2008

Land Use Class	Building Square Footage	Maximum Special Tax
1	Less than 2,500 Sq. Ft.	\$2,445 per Residential Unit
2	2,500 to 2,800 Sq. Ft.	\$2,748 per Residential Unit
3	2,801 to 3,100 Sq. Ft.	\$2,885 per Residential Unit
4	3,101 to 3,400 Sq. Ft.	\$3,080 per Residential Unit
5	Greater than 3,400 Sq. Ft.	\$3,236 per Residential Unit

Each July 1, commencing July 1, 2008, the Maximum Special Tax for Developed Property shall be increased by two percent (2.0%) of the amount in effect in the prior Fiscal Year.

B. Provisional Undeveloped Property Undeveloped Property.

The Maximum Special Tax for Provisional Undeveloped Property and Undeveloped Property shall be \$15,558 per Acre for Fiscal Year 2007-2008. On July 1st of each Fiscal Year, commencing July 1, 2008, the Maximum Annual Special Tax for Provisional Undeveloped Property and Undeveloped Property shall increase by two percent (2.0%) of the amount in effect in the prior Fiscal Year.

4. METHOD OF APPORTIONMENT

For each Fiscal Year, commencing Fiscal Year 2007-2008, the CFD Administrator shall calculate the Annual Special Tax on all Taxable Property in accordance with the following steps:

Step 1: The Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property, in an amount up to 100% of the applicable Maximum Special Tax, as necessary to satisfy the Special Tax Requirement;

Step 2: If additional monies are needed to satisfy the Special Tax Requirement after Step 1 has been completed, the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property, up to 100% of the Maximum Special Tax;

Step 3: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the Annual Special Tax shall be levied in equal percentages on each Assessor's Parcel of Provisional Undeveloped Property at up to 100% of the Maximum Special Tax for Provisional Undeveloped Property.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Developed Property for which an occupancy permit for private residential use has been issued be increased from the previous Fiscal Year by more than ten percent, as a consequence of delinquency or default by the owner of any other Assessor's Parcel within IA No. 4, except for those Assessor Parcel's of Developed Property whose owners are also delinquent or in default on their Special Tax payments for one or more properties within IA No. 4.

5. CALCULATION, PAYMENT, APPLICATION, AND RELEASE OF BACKUP SPECIAL TAX

The Maximum Special Taxes set forth in Section 3 were calculated based on the Expected Land Uses at CFD Formation. Each Fiscal Year or upon submittal of a Development Plan, the CFD Administrator shall review all applicable Final Subdivision Maps and the Development Plan of IA No. 4 to confirm that the Final Subdivision Maps and Development Plan reflect the number and size of Residential Units that were anticipated at the time of CFD Formation.

Prior to Final Bond Sale

If, prior to the issuance of the Final Bond Sale, a change to the Expected Land Uses (“Land Use/Entitlement Change”) is submitted by the Developer or Builder that will result in a reduction in the Expected Maximum Special Tax Revenues, or a Mandatory Maximum Special Tax Reduction is applied pursuant to Section 8 of this Rate and Method of Apportionment, or any combination thereof, no action shall be required pursuant to this Section 5, provided that the reduction in Expected Maximum Special Tax Revenues does not reduce the amount of Maximum Special Taxes less Administrative Expenses for each Fiscal Year that may be levied on Taxable Property to less than 1.1 times the annual Debt Service on all Outstanding Bonds. The CFD Administrator shall update Exhibit A to show the reduced Expected Maximum Special Tax Revenues, and the reduced Expected Maximum Special Tax Revenues shall be the amount used by the City to make future decisions with respect to Bonds.

Subsequent to Final Bond Sale

If a proposed Land Use/Entitlement Change or Development Plan submitted by the Developer or Builder would reduce the amount of Maximum Special Taxes less Administrative Expenses for each Fiscal Year that may be levied on Taxable Property to less than 1.1 times the annual Debt Service on all Outstanding Bonds, the following steps shall be applied:

Step 1: By reference to Exhibit A (which shall be updated by the CFD Administrator in accordance with this Section 5 each time a Land Use/Entitlement change is processed, the Development Plan is changed, or a Mandatory Maximum Special Tax Reduction is applied) and by computing the Maximum Special Tax rates in accordance with Section 3 for the current Fiscal Year, the CFD Administrator shall calculate the Expected Maximum Special Tax Revenues for IA No. 4.

Step 2: The CFD Administrator shall calculate the Maximum Special Tax revenues that could be collected from IA No. 4 if the Land Use/Entitlement Change is approved or the Development Plan is changed (“Proposed Maximum Special Tax Revenues”);

Step 3: If the amount determined in the second step is higher than that calculated in the first step, the Land Use/Entitlement Change may be approved or the Development Plan may change without further action. If the revenues calculated in the Step 2 are less than those calculated in Step 1, the Developer or Builder shall pay a one-time Backup Special Tax in an amount equal to the difference in the Maximum Special Tax Revenues calculated in Steps 1 and 2 utilizing the methodology set forth in Section 7. The Backup Special Tax required by this Step shall be paid prior to the approval of the proposed Land Use/Entitlement Change or the issuance of additional Building Permits.

If multiple Land Use/Entitlement Changes are proposed at one time, the CFD Administrator may consider the combined effect of all Land Use/Entitlement Changes to determine if a reduction in Expected Maximum Special Tax Revenues necessitates

implementation of Step 3. If the CFD Administrator determines that there is a reduction in Expected Maximum Special Tax Revenues, and all of the Land Use/Entitlement Changes are being proposed by the same property owner, the CFD Administrator shall determine the amount to be prepaid (pursuant to Step 3) by analyzing the combined effects of all of the proposed Land Use/Entitlement Changes. Notwithstanding the foregoing, if the CFD Administrator analyzes the combined effects of all the proposed Land Use/Entitlement Changes, and the City subsequently does not approve any one or more of the proposed Land Use/Entitlement Changes, then the CFD Administrator shall again apply the three steps set forth above to determine the combined effect of the multiple Land Use/Entitlement Changes that were approved simultaneously by the City.

Step 4: Application/Release of Backup Special Taxes

Any Backup Special Tax payments received (less Prepayment Administrative Fees and Expenses) shall be deposited into the Backup Special Tax Fund and disbursed pursuant to the Indenture and this Section as described below. The Maximum Special Taxes applicable to Developed Property shall not be reduced or relieved as a result of payment of the Backup Special Tax.

c. Prior to Release of Backup Special Taxes

Prior to the release of the Backup Special Taxes or the redemption of Bonds as described below, the CFD Administrator shall annually calculate the amount required to be withdrawn from the Backup Special Tax Fund to pay (i) interest on the Bond Redemption Amount computed pursuant to Section 7 and (ii) a pro rata amount of principal scheduled to be paid on the Bonds, such amount to be in proportion to the quotient computed pursuant to paragraph 3 of Section 7.

d. Release of Backup Special Taxes

At the earlier of (i) three years from the date of Bond issuance or (ii) all expected Building Permits for Residential Units have been issued (i.e. buildout), the CFD Administrator shall calculate the Expected Maximum Special Tax Revenues.

If the Expected Maximum Special Tax Revenue is less than the sum of the Administrative Expenses for each Fiscal Year that may be levied on Taxable Property and 1.1 times the Maximum Annual Debt Service on all Outstanding Bonds, then to the extent necessary to meet the preceding coverage test, money then on deposit in the Backup Special Tax Fund shall be used to redeem Bonds on the next available redemption date. The Administrative Expenses and Debt Service on the Bonds shall be as determined by the CFD Administrator. Upon receipt of a written request from the Developer or Builder who paid such Backup Special Tax, any moneys remaining in the Backup Special Tax Fund shall be returned after Bonds have been redeemed.

If the Expected Maximum Special Tax Revenues are greater than or equal to the sum of the Administrative Expenses for each Fiscal Year that may be levied on Taxable

Property and 1.1 times the Maximum Annual Debt Service on all Outstanding Bonds, then upon receipt of a written request from the Developer or Builder who paid such Backup Special Tax, any moneys remaining in the Backup Special Tax Fund shall be returned.

If Backup Special Taxes have been paid by more than one Developer or Builder, the amount of the Backup Special Taxes returned to each shall be Proportionate to the amount paid by each.

6. COLLECTION OF SPECIAL TAXES

Collection of the Annual Special Tax shall be made by the County in the same manner as ordinary *ad valorem* property taxes are collected, and the Annual Special Tax shall be subject to the same penalties and the same lien priority, in the case of delinquency, as *ad valorem* taxes; provided, however, that the Council may provide for (i) other means of collecting the Special Tax, including direct billings thereof to the property owners; and (ii) judicial foreclosure of delinquent Special Taxes.

7. PREPAYMENT OF SPECIAL TAX OBLIGATION

Property owners may prepay and permanently satisfy the Special Tax Obligation by a cash settlement with the City as permitted under Government Code Section 53344. Prepayment is permitted only under the following conditions:

The following definitions apply to this Section 7:

“CFD Public Facilities Costs” means \$3,100,000 in 2006 dollars, which shall increase by the Construction Inflation Index on July 1, 2008, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to acquire or construct the facilities to be financed under the authorized Mello-Roos financing program for IA No. 4, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more IA No. 4 Bonds (except refunding bonds) to be supported by Special Taxes.

“Construction Fund” means the fund (regardless of its name) established pursuant to the Indenture to hold funds which are currently available for expenditure to acquire or construct the facilities or pay fees.

“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 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 Costs minus (i) costs previously paid from the Construction Fund to acquire or construct the facilities, (ii)

monies currently on deposit in the Construction Fund, and (iii) monies currently on deposit in an escrow or other earmarked fund that are expected to be available to finance CFD Public Facilities Costs.

“Outstanding Bonds” means all Previously Issued Bonds which remain outstanding as of the first interest and/or principal payment date following the current Fiscal Year, excluding Bonds to be redeemed at a later date with proceeds of prior prepayments of Maximum Special Taxes.

“Previously Issued Bonds” means all IA No. 4 Bonds that have been issued prior to the date of prepayment.

A. Prepayment in Full

The Special Tax Obligation applicable to an Assessor’s Parcel may be prepaid and the obligation of the Assessor’s Parcel to pay any Special Tax permanently satisfied as described herein, provided that a prepayment may be made with respect to a particular Assessor’s Parcel 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 and the company or agency that will be acting as the escrow agent, if any. The CFD Administrator shall provide the owner with a statement of the Prepayment Amount for such Assessor’s Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service. Prepayment must be made more than 60 days prior to any redemption date for the IA No. 4 Bonds to be redeemed with the proceeds of such prepaid Special Taxes, unless a shorter period is acceptable to the Trustee and the City.

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 Prepayment Amount
plus	Defeasance Amount
plus	Prepayment Administrative Fees and Expenses
less	Reserve Fund Credit
<u>less</u>	<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:

Paragraph No.:

1. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
2. For Assessor's Parcels of Developed Property, determine the Maximum Special Tax. For Assessor's Parcels of Undeveloped Property for which a Building Permit has been issued, compute the Maximum 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. Divide the Maximum Special Tax computed pursuant to paragraph 2 by the total estimated Maximum Special Taxes for IA No. 4 based on the Developed Property Special Taxes which could be levied in the current Fiscal Year on all expected development through build-out of IA No. 4 as determined by the CFD Administrator, excluding any Assessor's Parcels for which the Special Tax Obligation has been prepaid.
4. Multiply the quotient computed pursuant to paragraph 3 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium (expressed as a percentage), if any, on the Outstanding Bonds to be redeemed at the first available call date (the "Redemption Premium").
6. Compute the current Future Facilities Costs.
7. Multiply the quotient computed pursuant to paragraph 3 by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Prepayment 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. Compute the amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Prepayment Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
10. Take the amount computed pursuant to paragraph 8 and subtract the amount computed pursuant to paragraph 9 (the "Defeasance Amount").

11. Verify the administrative fees and expenses of IA No. 4, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming IA No. 4, and the costs of recording any notices to evidence the prepayment and the redemption (the "Prepayment Administrative Fees and Expenses").
12. If reserve funds for the Outstanding Bonds, if any, are at or above 100% of the reserve requirement (as defined in the Indenture) on the prepayment date, a reserve fund credit shall be calculated as a reduction in the applicable reserve fund for the Outstanding Bonds to be redeemed pursuant to the prepayment (the "Reserve Fund Credit"). No Reserve Fund Credit shall be granted if reserve funds are below 100% of the reserve requirement.
13. 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 quotient computed pursuant to paragraph 3 by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").
14. The Special Tax Obligation is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 10, and 11, less the amounts computed pursuant to paragraphs 12 and 13 (the "Prepayment Amount").
15. From the Prepayment Amount, the sum of the amounts computed pursuant to paragraphs 4, 5, and 10, less the amounts computed pursuant to paragraphs 12, and 13 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make Debt Service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 11 shall be retained by IA No. 4.

The Prepayment Amount may be sufficient to redeem an amount other than a \$5,000 increment of IA No. 4 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 redeem IA No. 4 Bonds to be used with the next prepayment of IA No. 4 Bonds.

The CFD Administrator will confirm that all previously levied Special Taxes have been paid in full. With respect to any Assessor's Parcel that is prepaid in full, once the CFD Administrator has confirmed that all previously levied Special Taxes have been paid, 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 Special Tax 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 aggregate amount of Maximum Special Taxes, less Administrative Expenses that may be levied on Taxable Property, respectively, after the proposed prepayment, is at least 1.1 times the maximum annual Debt Service on all Outstanding Bonds.

B. Partial Prepayment

The Special Tax on an Assessor’s Parcel of Developed Property or 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 7.A., except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meaning:

- PP = the partial prepayment
- P_E = the Prepayment Amount calculated according to Section 7.A.
- F = the percentage by which the owner of the Assessor’s Parcel(s) is partially prepaying the Special Tax.

The owner of any Assessor’s Parcel who desires such prepayment shall notify the CFD Administrator of (i) such owner’s intent to partially prepay the Special Tax, (ii) the percentage by which the Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if any. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor’s Parcel within sixty (60) 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 Section 7.A., and (ii) indicate in the records of IA No. 4 that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor’s Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax, shall continue to be levied on such Assessor’s Parcel pursuant to Section 3.

Notwithstanding the foregoing, no partial prepayment shall be allowed unless the amount of Maximum Special Taxes, less Administrative Expenses for each Fiscal Year that may be levied on Taxable Property, respectively, after the proposed partial prepayment, is at least 1.1 times the annual Debt Service on all Outstanding Bonds.

8. MANDATORY MAXIMUM SPECIAL TAX REDUCTION

Prior to the issuance of Bonds, the Property Tax Burden shall be calculated pursuant to the Land Secured Financing Policy adopted pursuant to City Council Resolution in effect at the time of CFD Formation (the “Goals and Policies”) on Developed Property by the CFD Administrator. The Maximum Special Tax on Developed Property set forth in Section 3.A of

this Rate and Method of Apportionment shall be reduced if it is reasonably determined by the CFD Administrator that the Property Tax Burden exceeds the maximum level allowed in the Goals and Policies.

If the Mandatory Maximum Special Tax Reduction is implemented, then the Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the lower Maximum Special Taxes.

9. TERM OF SPECIAL TAX

The Annual Special Tax shall be levied for a period of thirty-five (35) years after the last series of Bonds for IA No. 4 has been issued, but shall not be levied for a period to exceed forty (40) Fiscal Years commencing with Fiscal Year 2007-2008.

10. EXEMPTIONS

The CFD Administrator shall classify as Exempt Property (i) Assessor's Parcels of Public Property, (ii) Assessor's Parcels of Property Owner Association Property, (iii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iv) Assessor's Parcels developed or planned to be developed exclusively for any type of non-residential use, or (v) Assessor's Parcels with public utility easement by the restriction, as determined reasonably by the CFD Administrator, provided that no such classification would reduce the sum of all Taxable Property in IA No. 4 to less than 14.09 acres of Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the sum of all Taxable Property in IA No. 4 to less than 14.09 acres of Acreage shall be classified as Provisional Undeveloped Property, and will continue to be subject to the IA No. 4 Special Taxes accordingly. Tax exempt status for this purpose of this paragraph will be assigned by the CFD Administrator in the chronological order in which property becomes eligible for classification as Exempt Property.

If the use of an Assessor's Parcel of Exempt Property changes so that such Assessor's Parcel is no longer classified as one of the uses set forth in the first paragraph of Section 10 above that would make such Assessor's Parcel eligible to be classified as Exempt Property, such Assessor's Parcel shall cease to be classified as Exempt Property and shall be deemed to be Taxable Property.

11. APPEALS

Any landowner who pays the Special Tax and claims the amount of the Special Tax levied on his or her Assessor's Parcel is in error shall first consult with the CFD Administrator regarding such error not later than twelve (12) months after first having paid the first installment of the Special Tax that is disputed. If, following such consultation, the CFD Administrator determines that an error has occurred, the CFD Administrator may amend the amount of the Special Tax levied on such Assessor's Parcel. If, following such consultation and action, if any, by the CFD Administrator, the landowner believes such error still exists,

such person may file a written notice with the City Manager, or designee of the City, appealing the amount of the Special Tax levied on such Assessor's Parcel. Upon the receipt of such notice, the City Manager or designee may establish such procedures as deemed necessary to undertake the review of any such appeal. The City Manager, or designee thereof, shall interpret this Modified Rate and Method of Apportionment and make determinations relative to the administration of the Special Tax and any landowner appeals as herein specified. The decision of the City Manager, or designee, shall be final and binding as to all persons.

EXHIBIT A

EXPECTED LAND USES AND EXPECTED MAXIMUM SPECIAL TAX REVENUES

Land Use Class	Building Square Footage	Number of Expected Units	Maximum Special Tax FY 2007-2008*	Total Expected Annual Special Tax Revenues*
1	< 2,500	15	\$2,445	\$36,674
2	2,500 – 2,800	17	2,748	46,712
3	2,801 – 3,100	0	2,885	0
4	3,101 – 3,400	21	3,080	64,677
<u>5</u>	<u>≥ 3,400</u>	<u>22</u>	<u>3,236</u>	<u>71,195</u>
Total	NA	75	NA	\$219,258

TOTAL EXPECTED ANNUAL MAXIMUM SPECIAL TAX REVENUES \$219,258

*Amounts are shown in Fiscal Year 2007-2008 dollars and shall escalate by two percent (2.0%) for each Fiscal Year thereafter.

EXHIBIT “B”
(RESOLUTION NUMBER 3794)

**TYPES OF FACILITIES TO BE FINANCED BY
EACH OF IMPROVEMENT AREA NOS. 3 and 4 OF
COMMUNITY FACILITIES DISTRICT NO. 2005-1
(Perris Valley Vistas)**

- Street facilities, including, but not limited to, major arterials, highways, intersections, access ramps, roadways, sidewalk, curb, gutters, striping, lighting, traffic signalization, signage, landscaping of public streets and rights-of-way and appurtenant facilities, road crossings;
- Storm control facilities, including, but not limited to, storm drains, channels, detention, headwalls, riprap pads, retention and/or catch basins and appurtenant facilities, storm drain crossings;
- Sewer improvements, sanitary sewers, including, but not limited to, lift stations, force mains, pump stations, transmission and main lines, valves, and appurtenant facilities;
- Domestic water facilities, including, but not limited to, reservoirs, pump stations, transmission lines, distribution facilities, main lines, valves, fire hydrants and appurtenant facilities;
- Park, recreational facilities, open space and appurtenant facilities;
- Impact and other fees, including, but not limited to, TUMF, DIF, school fees, water fees, drainage fees, sewer treatment and connection fees, water supply fees, water meter fees, water connection fees, storm drain fees, capital facilities’ fees and other city fees all capital facilities which are part of these fee programs and capital improvement programs;
- Incidental expenses.
- City facilities.
- School facilities.

OTHER

The District may also finance any of the following:

1. Bond related expenses, including underwriters' discount, reserve fund, capitalized interest, financial advisor fees and expenses, bond and disclosure counsel, special tax consultant fees and expenses, dissemination agent fees, and all other incidental expenses.
2. Administrative fees of the City and the Bond trustee or fiscal agent related to the Improvement Areas of the District and the Bonds.
3. Reimbursement of costs related to the formation of the District advanced by the City or any related entity, or any landowner or developer within the District, as well as reimbursement of any costs advanced by the City or any related entity, or any landowner or developer within the District, for facilities or other purposes or costs of the District.

This description of the public capital facilities is general in nature. The final nature and location of improvements and facilities will be determined upon the preparation of final plans and specifications. The final plans and specifications may show substitutes in lieu of, or modifications to, proposed work. Any such substitution shall not be a change or modification in the proceedings as long as the facilities provide a service substantially similar to that as set forth in the Report.