ORDINANCE NUMBER 1165

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF PERRIS ACTING IN ITS CAPACITY AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 2005-2 (HARMONY GROVE) OF THE CITY OF PERRIS AUTHORIZING THE LEVY OF A SPECIAL TAX WITHIN SAID DISTRICT

THE CITY COUNCIL OF THE CITY OF PERRIS ACTING IN ITS CAPACITY AS THE LEGISLATIVE BODY OF THE COMMUNITY FACILITIES DISTRICT NO. 2005-2 (HARMONY GROVE) OF THE CITY OF PERRIS DOES ORDAIN AS FOLLOWS:

Section 1. By the passage of this ordinance, the City Council authorizes the levy of a special tax at the rate and formula set forth in Exhibit "A" to Resolution No. 3412 (the "Resolution"), and which for reference purposes is attached hereto as Exhibit "1" and incorporated herein by this reference.

Section 2. The City Council or its designee is hereby further authorized to determine, by ordinance, resolution, or by other action if permitted by then applicable law, on or before August 1 of each year, the specific special tax to be levied on each parcel of land in the District. The special tax to be levied shall not exceed the maximum rates set forth in Exhibit "1", but the special tax may be levied at a lower rate. The City Clerk is authorized and directed to file with the county auditor on or before the 10th day of August of each tax year a certified copy of such ordinance or resolution accompanied by a list of all parcels subject to the special tax levy with the tax to be levied on each parcel.

Section 3. Properties or entities of the state, federal or other local governments shall be exempt from the above-referenced and approved special taxes only to the extent set forth in Section C of Exhibit 1 hereto and otherwise shall be subject to the tax consistent with the provisions of Section 53317.3 of the Mello-Roos Community Facilities Act of 1982 (the "Act") in effect as of the date of adoption of this Ordinance.

Section 4. All of the collections of the special taxes shall be used only as provided for in the Act and the Resolution. The special taxes shall be levied only so long as needed to accomplish the purposes described in the Resolution.

Section 5. The special taxes shall be collected from time to time as necessary to meet the financial obligations of Community Facilities District No. 2005-2 (Harmony Grove) of the City of Perris (the "District") on the secured real property tax roll in the same manner as ordinary *ad valorem* taxes are collected, or other procedures as may be adopted by the City Council. The City Manager and Finance Director are each hereby authorized and directed to provide or to cause to be provided all necessary information to the auditor/tax collector of the County of Riverside and to otherwise take all actions necessary in order to effect proper billing and collection of the special taxes, so that the special taxes shall be levied and collected in sufficient amounts and at times necessary to satisfy the financial obligations of the District in

each fiscal year until the Bonds are paid in full, the Facilities have been paid for, and provision has been made for payment of all of the administrative costs of District. The special taxes may be subject to the same penalties and the same procedure, sale and lien priority in cases of delinquency as provided for *ad valorem* taxes as such procedure may be modified by law or this City Council from time to time.

Notwithstanding the foregoing, the City Manager may collect, or cause to be collected, one or more installments of the special taxes by means of direct billing by the District of the property owners within the District, if, in the judgment of the City Manager, such means of collection will reduce the administrative burden of the District in administering the District where it is otherwise appropriate in the circumstances. In such event, the special taxes shall become delinquent if not paid when due as set forth in any such respective billing to the property owners.

Whether the special taxes are levied in the manner provided in the first or the second preceding paragraph, the special taxes shall have the same lien priority, and be subject to the same penalties and the same procedure and sale in cases of delinquency as provided for *ad valorem* taxes. In addition, the provisions of Section 53356.1 of the Act shall apply to delinquent special tax payments.

Section 6. As a cumulative remedy, if any amount levied as a special tax for payment of bond interest or principal, together with any penalties and other charges accruing under this ordinance, are not paid when due, the City Council may, not later than four years after the due date of the last installment of principal of the Bonds, order that the same be collected by an action brought in the superior court to foreclose the lien of such special tax.

Section 7. This Ordinance relating to the levy of the special taxes shall take effect immediately upon its final passage in accordance with the provisions of Section 36937(a) of the Government Code, and the specific authorization for adoption is pursuant to the provisions of Section 53340 of the Government Code.

Section 8. The City Clerk is hereby directed to execute and cause to be recorded in the office of the County Recorder of the County of Riverside a notice of special tax lien in the form required by the Act, said recording to occur no later than fifteen days following final passage by the City Council of this Ordinance.

Section 9. The Mayor shall sign this Ordinance and the City Clerk shall attest to the Mayor's signature and then cause the same to be published within fifteen (15) days after its passage at least once in a newspaper of general circulation published and circulated in the City.

Section 10. The City Clerk shall certify to the passage of this Ordinance and shall cause the same to be published as required by law.

ADOPTED, SIGNED and ***APPROVED*** this 14th day of June, 2005.

_____
Mayor, Daryl R. Busch

ATTEST:

_____
City Clerk, Margaret Rey

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

I, Margaret Rey, CITY CLERK OF THE CITY OF PERRIS, CALIFORNIA, DO HEREBY CERTIFY that the foregoing Ordinance Number 1165, introduced at a regular meeting of the City Council of the City of Perris held the 31st day of May, 2005, was duly and regularly adopted by the City Council, acting as the legislative body of Community Facilities District No. 2005-2 (Harmony Grove) of the City of Perris, at a regular meeting thereof held the 14th day of June, 2005, and that it was so adopted by the following called vote:

AYES: Rogers, Yarbrough, Landers, Motte, Busch
NOES:
ABSENT:
ABSTAIN:

_____
City Clerk, Margaret Rey

EXHIBIT "1"
(ORDINANCE NUMBER 1165)

RATE AND METHOD OF APPORTIONMENT

COMMUNITY FACILITIES DISTRICT NO. 2005-2
(HARMONY GROVE)

A Special Tax shall be levied on all Taxable Property within the boundaries of City of Perris Community Facilities District No. 2005-2 (Harmony Grove) ("CFD No. 2005-2") and collected each Fiscal Year commencing in Fiscal Year 2005-2006 according to the tax liability determined by the Council, through the application of this Rate and Method of Apportionment of the Special Tax to the extent and in the manner herein provided.

1. DEFINITIONS

"**Acreage**" means the land area of an Assessor's Parcel as shown on an Assessor's parcel map, or if the land area is not shown on an Assessor's parcel map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map. 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 CFD No. 2005-2 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. 2005-2, 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. 2005-2, or any designee thereof complying with disclosure or reporting requirements of the City or CFD No. 2005-2, 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. 2005-2, 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. 2005-2 for any other administrative purposes of CFD No. 2005-2, including attorney's fees and other costs related to commencing and pursuing any foreclosure of delinquent Special Taxes.

"**Assessor**" means the Assessor of the County of Riverside.

"**Assessor's Parcel**" means a lot or parcel shown on an Assessor's parcel map with an assigned Assessor's parcel number.

"**Assigned Special Tax**" means the Special Tax for each Land Use Class of Developed Property, as determined in accordance with Section 3 below.

"**Backup Special Tax**" means the Special Tax applicable to each Assessor's Parcel of Developed Property, as determined in accordance with Section 3 below.

"**Bonds**" means any bonds or other indebtedness (as defined in the Act) of CFD No. 2005-2, whether in one or more series, secured by the levy of Special Taxes.

"**CFD No. 2005-2**" means the City of Perris Community Facilities District No. 2005-2 (Harmony Grove).

"**CFD Administrator**" means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement and for levying and collecting the Special Taxes.

"**City**" means the City of Perris, California.

"**Council**" means the City Council of the City of Perris acting as the legislative body of the CFD 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.

"**Exempt Property**" means Assessor's Parcels designated as being exempt from Special Taxes pursuant to Section 8.

"**Facilities**" means facilities, fees or improvements authorized to be funded by CFD No. 2005-2.

"**Final Subdivision**" means a subdivision of property created by recordation of a final map, 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.

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

"**Land Use Class**" means any of the classes listed in Table 1 under Section 3 below.

"**Lot**" means a parcel created by a Final Subdivision on which a single family residential home can be constructed.

"**Maximum Special Tax**" means the greatest 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.

"**Non-Residential Property**" means all Assessor's Parcels Developed Property for which a building permit(s) was issued for a non-residential use.

"**Outstanding Bonds**" mean all 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 6 below.

"**Property Owner Association Property**" means any Assessor's Parcel within the boundaries of CFD No. 2005-2 owned in fee by a property owner association, including any master or sub-association.

"**Proportionately" or "Proportionate**" means for Developed Property, that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor's Parcels of Developed Property. 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 8, 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 8.

"**Public Property**" means any property within the boundaries of CFD No. 2005-2, 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 Floor Area**" 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 Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

"**Residential Property**" means all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

"**Resolution of Issuance**" means the resolution passed by the Council authorizing the issuance of Bonds.

"**Special Tax**" means any special tax levied within CFD No. 2005-2 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 CFD No. 2005-2.

"**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 CFD No. 2005-2, which are not exempt from the levy of the Special Tax pursuant to law or Section 8 below.

"**Trustee**" means the trustee or fiscal agent under the Indenture.

"**Undeveloped Property**" means, for each Fiscal Year, all Taxable Property within the boundaries of CFD No. 2005-2 not classified as Developed Property or Provisional Undeveloped Property.

"**Zone A**" means Zone A of CFD No. 2005-2, as identified on the boundary map for CFD No. 2005-2 or as amended.

"**Zone B**" means Zone B of CFD No. 2005-2, as identified on the boundary map for CFD No. 2005-2 or as amended.

2. LAND USE CLASSIFICATION

Each Fiscal Year, all Taxable Property within Zone A and Zone B of CFD No. 2005-2 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 and 4 below. Assessor's Parcels of Developed Property shall be classified as Residential Property or Non-Residential Property. Assessor's Parcels of Residential Property shall be further classified to its applicable Land Use Class based on its Residential Floor Area.

3. MAXIMUM SPECIAL TAX RATES

A. Developed Property

(i). Maximum Special Tax

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

(ii). Assigned Special Tax

The Zone A and Zone B Assigned Special Tax for the 2005-2006 Fiscal Year is shown in Table 1.

TABLE 1

Zone	Land Use Class	Description	Residential Floor Area	Assigned Special Tax
A	1	Residential Property	2,799 Sq. Ft. or Less	$1,863 per Unit
A	2	Residential Property	2,800 to 2,999 Sq. Ft.	$2,040 per Unit
A	3	Residential Property	3,000 to 3,199 Sq. Ft.	$2,246 per Unit
A	4	Residential Property	3,200 to 3,399 Sq. Ft.	$2,384 per Unit
A	5	Residential Property	3,400 Sq. Ft or Greater.	$2,580 per Unit
A	6	Non-Residential Property	N/A	$16,751 per Acre
B	1	Residential Property	3,200 Sq. Ft. or Less	$2,875 per Unit
B	2	Residential Property	3,200 to 3,399 Sq. Ft.	$3,022 per Unit
B	3	Residential Property	3,400 to 3,799 Sq. Ft.	$3,121 per Unit
B	4	Residential Property	3,800 to 3,999 Sq. Ft.	$3,366 per Unit
B	5	Residential Property	4,000 Sq. Ft. or Greater	$3,563 per Unit
B	6	Non-Residential Property	N/A	$13,943 per Acre

On July 1st of each Fiscal Year, commencing July 1, 2006, the Assigned Annual Special Tax for Residential Property and Non-Residential Property shall increase by two-percent (2.0%) of the amount in effect in the prior Fiscal Year.

(iii). Multiple Land Use Classes

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Class or may contain both Residential and Non-Residential Property. For Assessor's Parcels of Residential Property containing more than one Land Use Class, the Assigned Special Tax levied on an Assessor's Parcel shall be the sum of the Assigned Special Taxes for all Land Use Classes located on that Assessor's Parcel. The Maximum Special Tax that can be levied on an Assessor's Parcel shall be the sum of the Maximum Special Taxes that can be levied for all Land Use Classes located on that Assessor's Parcel. For an Assessor's Parcel that contains both Residential Property and Non-Residential Property, the Acreage of such Assessor's Parcel shall be allocated to each

type of property based on the amount of Acreage designated for Residential and Non-Residential Property as determined by reference to the site plan approved for such Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

(iv). Backup Special Tax

Each Fiscal Year, each Assessor's Parcel of Residential Property in Zone A and Zone B shall be subject to a Backup Special Tax. In each Fiscal Year, the Backup Special Tax rate for Residential Property within a Final Subdivision in each Zone shall be the rate per dwelling unit calculated according to the following formula:

$$B = \frac{Z \times A}{L}$$

The terms above have the following meanings:

B = Backup Special Tax per Assessor's Parcel within the applicable Final Subdivision

Z = Maximum Special Tax for Undeveloped Property within the applicable Final Subdivision for the Fiscal Year in which the Final Subdivision is recorded.

A = Acreage of Taxable Property, excluding Provisional Undeveloped Property in such Final Subdivision that lie within the boundaries of CFD No. 2005-2, as determined by the CFD Administrator pursuant to Section 8.

L = Total number of Assessor's Parcels of Residential Property within the Final Subdivision that lie within the boundaries of CFD No. 2005-2.

If a Final Subdivision includes Assessor's Parcels for which building permits for both residential and non-residential construction may be issued, then the Backup Special Tax for each Assessor's Parcel of Residential Property within such Final Subdivision area shall be computed by the CFD Administrator exclusive of the allocable portion of total Acreage of Taxable Property attributable to Assessor Parcels for which building permits for non-residential construction may be issued.

Except as provided below (and except for the 2% annual increase), once a Final Subdivision is recorded, the Backup Special Tax for each Assessor's Parcel within such Final Subdivision shall be fixed and shall not be

recalculated. Notwithstanding the foregoing, if Assessor Parcels of Residential Property are subsequently changed or modified by recordation of a subsequent Final Subdivision, then the Backup Special Tax as previously determined will be applied to the unchanged Lots and a Revised Backup Special Tax shall be recalculated to equal the amount of the Backup Special Tax that would have been generated if such change did not take place and applied to the Lots that are part of the changed or modified area based on the following formula:

$$R = \frac{B}{N}$$

The terms above have the following meanings:

R = Revised Backup Special Tax per Assessor's Parcel that applies to the changed or modified lots in a Final Subdivision.

B = Backup Special Tax applicable to the changed or modified lots in a Final Subdivision prior to the change or modification.

N = Total number of new Assessor's Parcels of Residential Property created through the change or modification of the Final Subdivision.

B. Provisional Undeveloped Property and Undeveloped Property.

The Maximum Special Tax for Provisional Undeveloped Property and Undeveloped Property shall be $16,751 per Acre for Zone A and $13,943 per Acre for Zone B for Fiscal Year 2005-2006. On July 1st of each Fiscal Year, commencing July 1, 2006, the Maximum Annual Special Tax for Undeveloped Property and Provisional 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 the Council shall determine the Special Tax Requirement and levy the Special Tax, until the amount of Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

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

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

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to 100% of the Maximum Special Tax for each such Assessor's Parcel; and

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of 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 Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2005-2, except for those Residential Properties whose owners are also delinquent or in default on their Special Tax payments for one or more other properties within CFD No. 2005-2.

5. COLLECTION OF SPECIAL TAXES

Collection of the Special Tax shall be by the County in the same manner as ordinary ad valorem property taxes are collected and the 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.

6. 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 definition applies to this Section 6:

"**CFD Public Facilities Costs**" means either $9,800,000 for Zone A and $2,700,000 for Zone B in 2005 dollars, which shall increase by the Construction Inflation Index on July 1, 2006, 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 by Zone A and Zone B under the authorized Mello-Roos financing program

for CFD No. 2005-2, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more CFD No. 2005-2 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.

"**Previously Issued Bonds**" means all CFD No. 2005-2 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 in Zone A or Zone B 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 CFD No. 2005-2 Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

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

Bond Redemption Amount
plus Redemption Premium

	plus	Future Facilities Prepayment Amount
	plus	Defeasance Amount
	plus	Prepayment Administrative Fees and Expenses
	less	Reserve Fund Credit
	less	Capitalized Interest Credit
Total:	equals	Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated for each Zone 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, compute the Assigned Special Tax and Backup Special Tax. For Assessor's Parcels of Undeveloped Property for which a building permit has been issued, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.

3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for CFD No. 2005-2 based on the Developed Property Special Taxes which could be levied in the current Fiscal Year on all expected development through build-out of CFD No. 2005-2 as determined by the CFD Administrator, excluding any Assessor's Parcels for which the Special Tax Obligation has been prepaid, and (b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the total estimated Backup Special Taxes at build-out for CFD No. 2005-2, excluding any Assessor's Parcels for which the Special Tax Obligation has been prepaid.

4. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").

5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium (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 larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities 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 CFD No. 2005-2, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming CFD No. 2005-2, 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 larger quotient computed pursuant to paragraph 3(a) or 3(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").

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, 10, 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 CFD No. 2005-2.

The Prepayment Amount may be sufficient to redeem an amount other than a $5,000 increment of CFD No. 2005-2 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 CFD No. 2005-2 Bonds to be used with the next prepayment of CFD No. 2005-2 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 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. Prepayment in Part

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 until the initial occupancy permit has been issued. The amount of the prepayment shall be calculated as in Section 6.A.; except that a partial prepayment shall be calculated according to the following formula:

$$PP = PE \times F.$$

These terms have the following meaning:

PP = the partial prepayment
PE = the Prepayment Amount calculated according to Section 6.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 6.A., and (ii) indicate in the records of CFD No. 2005-2 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 Annual Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section 3.

7. TERM OF SPECIAL TAX

The Special Tax shall be levied annually for a period not to exceed the 40 years commencing with Fiscal Year 2005-2006.

8. 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 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 CFD No. 2005-2 to less than 41.85 and 13.84 acres for Zone A and Zone B respectively of Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the sum of all Taxable Property in CFD No. 2005-2 to less than 41.85 and 13.84 acres for Zone A and Zone B respectively acres of Acreage be classified as Provisional Undeveloped Property, and will continue to be subject to the CFD No. 2005-2 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.

The Special Tax Obligation for any property which would be classified as Public Property upon its transfer or dedication to a public agency but which is classified as Provisional Undeveloped Property pursuant to the first paragraph of Section 8 above shall be prepaid in full by the seller pursuant to Section 8 prior to the transfer/dedication of such property to such public agency. Until the Special Tax Obligation for any such Public Property is prepaid, the property shall continue to be subject to the levy of the Special Tax as Provisional Undeveloped 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 8 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.