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Rule 15c2-12 Disclosure

Annual Financial Information and Operating Data: 2013 Annual Report, for the year ended 06/30/2013

DOCUMENTS

Financial Operating Filing

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THE FOLLOWING ISSUERS ARE ASSOCIATED WITH THIS CONTINUING DISCLOSURE SUBMISSION:

CUSIP-6	State	Issuer Name
839100	CA	SOUTH ORANGE CNTY CALIF PUB FING AUTH SPL TAX REV

THE FOLLOWING 21 SECURITIES HAVE BEEN PUBLISHED WITH THIS CONTINUING DISCLOSURE SUBMISSION:

CUSIP-9	Maturity Date
839100HV9	08/15/2014
839100HW7	08/15/2015
839100HX5	08/15/2016
839100HY3	08/15/2017
839100HZ0	08/15/2018
839100JA3	08/15/2019
839100JB1	08/15/2020
839100JC9	08/15/2021
839100JD7	08/15/2022
839100JE5	08/15/2023

839100JF2	08/15/2024
839100JG0	08/15/2025
839100JJ4	08/15/2026
839100JL9	08/15/2027
839100JN5	08/15/2028
839100JQ8	08/15/2029
839100JS4	08/15/2030
839100JU9	08/15/2031
839100JW5	08/15/2032
839100JX3	08/15/2033
839100JY1	08/15/2034

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**COUNTY OF ORANGE, CALIFORNIA
SOUTH ORANGE COUNTY PUBLIC FINANCING AUTHORITY
SPECIAL TAX REVENUE REFUNDING BONDS
2014 SERIES A & B (LADERA RANCH)
ANNUAL REPORT
FOR
FISCAL YEAR ENDED JUNE 30, 2013**

Dated March 1, 2014

Prepared at the direction of and on behalf of:

County of Orange
10 Civic Center Plaza, Third Floor
Santa Ana, CA 92701-4062

Prepared by:

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County of Orange, California
South Orange County Public Financing Authority
Special Tax Revenue Refunding Bonds
2014 Series A & B (Ladera Ranch)
Annual Report
For Fiscal Year Ended June 30, 2013

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EXHIBITS

Exhibit A – Official Statement

INTRODUCTION

The South Orange County Public Financing Authority (the “Authority”) hereby provides its annual report (the “Annual Report”) for the fiscal year ended June 30, 2013 in connection with the following Bonds:

Bond Issue:

1. South Orange County Public Financing Authority Special Tax Revenue Refunding Bonds, 2014 Series A & B (Ladera Ranch)

Annual Report:

The Authority’s Annual Report required by the Continuing Disclosure Certificate (the “Disclosure Certificate”) dated January 1, 2014 with respect to the Series A Bonds for the Fiscal Year ended June 30, 2013 is attached hereto.

Other Matters:

This Annual Report is provided solely for purposes of the Disclosure Certificate. The filing of this Annual Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the County, the Authority or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the Fiscal Year to which this Annual Report relates (other than as contained in this Annual Report), or that no other information exists, which may have a bearing on the Authority’s financial condition, the security for the Bonds, or an investor’s decision to buy, sell, or hold the Bonds. The information contained in this report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Annual Report should be construed as a prediction or representation about future financial performance of the Authority.

While the financial statements of the County (which includes the Authority) for Fiscal Year ended June 30, 2013 have been incorporated herein by reference in order to comply with SEC Rule 15c2-12, the Bonds are a limited obligation of the Authority and neither the faith and credit nor the taxing power of the County is pledged to the payment of the Bonds. No income, receipts, funds (including the County general fund) or moneys of the County are pledged to the repayment of the Bonds.

SECTION A

1. Audited Financial Statements for Fiscal Year Ended June 30, 2013.

To be submitted separately pursuant to Section 3(a) of the Continuing Disclosure Agreement.

While the financial statements of the County (which includes CFD Nos. 2002-1 and 2003-1) for Fiscal Year ended June 30, 2013 have been incorporated herein by reference in order to comply with SEC Rule 15c2-12, the Bonds are a limited obligation of CFD Nos. 2002-1 and 2003-1 and neither the faith and credit nor the taxing power of the County is pledged to the payment of the Bonds. No income, receipts, funds (including the County general fund) or moneys of the County are pledged to the repayment of the Bonds.

2. Official Statement.

The Series A Official Statement is attached pursuant to Section 4 of the Continuing Disclosure Agreement (Exhibit A).

EXHIBIT A
OFFICIAL STATEMENT

OFFICIAL STATEMENT DATED JANUARY 15, 2014

NEW ISSUE-FULL BOOK ENTRY

RATING: Series A Bonds – BBB+ (S&P)
(See “MISCELLANEOUS — Rating” herein)

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

\$64,545,000

**SOUTH ORANGE COUNTY PUBLIC FINANCING AUTHORITY
SPECIAL TAX REVENUE REFUNDING BONDS
(LADERA RANCH) 2014 SERIES A (SENIOR LIEN BONDS)**

Due: August 15 as shown on inside cover

Dated: Date of Delivery

The South Orange County Public Financing Authority Special Tax Revenue Refunding Bonds (Ladera Ranch), 2014 Series A (Senior Lien Bonds) (the “Series A Bonds”) and the South Orange County Public Financing Authority Special Tax Revenue Refunding Bonds (Ladera Ranch), 2014 Series B (Junior Lien Bonds) (the “Series B Bonds” and together with the Series A Bonds, the “Bonds”) are being issued by the South Orange County Public Financing Authority (the “Authority”) to acquire certain special tax obligations (the “Local Obligations”) of two community facilities districts (the “Districts”) formed by the County of Orange (the “County”). The Local Obligations are being issued to refund two outstanding series of bonds issued by the Districts. See “FINANCING PLAN.”

The Series B Bonds will be purchased in a private placement by a qualified institutional buyer. The Series B Bonds are not being offered pursuant to this Official Statement.

The Series A Bonds are payable solely from Revenues (defined herein) pledged by the Authority pursuant to that certain Indenture of Trust, dated as of January 1, 2014 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). Revenues consist primarily of special taxes levied in the Districts and paid to the Authority as debt service on the Local Obligations. Simultaneous with the issuance of the Series A Bonds, the Authority will issue the Series B Bonds in the principal amount of \$40,000,000. The Series B Bonds are payable from Subordinated Revenues (defined herein) pledged by the Authority pursuant to the Indenture. Subordinated Revenues generally consist of Revenues remaining after payment of debt service on the Series A Bonds and any required replenishment of the Series A Reserve Fund. See “SECURITY FOR THE BONDS — Revenues and Subordinated Revenues; Flow of Funds.”

The Series A Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds is payable on August 15, 2014, and semiannually thereafter on February 15 and August 15 each year. The Series A Bonds will be initially issued only in book-entry form and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository of the Series A Bonds. Principal and interest (and premium, if any) on the Series A Bonds is payable by the Trustee to DTC, which is to remit such payments to its Participants for subsequent distribution to the beneficial owners of the Bonds. See “THE SERIES A BONDS — General Provisions” and — Book-Entry Only System” herein.

The Series A Bonds are subject to optional redemption prior to maturity as described herein. See “THE SERIES A BONDS — Redemption.”

CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE AUTHORITY TO PAY THE PRINCIPAL OF AND INTEREST ON THE SERIES A BONDS WHEN DUE. THE PURCHASE OF THE SERIES A BONDS INVOLVES SIGNIFICANT INVESTMENT RISKS, AND THE SERIES A BONDS MAY NOT BE SUITABLE INVESTMENTS FOR MANY INVESTORS. SEE THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED “SPECIAL RISK FACTORS” FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN EVALUATING THE INVESTMENT QUALITY OF THE SERIES A BONDS.

*Maturity Schedule
(see inside cover)*

The Series A Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Bond Counsel. Certain legal matters will be passed upon for the Authority by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel and for the Authority and the County by County Counsel. Certain legal matters will be passed on for the Underwriter by McFarlin & Anderson LLP, Laguna Hills, California. It is anticipated that the Series A Bonds in definitive form will be available for delivery to DTC or its agent on or about January 29, 2014.

PiperJaffray®

MATURITY SCHEDULE
SOUTH ORANGE COUNTY PUBLIC FINANCING AUTHORITY
SPECIAL TAX REVENUE REFUNDING BONDS
(LADERA RANCH) 2014 SERIES A (SENIOR LIEN BONDS)

\$64,545,000 Series A Serial Bonds

<i>Maturity (August 15)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP[†] No.</i>
2014	\$1,280,000	2.000%	0.380%	839100HV9
2015	1,310,000	3.000	0.570	839100HW7
2016	1,435,000	3.000	0.840	839100HX5
2017	1,565,000	4.000	1.090	839100HY3
2018	1,720,000	5.000	1.450	839100HZ0
2019	1,895,000	5.000	1.890	839100JA3
2020	2,085,000	5.000	2.340	839100JB1
2021	2,290,000	5.000	2.760	839100JC9
2022	2,500,000	5.000	3.150	839100JD7
2023	2,725,000	5.000	3.420 ^C	839100JE5
2024	2,975,000	5.000	3.580 ^C	839100JF2
2025	3,220,000	5.000	3.750 ^C	839100JG0
2026	3,495,000	5.000	3.890 ^C	839100JJ4
2027	3,775,000	5.000	4.030 ^{CC}	839100JL9
2028	4,075,000	5.000	4.160 ^{CC}	839100JN5
2029	4,390,000	5.000	4.260 ^{CC}	839100JQ8
2030	4,730,000	5.000	4.330 ^{CC}	839100JS4
2031	5,085,000	5.000	4.420 ^{CC}	839100JU9
2032	5,455,000	5.000	4.510 ^{CC}	839100JW5
2033	5,850,000	5.000	4.580 ^{CC}	839100JX3
2034	2,690,000	5.000	4.640 ^{CC}	839100JY1

^C Yield to call on August 15, 2021 at a redemption price of 102%.

^{CC} Yield to call on August 15, 2023 at a redemption price of 100%.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2014 CUSIP Global Services. All rights reserved. This data is not intended to create a database and does not serve in any way as a substitute for CGS. CUSIP® numbers are provided for convenience of reference only. Neither the Authority nor the Underwriter takes any responsibility for the accuracy of such numbers.

SOUTH ORANGE COUNTY PUBLIC FINANCING AUTHORITY

Shawn Nelson, Chairman
Patricia C. Bates, Vice Chair
Janet Nguyen, Director
John M.W. Moorlach, Director
Todd Spitzer, Director

AUTHORITY OFFICIALS

Michael B. Giancola, Executive Director
Shari L. Freidenrich, Treasurer
Jan Grimes, Auditor-Controller
Nicolas S. Chrisos, Authority Counsel
Susan Novak, Secretary

**COUNTY OF ORANGE, CALIFORNIA
BOARD OF SUPERVISORS**

Shawn Nelson (Fourth District), Chairman
Patricia C. Bates (Fifth District), Vice Chair
Janet Nguyen (First District)
John M.W. Moorlach (Second District)
Todd Spitzer (Third District)

BOND COUNSEL AND DISCLOSURE COUNSEL

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

FINANCIAL ADVISOR

Fieldman, Rolapp & Associates
Irvine, California

SPECIAL TAX CONSULTANT

David Taussig & Associates, Inc.
Newport Beach, California

TRUSTEE

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

Causey Demgen & Moore P.C.
Denver, Colorado

Investment in the Series A Bonds involves risks which are not appropriate for certain investors. Therefore, only persons with substantial financial resources (in net worth or income) who understand those risks should consider such an investment.

Except where otherwise indicated, all information contained in this Official Statement has been provided by the Authority, the County and the Districts. No dealer, broker, salesperson or other person has been authorized by the Authority, the County, the Districts, the Trustee or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Series A Bonds other than those contained herein; and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the County, the Districts, the Trustee or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the Districts, the County or the Authority. This Official Statement is not to be construed as a contract with the purchasers or Owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such are not to be construed as representations of fact.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the County, the Districts or any other parties described herein since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the County for further information in connection therewith.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Authority does not plan to issue any updates or revisions to the forward-looking statements set forth

in this Official Statement. The Authority is obligated to provide continuing disclosure for certain historical information only. See the caption “MISCELLANEOUS — Continuing Disclosure” herein.

IN CONNECTION WITH THE OFFERING OF THE SERIES A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SERIES A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES A BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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OFFICIAL STATEMENT

\$64,545,000

SOUTH ORANGE COUNTY PUBLIC FINANCING AUTHORITY SPECIAL TAX REVENUE REFUNDING BONDS (LADERA RANCH) 2014 SERIES A (SENIOR LIEN BONDS)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and Appendices hereto (the “Official Statement”), is to provide certain information concerning the sale and issuance of the South Orange County Public Financing Authority Special Tax Revenue Refunding Bonds, 2014 Series A (Senior Lien Bonds) (the “Series A Bonds”). The South Orange County Public Financing Authority Special Tax Revenue Refunding Bonds, 2014 Series B (Junior Lien Bonds) (the “Series B Bonds” and, together with the Series A Bonds, the “Bonds” and individually, a “Series”) will be issued under the Indenture (defined below) simultaneously with and on a basis subordinate to the Series A Bonds. The Series B Bonds will be purchased in a private placement by a qualified institutional buyer. The Series B Bonds are not being offered pursuant to this Official Statement.

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series A Bonds to potential investors is made only by means of the entire Official Statement.

Capitalized terms not defined herein shall have the meaning set forth in Appendix A hereto. See Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS.”

Financing Purpose

Purpose of the Bonds. The Bonds are being issued by the South Orange County Public Financing Authority (the “Authority”) pursuant to an Indenture of Trust dated as of January 1, 2014 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The proceeds of the Bonds will be used to acquire the Local Obligations (defined below), to fund separate reserve funds for the Series A Bonds and the Series B Bonds (together, the “Reserve Funds”) and to pay the costs of issuing the Bonds. The principal and interest payments on the Local Obligations to be received by the Authority are the primary source of repayment for the Bonds. See “FINANCING PLAN” herein.

Purpose of the Local Obligations. The Local Obligations are being issued by two community facilities districts formed by the County of Orange (the “County”) in order to refund existing bonded indebtedness for the purpose of reducing the annual special taxes (the “Special Taxes”) paid by taxpayers within the community facilities districts. The net proceeds of the Local Obligations, along with other available funds, will be used as follows (see “FINANCING PLAN” herein):

- (i) to make deposits sufficient to defease the Prior CFD Bonds (defined below) and redeem them in whole on February 15, 2014;
- (ii) to pay the costs of issuing the Bonds; and
- (iii) to fund the Series A Reserve Fund and the Series B Reserve Fund established under the Indenture.

The Bonds; The Local Obligations

The Bonds. The Series A Bonds and the Series B Bonds will be issued simultaneously under the Indenture. The Series A Bonds will be secured under the Indenture by Revenues on a basis which is senior to the Series B Bonds as described below.

Series A Bonds. The Series A Bonds are payable from Revenues (as defined in the Indenture), which consist primarily of revenues received by the Authority from the payment of debt service on the Local Obligations and amounts held in the funds and accounts established and held for the benefit of the Series A Bonds under the Indenture. The debt service on each series of Local Obligations is paid from the proceeds of Special Taxes levied on the taxable property related to such Local Obligations which remain after the payment of administrative expenses. See “SECURITY FOR THE LOCAL OBLIGATIONS” and Appendix B — “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAXES FOR THE COMMUNITY FACILITIES DISTRICTS.”

Series B Bonds. The Series B Bonds are payable from “Subordinated Revenues” (defined in the Indenture), which primarily consist of Revenues remaining after payment of debt service on the Series A Bonds and replenishment of the Series A Reserve Fund, if necessary, and amounts held in the funds and accounts established and held for the benefit of the Series B Bonds under the Indenture.

Local Obligations. The Local Obligations consist of the following two separate series of bonds issued by two community facilities districts formed by the County:

CFD No. 2002-1 Bonds: \$57,585,000 Community Facilities District No. 2002-1 of the County of Orange (Ladera Ranch) Series 2014 Special Tax Refunding Bonds (the “CFD No. 2002-1 Bonds”) are being issued by Community Facilities District No. 2002-1 of the County of Orange (Ladera Ranch) (“CFD No. 2002-1”) to refund the outstanding Community Facilities District No. 2002-1 of the County of Orange (Ladera Ranch) Series A of 2003 Special Tax Bonds (the “Prior CFD No. 2002-1 Bonds”). The CFD No. 2002-1 Bonds are payable from Special Taxes levied on taxable property in CFD No. 2002-1 in accordance with the Rate and Method of Apportionment of Special Tax for CFD No. 2002-1. See “THE COMMUNITY FACILITIES DISTRICTS — Community Facilities District No. 2002-1” and Appendix B — “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAXES FOR THE COMMUNITY FACILITIES DISTRICTS” and herein.

CFD No. 2003-1 Bonds: \$46,960,000 Community Facilities District No. 2003-1 of the County of Orange (Ladera Ranch) Series 2014 Special Tax Refunding Bonds (the “CFD No. 2003-1 Bonds”) are being issued by Community Facilities District No. 2003-1 of the County of Orange (Ladera Ranch) (“CFD No. 2003-1”) to refund the outstanding Community Facilities District No. 2003-1 of the County of Orange (Ladera Ranch) Series A

of 2004 Special Tax Bonds (the “Prior CFD No. 2003-1 Bonds”). The CFD No. 2003-1 Bonds are payable from Special Taxes levied on taxable property in CFD No. 2003-1 in accordance with the Rate and Method of Apportionment of Special Taxes for CFD No. 2003-1. See “THE COMMUNITY FACILITIES DISTRICTS — Community Facilities District No. 2003-1” and Appendix B — “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAXES FOR THE COMMUNITY FACILITIES DISTRICTS” herein.

CFD No. 2002-1 and CFD No. 2003-1 are referred to collectively as the “Districts.” The CFD No. 2002-1 Bonds and the CFD No. 2003-1 Bonds are collectively referred to in this Official Statement as the “Local Obligations.” The Prior CFD No. 2002-1 Bonds and the Prior CFD No. 2003-1 Bonds are collectively referred to in this Official Statement as the “Prior CFD Bonds.” The Rate and Method of Apportionment of Special Taxes for each District is referred to herein as a “Rate and Method.”

Legal Authority

The Bonds. The Bonds are being issued under Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”) and the Indenture.

The Local Obligations. The Local Obligations are being issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California (the “Mello-Roos Act”), and two separate resolutions and supplement to resolutions, each approved by the Board of Supervisors, acting as the legislative body of CFD No. 2002-1 and CFD No. 2003-1, respectively (each, a “Local Obligation Resolution”).

Sources of Payment for the Bonds and the Local Obligations

Series A Bonds. The Series A Bonds are secured by a first lien on and pledge of all of the Revenues. “Revenues” are defined in the Indenture to include:

- (a) all amounts received from the Local Obligations;
- (b) any proceeds of the Series A Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Indenture with respect to the Series A Bonds; and
- (c) investment income with respect to any moneys held by the Trustee in the funds and accounts established under the Indenture with respect to the Series A Bonds.

Series B Bonds. The Series B Bonds are secured by a first lien on and pledge of all of the Subordinated Revenues. “Subordinated Revenues” are defined in the Indenture to include:

- (a) any proceeds of the Series B Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Indenture with respect to the Series B Bonds; and
- (b) all amounts remaining in the Revenue Fund on each Interest Payment Date after deposits to the Series A Funds and Accounts required pursuant to the Indenture; and

(c) investment income with respect to any moneys held by the Trustee in the funds and accounts established under the Indenture with respect to the Series B Bonds.

Certain Funds Not Pledged. Amounts held in the Administrative Expense Fund, the Rebate Fund and the Surplus Fund are not pledged to the repayment of the Bonds.

See “SECURITY FOR THE BONDS — Revenues and Subordinated Revenues; Flow of Funds” herein.

Local Obligations. Each series of Local Obligations will be payable from Net Special Taxes collected in the applicable District as a result of the levy of Special Taxes. Net Special Taxes are the Gross Special Taxes which remain after the payment of Administrative Expenses up to the amount permitted by the applicable Local Obligation Resolution. See “SECURITY FOR THE LOCAL OBLIGATIONS—Special Taxes; Gross Special Taxes; Net Special Taxes.

The Local Obligations are not cross-collateralized. In other words, Special Taxes from one District cannot be used to cover any shortfall in the payment of debt service on the Local Obligation of the other District.

Description of the Series A Bonds

Payments. Interest on the Series A Bonds is payable on August 15, 2014, and semiannually thereafter on February 15 and August 15 each year. Principal of and premium, if any, on the Series A Bonds shall be payable by the Trustee. See “THE SERIES A BONDS — General Provisions” and “— Book-Entry Only System” herein.

Denominations. The Series A Bonds will be issued in denominations of \$5,000 each or integral multiples thereof.

Redemption. The Series A Bonds are subject to optional redemption prior to their maturity. See “THE SERIES A BONDS — Redemption” herein.

Registration, transfers and exchanges. The Series A Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York (“DTC”), and will be available to actual purchasers of the Series A Bonds (the “Beneficial Owners”) under the book-entry system maintained by DTC. See “THE SERIES A BONDS— Book-Entry Only System.”

Neither the Bonds nor the Local Obligations are a debt of the County, and no revenues of the County are pledged to repayment of the Bonds or the Local Obligations.

The Authority

The Authority is a joint exercise of powers authority organized and existing pursuant to the Act. Its members are the County and Community Facilities District No. 88-2 of the County of Orange, and its Board of Directors consists of the members of the County Board of Supervisors from time to time, and various County officials perform services for the Authority.

Professionals Involved in the Offering

All proceedings in connection with the issuance of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Stradling Yocca Carlson & Rauth, a Professional Corporation, will render a legal opinion on certain matters for the Authority. David Taussig & Associates, Inc. is acting as Special Tax Consultant to the County. U.S. Bank National Association, Los Angeles, California, will act as the Trustee for the Bonds. Piper Jaffray & Co. (the “Underwriter”) is acting as underwriter in connection with the issuance and delivery of the Series A Bonds and as Placement Agent in connection with the issuance and delivery of the Series B Bonds. McFarlin & Anderson LLP, Laguna Hills, California, will act as counsel to the Underwriter. Causey Demgen & Moore P.C., Denver, Colorado, will provide escrow verification services.

Stradling Yocca Carlson & Rauth, a Professional Corporation, the Underwriter, and McFarlin & Anderson LLP will receive compensation contingent upon issuance of the Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation, represents the Underwriter in connection with financings unrelated to the Bonds.

Continuing Disclosure

The Authority will execute a Continuing Disclosure Certificate and will covenant therein for the benefit of holders and Beneficial Owners of the Series A Bonds to provide certain financial information and operating data relating to the Authority and the Districts in an annual report (the “Annual Report”) to be filed by March 1 following the end of its fiscal year commencing with the Annual Report for the 2012-13 Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. The Annual Report due on March 1, 2014, will consist of the Official Statement and the audited financial statements for the Authority and the Districts for Fiscal Year 2012-13. Thereafter, the Annual Report shall contain or include by reference the information set forth in the Continuing Disclosure Certificate. The Annual Report and notices of enumerated events will be filed by the Authority with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system at <http://emma.msrb.org/>. The specific nature of the information to be contained in the Annual Report and any notices of enumerated events is set forth in Appendix D — “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”).

During the last five years, the Authority, the County and certain of its related entities failed to comply in certain respects with their continuing disclosure obligations related to outstanding bonded indebtedness, however, the Authority, the County and its related entities are now current in all filings. See “MISCELLANEOUS — Continuing Disclosure.”

FINANCING PLAN

Purpose of Issue and the Refunding Plan

Acquisition of the Local Obligations. The Authority is issuing the Bonds to purchase the Local Obligations, to fund the Series A Reserve Fund and the Series B Reserve Fund and to pay the costs of issuing the Bonds.

Refunding of the Prior CFD Bonds. Certain proceeds of the Local Obligations, together with certain moneys in the existing funds and accounts relating to the Prior CFD Bonds, will be deposited into redemption accounts held by the paying agent under the Prior Supplements to refund and defease the Prior CFD Bonds, as follows:

(a) **Prior CFD No. 2002-1 Bonds:** Proceeds of the CFD No. 2002-1 Bonds together with certain other moneys relating to the Prior CFD No. 2002-1 Bonds will be used on February 15, 2014 to redeem the Prior CFD No. 2002-1 Bonds maturing on and after August 15, 2014, at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest to the redemption date.

(b) **Prior CFD No. 2003-1 Bonds:** Proceeds of the CFD No. 2003-1 Bonds together with certain other funds relating to the Prior CFD No. 2003-1 Bonds will be used on February 15, 2014 to redeem the Prior CFD No. 2003-1 Bonds maturing on and after August 15, 2014, at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest to the redemption date.

See “ — Estimated Sources and Uses of Funds” and “MISCELLANEOUS — Verification of Mathematical Accuracy” below.

Estimated Sources and Uses of Funds

The Bonds. The anticipated sources and uses of funds relating to the Bonds and the refunding of the Prior CFD Bonds are as follows:

	<i>Series A Bonds</i>	<i>Series B Bonds</i> ⁽²⁾	<i>Total</i>
Sources:			
Principal Amount of the Bonds	\$ 64,545,000.00	\$ 40,000,000.00	\$ 104,545,000.00
Plus Original Issue Premium	<u>4,909,516.10</u>	<u>--</u>	<u>4,909,516.10</u>
Total Sources	<u>\$ 69,454,516.10</u>	<u>\$ 40,000,000.00</u>	<u>\$ 109,454,516.10</u>
Uses⁽¹⁾:			
Redemption of Prior CFD Bonds	\$ 62,706,252.83	\$ 39,446,150.56	\$ 102,152,403.39
Series A Reserve Fund	6,277,000.00	--	6,277,000.00
Series B Reserve Fund	--	364,470.45	364,470.45
Underwriter’s Discount	296,907.00	--	296,907.00
Cost of Issuance	<u>174,356.27</u>	<u>189,378.99</u>	<u>363,735.26</u>
Total Uses	<u>\$ 69,454,516.10</u>	<u>\$ 40,000,000.00</u>	<u>\$ 109,454,516.10</u>

⁽¹⁾ The Authority will acquire the Local Obligations for a total purchase price of \$109,157,609.10 and in consideration of the purchase, the Districts and the Authority will agree to the application of the purchase price of the Local Obligations and the existing funds of the Districts as set forth below under the caption “*Local Obligations*.”

⁽²⁾ The Series B Bonds will be purchased in a private placement and are not being offered pursuant to this Official Statement.

Local Obligations. The anticipated sources and uses of funds relating to the Local Obligations are as follows:

Sources

	<i>CFD No. 2002-1</i>	<i>CFD No. 2003-1</i>	<i>Total</i>
Principal Amount	\$ 57,585,000.00	\$ 46,960,000.00	\$ 104,545,000.00
Plus Original Issue Premium	2,781,862.15	2,127,653.95	4,909,516.10
Prior Funds of the Districts	<u>8,942,192.94</u>	<u>9,831,618.67</u>	<u>18,773,811.61</u>
Total Sources	<u>\$ 69,309,055.09</u>	<u>\$ 58,919,272.62</u>	<u>\$ 128,228,327.71</u>

Uses

	<i>CFD No. 2002-1</i>	<i>CFD No. 2003-1</i>	<i>Total</i>
Redemption of Prior CFD Bonds	\$ 65,286,665.00	\$ 55,639,550.00	\$120,926,215.00
Series A Reserve Fund ⁽¹⁾	3,454,319.31	2,822,680.69	6,277,000.00
Series B Reserve Fund ⁽¹⁾	201,051.01	163,419.44	364,470.45
Costs of Issuance Fund ⁽²⁾	203,627.77	160,107.49	363,735.26
Underwriter's Discount	<u>163,392.00</u>	<u>133,515.00</u>	<u>296,907.00</u>
Total Uses	<u>\$ 69,309,055.09</u>	<u>\$ 58,919,272.62</u>	<u>\$ 128,228,327.71</u>

⁽¹⁾ On the date of issuance of the Bonds and the Local Obligations, each District will deposit a portion of the proceeds from the sale of the Local Obligations to the Authority into the Accounts of the Series A Reserve Fund and the Series B Reserve Fund established for such District held under the Indenture.

⁽²⁾ On the date of issuance of the Bonds and the Local Obligations, each District will deposit a portion of the proceeds from the sale of the Local Obligations to the Authority into the Costs of Issuance Fund held under the Indenture. Amounts in the Costs of Issuance Fund will be used to pay Trustee fees, verification agent fees, Bond Counsel and other legal fees, printing costs, rating agency fees, placement agent fee, and other related costs.

THE SERIES A BONDS

General Provisions

The Series A Bonds will be dated their date of delivery, and the Series A Bonds will mature in the amounts and on the dates set forth on the inside front cover hereof. The Series A Bonds will bear interest from their dated date at the rates per annum set forth on the inside front cover hereof, payable semiannually on each February 15 and August 15, commencing August 15, 2014 (each, an "Interest Payment Date"). The Series A Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof.

The Series B Bonds will be issued under the Indenture simultaneously with the Series A Bonds in the principal amount of \$40,000,000. The Series B Bonds will be purchased in a private placement by a qualified institutional buyer. The Series B Bonds are not being offered pursuant to this Official Statement. Interest on the Series B Bonds will also be paid on each Interest Payment Date and principal will be paid annually on each August 15. See Table 3 below.

Interest on the Series A Bonds will be payable on each Interest Payment Date to the person whose name appears on the Bond Register as the Owner as of the Record Date immediately preceding each Interest Payment Date. Interest will be paid by check of the Trustee mailed on the Interest Payment Date by first class mail, postage prepaid, to the Owner at the address as it appears on the Bond Register or by wire transfer to an account in the United States of America upon instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Series A Bonds

provided to the Trustee, in writing, at least five Business Days before the Record Date for such Interest Payment Date. Each Series A Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date (with respect to any Interest Payment Date the first calendar day of the month in which such Interest Payment Date occurs, whether or not such day is a Business Day) and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date; or (b) it is authenticated on or before the first Record Date, in which event it will bear interest from the Dated Date; provided, however, that if, as of the date of authentication of any Series A Bond, interest thereon is in default, such Series A Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon, or from the Dated Date if no interest has been paid or made available for payment. Principal of and premium (if any) on any Series A Bond will be paid upon presentation and surrender thereof, at maturity or the prior redemption thereof, at the Trust Office of the Trustee. The principal of and interest and premium (if any) on the Series A Bonds shall be payable in lawful money of the United States of America.

The Series A Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York (“DTC”). DTC will act as securities depository of the Series A Bonds. Ownership interests in the Series A Bonds may be purchased in book-entry form only in denominations of \$5,000 and any integral multiple. See the subsection hereof entitled “Book-Entry Only System.”

Redemption

Optional Redemption. The Series A Bonds maturing on or before August 15, 2021 are not subject to optional call and redemption prior to maturity. The Series A Bonds maturing on or after August 15, 2022 may be redeemed at the option of the Authority, from any source of available funds, prior to maturity, on any date on or after August 15, 2021, as a whole, or in part from such maturities as are selected by the Authority, at the following Redemption Prices (expressed as percentages of the principal amount of the Series A Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
August 15, 2021 through and including August 14, 2022	102%
August 15, 2022 through and including August 14, 2023	101
August 15, 2023 and any date thereafter	100

If the source of funds to optionally redeem the Series A Bonds is to be from a redemption of a Local Obligation, then, prior to consenting to the optional redemption of any Local Obligation, the Authority will deliver to the Trustee a certificate of an Independent Accountant or an Independent Financial Consultant verifying that, following such optional redemption of the Local Obligations and redemption of Series A Bonds, the principal and interest generated from the remaining Local Obligations is adequate to make the timely payment of principal and interest due on the Bonds that will remain Outstanding under the Indenture following such optional redemption.

Notice of Redemption. So long as the Series A Bonds are held by DTC, all notices of redemption will be sent only to DTC in accordance with its procedures and will not be delivered to any Beneficial Owner. The Trustee on behalf, and at the expense, of the Authority will give notice of any redemption to the Owners of any Series A Bonds designated for redemption electronically in accordance with the procedures of DTC or, if no longer held in book-entry form, by first class mail,

postage prepaid, at the respective addresses of the Owners appearing on the Bond Register, at least thirty (30) but not more than sixty (60) days prior to the date fixed for redemption. Neither failure to receive any such notice so given nor any defect therein will affect the validity of the proceedings for the redemption of the Series A Bonds or the cessation of the accrual of interest thereon. Such notice will state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, Series, Bond numbers and the maturity or maturities (in the event of redemption of all of the Series A Bonds of such maturity or maturities in whole) of the Series A Bonds to be redeemed, and will require that the Series A Bonds be then surrendered at the Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on the Series A Bonds will not accrue after the redemption date. The Trustee will also provide notice to the Securities Depositories and to the Information Services in accordance with the Indenture at least thirty (30) but no more than sixty (60) days prior to the date of redemption but the failure to provide such notice will not affect the validity of any proceedings for redemption.

In addition, further notice will be given by the Trustee by first class mail to any Owner whose Series A Bond has been called for redemption but who has failed to submit the Series A Bond for payment by the date which is sixty days after the redemption date, but no defect in said further notice nor any failure to give or receive all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption.

Unless funds for the optional redemption of any Series A Bonds are irrevocably deposited with the Trustee prior to rendering notice of redemption to the Series A Bond Owners, such notice will state that such redemption is conditional and subject to the deposit of funds with the Authority. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Series A Bonds then called for redemption, such redemption shall not occur and the Trustee shall give notice rescinding the notice of redemption in the same manner as the original notice of redemption was sent. Such rescission and cancellation of a notice of redemption shall not constitute an Event of Default under the Indenture. The Authority and the Trustee shall have no liability to the Series A Bond Owners or any other party related to or arising from such rescission and cancellation of a redemption. The Trustee shall mail (or deliver to DTC in accordance with its procedures) notice of any rescission and cancellation of a redemption in the same manner as the original notice of redemption was sent.

Selection of Bonds of a Maturity for Redemption. Unless otherwise provided in the Indenture, whenever provision is made for the redemption of less than all of the Series A Bonds of a maturity, the Trustee will select the Series A Bonds to be redeemed from all Series A Bonds of such maturity not previously called for redemption, by lot in any manner which the Trustee in its sole discretion deems appropriate and fair. For purposes of such selection, all Series A Bonds will be deemed to be comprised of separate \$5,000 authorized denominations, and such separate authorized denominations will be treated as separate Series A Bonds which may be separately redeemed.

Partial Redemption of Series A Bonds. In the event only a portion of any Series A Bond is called for redemption, then upon surrender of such Series A Bond the Authority will execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Series A Bond or Series A Bonds of the same maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Series A Bond to be redeemed.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) on the Series A Bonds so called for

redemption have been duly provided, such Series A Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue thereon from and after the redemption date specified in such notice.

Book-Entry Only System

The Series A Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. as nominee of DTC, and will be available to the Beneficial Owners purchasing interests in the Series A Bonds in the Authorized Denominations, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined herein) as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series A Bonds. While the Series A Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to a Series A Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Series A Bonds. **The Authority gives no assurance that DTC or the DTC Participants will distribute payments or notices to Beneficial Owners.** See Appendix E — “DTC AND THE BOOK-ENTRY ONLY SYSTEM.” In the event that the book-entry-only system is no longer used with respect to the Series A Bonds, the Series A Bonds will be registered and transferred in accordance with the Indenture.

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Estimated Debt Service Schedules: Series A Bonds and Local Obligations

Table 1 below presents the debt service schedule for the Series A Bonds assuming there is no optional redemption of Series A Bonds prior to maturity.

TABLE 1

DEBT SERVICE SCHEDULE FOR THE SERIES A BONDS

<i>Year Ending August 15</i>	<i>Series A Bonds Principal</i>	<i>Series A Bonds Interest</i>	<i>Series A Bonds Total Debt Service</i>
2014	\$ 1,280,000	\$ 1,697,741.11	\$ 2,977,741.11
2015	1,310,000	3,092,700.00	4,402,700.00
2016	1,435,000	3,053,400.00	4,488,400.00
2017	1,565,000	3,010,350.00	4,575,350.00
2018	1,720,000	2,947,750.00	4,667,750.00
2019	1,895,000	2,861,750.00	4,756,750.00
2020	2,085,000	2,767,000.00	4,852,000.00
2021	2,290,000	2,662,750.00	4,952,750.00
2022	2,500,000	2,548,250.00	5,048,250.00
2023	2,725,000	2,423,250.00	5,148,250.00
2024	2,975,000	2,287,000.00	5,262,000.00
2025	3,220,000	2,138,250.00	5,358,250.00
2026	3,495,000	1,977,250.00	5,472,250.00
2027	3,775,000	1,802,500.00	5,577,500.00
2028	4,075,000	1,613,750.00	5,688,750.00
2029	4,390,000	1,410,000.00	5,800,000.00
2030	4,730,000	1,190,500.00	5,920,500.00
2031	5,085,000	954,000.00	6,039,000.00
2032	5,455,000	699,750.00	6,154,750.00
2033	5,850,000	427,000.00	6,277,000.00
2034	2,690,000	134,500.00	2,824,500.00
Total	<u>\$ 64,545,000</u>	<u>\$ 41,699,441.11</u>	<u>\$ 106,244,441.11</u>

Source: The Underwriter.

Table 2 below summarizes the anticipated debt service payments to be received by the Authority as the result of its ownership of the Local Obligations, assuming there is no default in payment and no optional redemption of Local Obligations prior to maturity.

TABLE 2

DEBT SERVICE SCHEDULE FOR THE LOCAL OBLIGATIONS

<i>Bond Year Ending August 15</i>	<i>CFD No. 2002-1 Principal</i>	<i>CFD No. 2002- 1 Interest</i>	<i>CFD No. 2003-1 Principal</i>	<i>CFD No. 2003-1 Interest</i>	<i>Total Revenues ⁽¹⁾</i>
2014	\$ 820,000	\$ 1,424,135	\$ 660,000	\$ 1,164,317	\$ 4,068,452
2015	1,300,000	2,597,269	935,000	2,123,252	6,955,520
2016	1,425,000	2,552,437	1,025,000	2,090,951	7,093,388
2017	1,550,000	2,503,256	1,120,000	2,055,568	7,228,824
2018	1,690,000	2,440,680	1,235,000	2,010,350	7,376,030
2019	1,850,000	2,362,505	1,355,000	1,953,241	7,520,745
2020	2,025,000	2,276,875	1,480,000	1,890,541	7,672,416
2021	2,205,000	2,183,087	1,620,000	1,822,001	7,830,088
2022	2,390,000	2,080,891	1,760,000	1,746,916	7,977,807
2023	2,595,000	1,970,036	1,910,000	1,665,286	8,140,322
2024	2,810,000	1,849,613	2,080,000	1,576,657	8,316,270
2025	3,030,000	1,719,123	2,245,000	1,480,073	8,474,196
2026	3,265,000	1,578,361	2,425,000	1,375,786	8,644,147
2027	3,515,000	1,426,577	2,615,000	1,263,044	8,819,621
2028	3,775,000	1,263,112	2,810,000	1,141,440	8,989,552
2029	4,050,000	1,087,466	3,020,000	1,010,677	9,168,143
2030	4,345,000	898,935	3,240,000	870,096	9,354,031
2031	4,655,000	696,563	3,475,000	719,198	9,545,761
2032	4,975,000	479,693	3,720,000	557,278	9,731,971
2033	5,315,000	247,823	3,975,000	383,882	9,921,705
2034			4,255,000	198,509	4,453,509
Total	<u>\$ 57,585,000</u>	<u>\$ 33,638,434</u>	<u>\$ 46,960,000</u>	<u>\$ 29,099,058</u>	<u>\$ 167,282,492</u>

⁽¹⁾ Equals the total anticipated debt service on the Local Obligations in each Bond Year ending August 15.
Source: The Underwriter.

Debt Service Coverage for the Series A Bonds and the Series B Bonds

Table 3 below sets forth the projected debt service coverage for the Series A Bonds and the Series B Bonds, respectively, from Revenues and Subordinated Revenues assuming timely payment of debt service on all of the Local Obligations while the Bonds are outstanding. In the event of delinquencies in the payment of the Local Obligations, these coverage levels will not be realized and amounts would need to be drawn from the Series A Reserve Fund to pay the Series A Bonds and on the Series B Reserve Fund to pay the Series B Bonds.

TABLE 3

DEBT SERVICE COVERAGE FOR THE BONDS

<i>Year Ending August 15</i>	<i>Series A Bonds Debt Service</i>	<i>Total Revenues from Local Obligations⁽¹⁾</i>	<i>Series A Bonds Debt Service Coverage⁽²⁾</i>	<i>Series B Bonds Debt Service</i>	<i>Total Bonds Debt Service</i>	<i>Total Bonds Debt Service Coverage⁽³⁾</i>
2014	\$2,977,741	\$4,068,452	136.63%	\$1,090,711	\$4,068,452	100.00%
2015	4,402,700	6,955,520	157.98	2,552,820	6,955,520	100.00
2016	4,488,400	7,093,388	158.04	2,604,988	7,093,388	100.00
2017	4,575,350	7,228,824	157.99	2,653,474	7,228,824	100.00
2018	4,667,750	7,376,030	158.02	2,708,280	7,376,030	100.00
2019	4,756,750	7,520,745	158.11	2,763,995	7,520,745	100.00
2020	4,852,000	7,672,416	158.13	2,820,416	7,672,416	100.00
2021	4,952,750	7,830,088	158.10	2,877,338	7,830,088	100.00
2022	5,048,250	7,977,807	158.03	2,929,557	7,977,807	100.00
2023	5,148,250	8,140,322	158.12	2,992,072	8,140,322	100.00
2024	5,262,000	8,316,270	158.04	3,054,270	8,316,270	100.00
2025	5,358,250	8,474,196	158.15	3,115,946	8,474,196	100.00
2026	5,472,250	8,644,147	157.96	3,171,897	8,644,147	100.00
2027	5,577,500	8,819,621	158.13	3,242,121	8,819,621	100.00
2028	5,688,750	8,989,552	158.02	3,300,802	8,989,552	100.00
2029	5,800,000	9,168,143	158.07	3,368,143	9,168,143	100.00
2030	5,920,500	9,354,031	157.99	3,433,531	9,354,031	100.00
2031	6,039,000	9,545,761	158.07	3,506,761	9,545,761	100.00
2032	6,154,750	9,731,971	158.12	3,577,221	9,731,971	100.00
2033	6,277,000	9,921,705	158.06	3,644,705	9,921,705	100.00
2034	2,824,500	4,453,509	157.67	1,629,009	4,453,509	100.00

⁽¹⁾ Revenues consist of combined debt service on the Local Obligations.

⁽²⁾ Calculated by dividing Total Revenues from Local Obligations column by Series A Bonds Debt Service column, expressed as a percentage.

⁽³⁾ Calculated by dividing Total Revenues from Local Obligations column by Total Bonds Debt Service column, expressed as a percentage.

Source: The Underwriter

Potential Debt Service Coverage on the Local Obligations

CFD No. 2002-1. The Special Taxes levied within CFD No. 2002-1 in Fiscal Year 2013-14 is equal to the sum of the budgeted Administrative Expenses of \$52,773 plus the debt service due on the Prior CFD No. 2002-1 Bonds on February 15, 2014 and on August 15, 2014. For each subsequent Fiscal Year, CFD No. 2002-1 expects to levy an amount equal to the sum of the Administrative Expenses Cap for such Fiscal Year plus the debt service due on the CFD No. 2002-1

Bonds to be paid for from such levy. This amount is expected to require a levy in each Fiscal Year of approximately 76% of the Assigned Special Tax rate. If Special Taxes were levied at 100% of the Assigned Special Tax rate (which rate escalates at 2% per year) and the development status in CFD No. 2002-1 as of January 1, 2013 remains unchanged, the amount levied would equal approximately 131% of the sum of the Administrative Expenses Cap (\$75,000, escalating at 2% per year thereafter) plus the debt service to be paid on the CFD No. 2002-1 Bonds from each levy. Notwithstanding the foregoing, as explained below, CFD No. 2002-1 may be precluded from levying the Special Taxes at 100% of the Assigned Special Tax rate in which case the coverage amount would be less than 131%.

CFD No. 2003-1. The Special Taxes levied within CFD No. 2003-1 in Fiscal Year 2013-14 is equal to the sum of the budgeted Administrative Expenses of \$49,425 plus the debt service due on the Prior CFD No. 2003-1 Bonds on February 15, 2014 and on August 15, 2014. For each subsequent Fiscal Year, CFD No. 2003-1 expects to levy an amount equal to the sum of the Administrative Expenses Cap for such Fiscal Year plus the debt service due on the CFD No. 2002-1 Bonds to be paid for from such levy. This amount is expected to require a levy in each Fiscal Year of approximately 72% of the Assigned Special Tax rate. If Special Taxes were levied at 100% of the Assigned Special Tax rate (which rate escalates at 2% per year) and the development status in CFD No. 2003-1 as of January 1, 2013 remains unchanged, the amount levied would equal approximately 139% of the sum of the Administrative Expenses Cap (\$75,000, escalating at 2% per year thereafter) plus the debt service to be paid on the CFD No. 2003-1 Bonds from each levy. Notwithstanding the foregoing, as explained below, CFD No. 2003-1 may be precluded from levying the Special Tax at 100% of the Assigned Special Tax rate in which case the coverage amount would be less than 139%.

Limitation on Special Tax Levy and Potential Impact on Coverage. Pursuant to Section 53321(d) of the Mello-Roos Act and the Rates and Methods for the Districts, under no circumstances may Special Taxes levied against any parcel of property used for private residential purposes be increased by more than ten percent (10%) as a consequence of delinquency or default by the owner of any other parcel within a District. Therefore, it is possible that Special Taxes may not be levied up to 100% of the Assigned Special Tax rates in any particular fiscal year as a consequence of Special Tax delinquencies in the Districts.

Given the foregoing, investors in the Series A Bonds should assume that the maximum amount of Special Taxes that could be levied in each Bond Year in each District would result in Net Special Taxes of not more than 110% of debt service on the CFD No. 2002-1 Bonds and the CFD No. 2003-1 Bonds, respectively, in each Bond Year.

SECURITY FOR THE BONDS

General

As described below, the Series A Bonds are payable from Revenues, and the Series B Bonds are payable primarily from Subordinated Revenues, in each case consisting primarily of amounts received by the Authority from the debt service payments on the Local Obligations and amounts on deposit in the Series A Reserve Fund and the Series B Reserve Fund, respectively. See “SECURITY FOR THE BONDS — Reserve Funds.” Debt service payments in the Local Obligations are paid from the Net Special Taxes, and the Special Taxes are currently paid to the Districts in accordance with the County’s Teeter Plan. See “SECURITY FOR THE LOCAL OBLIGATIONS—Special Taxes; Gross Special Taxes; Net Special Taxes” and “—Teeter Plan.”

The Series A Bonds are special obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor in the Indenture. The Series B Bonds are special obligations of the Authority payable solely from and secured solely by the Subordinated Revenues pledged therefor in the Indenture. The Bonds are not a debt or liability of the County, the State of California or any political subdivisions thereof other than the Authority to the limited extent described herein. The faith and credit of the Authority are not pledged to secure the payment of Bonds, nor is any other political subdivision liable therefor, nor in any event shall the Bonds or any interest or redemption premium thereon be payable out of any funds or properties other than those of the Authority as set forth in the Indenture. The Authority has no taxing power.

Revenues and Subordinated Revenues; Flow of Funds

Series A Bonds; Revenues. The Series A Bonds are secured by a first lien on and pledge of all of the Revenues. So long as any of the Bonds are Outstanding, the Revenues will not be used for any purpose except as is expressly permitted by the Indenture.

Series B Bonds; Subordinated Revenues. The Series B Bonds are secured by a first lien on and pledge of all of the Subordinated Revenues. So long as any of the Bonds are Outstanding, the Subordinated Revenues will not be used for any purpose except as is expressly permitted by the Indenture.

Collection by the Trustee. The Trustee shall be entitled to receive all of the Revenues and Subordinated Revenues, and any Revenues and Subordinated Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and will take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the Districts under the Local Obligations.

Deposit of Revenues. All Revenues derived from the Local Obligations will be promptly deposited by the Trustee upon receipt thereof in the Revenue Fund for application in the order described under the captions “—Application of Revenues” and “—Application of Subordinate Revenues” below; provided, however, that amounts made available by the Authority to the Trustee to redeem Series A Bonds shall be deposited in the Redemption Account of the Revenue Fund in the amounts and on the dates required to effect the required redemption of the Series A Bonds as set forth in the Indenture. See “THE SERIES A BONDS—Redemption” herein. Any Revenues which represent the payment of delinquent principal or interest on an issue of Local Obligations (“Local Obligations Delinquency Revenues”) will be applied first to cure any event of default on the Series A Bonds and then will be deposited to the Series A Reserve Fund to the extent necessary to replenish the Series A Reserve Fund for any deficiency that resulted from the delinquency in the payment of scheduled debt service on such Local Obligations. Any amount in excess of that needed to replenish the Series A Reserve Fund to the extent described above will be deposited to the Revenue Fund for transfer as provided in the Indenture.

Application of Revenues. On each Interest Payment Date, the Trustee shall transfer from the Revenue Fund, and deposit into the following respective accounts for the Series A Bonds, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues

sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

Series A Interest Account. On each Interest Payment Date, the Trustee will deposit in the Series A Interest Account an amount required to cause the aggregate amount on deposit in the Series A Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Series A Bonds on such date. Moneys in the Series A Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Series A Bonds as it shall become due and payable (including accrued interest on any Series A Bonds redeemed prior to maturity). In the event that the amounts on deposit in the Series A Interest Account on any Interest Payment Date, after any transfers from the Series A Reserve Fund, are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Series A Bonds, the Trustee will apply such amounts to the payment of interest on each of the Outstanding Series A Bonds on a pro rata basis.

Series A Principal Account. On each February 15, the Trustee will deposit in the Series A Principal Account an amount equal to one-half of the principal amount of the Series A Bonds that will become due and payable on the next succeeding August 15 at maturity. On each August 15 on which principal of the Series A Bonds will be payable, the Trustee will deposit in the Series A Principal Account an amount required to cause the aggregate amount on deposit in the Series A Principal Account to equal the principal amount of the Series A Bonds coming due and payable on such date at maturity. All moneys in the Series A Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Series A Bonds due at maturity.

Series A Reserve Fund. On each Interest Payment Date on which the balance in the Series A Reserve Fund is less than the Series A Reserve Requirement, after making deposits required into the Series A Interest Account and the Series A Principal Account, subject to the limitations described under the caption “—Reserve Funds” below, the Trustee shall transfer from the Revenue Fund an amount sufficient to increase the balance in the Series A Reserve Fund to the Series A Reserve Requirement by depositing the amount necessary to make the various accounts therein equal to, together, the Series A Reserve Requirement, provided the value of the moneys deposited therein, as invested, will be valued at market value on such transfer date for purposes of making such determination.

Application of Subordinate Revenues. On each Interest Payment Date after making the deposits required described above, the Trustee will transfer from the Revenue Fund, and deposit into the Series B Interest Account and the Series B Principal Account, amounts required to pay the interest and principal due on the Series B Bonds. In addition, on each August 15 on which the balance in the Series B Reserve Fund is less than the Series B Reserve Requirement, subject to the limitations described under the caption “—Reserve Funds” below, after making the interest and principal payments then due on the Series B Bonds, any remaining Subordinated Revenues will be applied to increase the balance in the Series B Fund to the Series B Reserve Requirement.

Application of Delinquent Revenues. If on any Interest Payment Date or date for redemption the amount on deposit in the Revenue Fund is inadequate to make the transfers described above as a result of a payment default on an issue of Local Obligations, the Trustee will immediately notify the issuer of such Local Obligations of the amount needed to make the required deposits

described above under “—Application of Revenues” and “Application of Subordinate Revenues.” In the event that following such notice the Trustee receives Local Obligations Delinquency Revenues from the issuer of such Local Obligation to cure such shortfall, the Trustee shall deposit such amounts to the Revenue Fund for application in accordance with the Indenture. The Trustee shall disburse or transfer all Revenues representing Local Obligations Delinquency Revenues first to cure any event of default on the Series A Bonds and then to replenish the amount in the Series A Reserve Fund to the Series A Reserve Requirement. Thereafter, the Trustee shall disburse or transfer all Subordinate Revenues representing Local Obligations Delinquency Revenues first to cure any event of default on the Series B Bonds and then to replenish the amount in the Series B Reserve Fund to the Series B Reserve Requirement.

Deposit into Rebate Fund. Annually within 55 days after each August 15, upon receipt of a Request of the Authority to do so, the Trustee will transfer from the Administrative Expense Fund or the Surplus Fund or from amounts other than Revenues as specified in the Request of the Authority to the Rebate Fund for deposit in the accounts therein the amounts specified in such Request. Amounts in the Rebate Fund are not pledged to repay the Bonds.

Administrative Expense Fund and Surplus Fund. On August 15 of each year, after making the deposits described above, the Authority the Trustee will transfer all amounts remaining on deposit in the Revenue Fund to the Administrative Expense Fund. Notwithstanding the foregoing, the Authority may direct the Trustee to transfer such amounts remaining on deposit in the Revenue Fund to the Surplus Fund. Amounts in the Administrative Expense Fund and the Surplus Fund are not pledged to repay the Bonds.

Reserve Funds

Series A Reserve Fund. An account for each issue of Local Obligations will be established in the Series A Reserve Fund (each, an “Account”). The Series A Reserve Requirement will initially be deposited into the following Accounts in an amount equal to the portion of the Series A Reserve Requirement initially allocable to each such Account:

- \$3,454,319.31 in the CFD No. 2002-1 Account
- \$2,822,680.69 in the CFD No. 2003-1 Account

As described below, the amount in each Account may be drawn upon only following a default in payment on the Local Obligations of the District to which such Account relates.

There shall be maintained in each of such Accounts an amount equal to the Series A Reserve Requirement multiplied by the Proportionate Share for such Account and in the event of a draw on an Account, such Account shall be returned to its Proportionate Share of the Series A Reserve Requirement as described below. In the event that the amount of the Series A Reserve Requirement is changed, the Trustee will, upon receipt of a Request of the Authority, adjust the shares of each Account to reflect the new Series A Reserve Requirement.

Subject to the limitations set forth in the following paragraph, moneys in the Series A Reserve Fund will be used to pay the principal of and interest on the Series A Bonds when the moneys in the Series A Interest Account and the Series A Principal Account of the Revenue Fund are insufficient therefor. In addition, amounts in the Series A Reserve Fund may be applied (i) in connection with an optional redemption of Series A Bonds or a defeasance thereof, (ii) when the

balance therein equals the principal and interest due on the Series A Bonds to and including maturity, or (iii) when amounts in certain accounts of the Series A Reserve Fund are transferred to the Series A Interest Account and the Series A Principal Account as a credit against the final payments due on the Local Obligations as specified below.

If the amounts in the Series A Interest Account or the Series A Principal Account of the Revenue Fund are insufficient to pay the principal of or interest on the Series A Bonds when due, the Trustee shall withdraw from the Series A Reserve Fund for deposit in the Series A Interest Account and the Series A Principal Account, as applicable, moneys necessary for such purposes in the following priority and subject to the following limitations: if the insufficiency was caused by a delinquency in the payment of a Local Obligation, the moneys necessary to make up the deficiency in the Series A Interest Account or the Series A Principal Account caused by the delinquency on the Local Obligation shall be transferred from the Account of the Series A Reserve Fund established for the District which issued such Local Obligation. Amounts in an Account of the Series A Reserve Fund established for a District may be transferred to the Series A Interest Account or Series A Principal Account only to the extent necessary to cure any default on any Local Obligation of such District and may not be transferred to cure any default on any other Local Obligation.

Upon the transfer by the Trustee to the Series A Reserve Fund of Local Obligations Delinquency Revenues of a District, such Revenues shall be allocated to the Series A Reserve Accounts as follows:

First, to the Series A Reserve Account established for such District that amount necessary to increase the amount on deposit in such account to the applicable Proportionate Share of the Series A Reserve Requirement.

Second, the remaining Local Obligations Delinquency Revenues, if any, shall be transferred to the Revenue Fund.

When amounts in an Account of the Series A Reserve Fund are equal to or more than the remaining principal and interest due on the related Local Obligations that will be applied to the Series A Bonds, such amounts will be transferred to the Series A Interest Account and the Series A Principal Account as a credit against the payments due on such Local Obligations, with the amount transferred from an Account being deposited first to the Series A Interest Account as a credit on the interest due on such Local Obligations on such date and the balance being deposited to the Series A Principal Account as a credit on the principal due on such Local Obligations on such date.

Series B Reserve Fund. An account for each issue of Local Obligations will be established in the Series B Reserve Fund (each, an “Account”). The Series B Reserve Requirement will initially be deposited into the following Accounts in an amount equal to the portion of the Series B Reserve Requirement initially allocable to each such Account:

- \$201,051.01 in the CFD No. 2002-1 Account
- \$163,419.44 in the CFD No. 2003-1 Account

There shall be maintained in each of such Accounts an amount equal to the Series B Reserve Requirement multiplied by the Proportionate Share for such Account and in the event of a draw on an Account, such Account shall be returned to its Proportionate Share of the Series B Reserve Requirement as described below. In the event that the amount of the Series B Reserve Requirement

is changed, the Trustee will, upon receipt of a Request of the Authority, adjust the shares of each Account to reflect the new Series B Reserve Requirement.

Subject to the limitations set forth in the Indenture, moneys in the Series B Reserve Fund will be used to pay the principal of and interest on the Series B Bonds when due when the moneys in the Series B Interest Account and the Series B Principal Account of the Revenue Fund are insufficient therefor. In addition, amounts in the Series B Reserve Fund may be applied (i) in connection with a defeasance of the Series B Bonds, (ii) when the balance therein equals the principal and interest due on the Series B Bonds to and including maturity, or (iii) when amounts in certain Accounts of the Series B Reserve Fund are transferred to the Series B Interest Account and the Series B Principal Account as a credit against the final payments due on the Local Obligations as specified in the Indenture.

Transfers by the Trustee to the Series B Reserve Fund of Local Obligations Delinquency Revenues shall be allocated to the Series B Reserve Accounts in accordance with the Indenture.

Surplus Fund

Any amounts transferred to the Surplus Fund will no longer be considered Revenues or Subordinated Revenues and are not pledged to repay the Bonds. So long as Local Obligations are outstanding, on August 15 of each year after setting aside any amount specified in a Request of the Authority as necessary to pay Administrative Expenses, all of the remaining balance, if any, in the Surplus Fund will (i) as set forth in a Request of the Authority, be transferred by the Trustee to the paying agent for credit to the special tax fund of either or both of the Districts, and (ii) as set forth in a Request of the Authority be applied to the redemption of Local Obligations pursuant to the terms of either or both of the Local Obligations Resolutions.

In the event that the Local Obligations have been redeemed or defeased in whole, then any amounts in the Surplus Fund may be used by the Authority for any lawful purpose, including, but not limited to, the payment of expenses of the County relating to the Bonds, the Local Obligations, the Districts, or any other purpose as specified in a Request of the Authority delivered to the Trustee.

On August 15 of the year preceding the year of the final maturity of the Bonds, the remaining balance in the Surplus Fund shall be credited by the Trustee as set forth in a Request of the Authority, to each special tax fund established with respect to Local Obligations of the Districts. Such amounts shall be applied to reduce debt service payments on the Local Obligations.

Additional Bonds

The Authority may issue Additional Bonds secured on a parity with Series A Bonds (“Additional Series A Bonds”), and may issue Additional Bonds secured on a parity with Series B Bonds (“Additional Series B Bonds”), in each case in such principal amount as shall be determined by the Authority, pursuant to a Supplemental Indenture adopted or entered into by the Authority but only for the purpose of refunding the Bonds or Additional Bonds. If issued, Additional Series A Bonds shall be secured and paid under the Indenture in the same manner and on a parity with the Series A Bonds and any other Additional Series A Bonds then Outstanding, and the Indenture may be amended and modified without the consent of the Owners of the Bonds to secure and pay such Additional Series A Bonds on a parity with the Series A Bonds and any Additional Series A Bonds then Outstanding.

Additional Bonds may only be issued subject to the following conditions precedent established by the Indenture:

(a) The Authority shall be in compliance with all covenants set forth in the Indenture and all Supplemental Indentures;

(b) The proceeds of such Additional Bonds will be applied to accomplish a refunding of all or a portion of the Bonds Outstanding as specified in a Request of the Authority; provided, however, that Additional Series B Bonds may be applied to redeem Series A Bonds or Additional Series A Bonds only if all Outstanding Series A Bonds and Additional Series A Bonds will be defeased in whole or if otherwise consented to by the Owners of all Outstanding Series B Bonds and Additional Series B Bonds then Outstanding;

(c) The Supplemental Indenture providing for the issuance of such Additional Bonds must provide that interest thereon will be payable on August 15 and February 15, and principal thereof will be payable on August 15 in any year in which principal is payable;

(d) Prior to the delivery of any Additional Bonds, a written certificate must be provided to the Authority and the Trustee by an Independent Financial Consultant or Independent Accountant which certifies that the Annual Debt Service in each Bond Year on the Additional Bonds does not exceed the Annual Debt Service in each Bond Year on the Bonds defeased or redeemed with the proceeds of such Additional Bonds;

(e) The Supplemental Indenture providing for the issuance of Additional Bonds may provide for the establishment of separate funds and accounts;

(f) No Event of Default has occurred and be continuing with respect to the Bonds or any of the Local Obligations; and

(g) The Authority will deliver to the Trustee a written Certificate of the Authority certifying that the conditions precedent to the issuance of such Additional Bonds set forth in subsections (a), (b), (c), (d) and (f) above have been satisfied and that, upon the issuance of such Additional Bonds an amount equal to the Series A Reserve Requirement, as adjusted (if necessary) to reflect the issuance of such Additional Bonds will be on deposit in the Series A Reserve Fund and an amount equal to the Series B Reserve Requirement, as adjusted (if necessary) to reflect the issuance of such Additional Bonds, will be on deposit in the Series B Reserve Fund.

SECURITY FOR THE LOCAL OBLIGATIONS

General

The Local Obligations issued by a District are limited obligations of such District payable solely from Net Special Taxes collected in such District and from amounts on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) of such District. Each District's limited obligation to pay the principal of, premium, if any, and interest on its Local Obligations from Net Special Taxes collected in the District and amounts in the Special Tax Fund of such District (exclusive of the Administrative Expense Account) is absolute and unconditional.

No Local Obligation issued by a District (and no Parity Bonds issued under a Local Obligation Resolution relating to the Local Obligations, each a "Local Obligation Parity Bond") is a

legal or equitable pledge, charge, lien or encumbrance upon any of such District's property, or upon any of its income, receipts or revenues, except the Net Special Taxes collected in such District and other amounts in the Special Tax Fund of such District (except the Administrative Expense Account).

None of the Special Taxes levied in one District may be used to pay debt service on the Local Obligations of the other District. Except for the Net Special Taxes, neither the credit nor the taxing power of the Districts or the County is pledged for the payment of the Local Obligations or related interest, and no Owner of the Bonds may compel the exercise of taxing power by the County or a District or the forfeiture of any of its property. The principal of and interest on the Local Obligations and premiums upon the redemption thereof, if any, are not a debt of the Districts or the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction.

Special Taxes; Gross Special Taxes; Net Special Taxes

The "Special Taxes" for each District are the special taxes authorized to be levied and collected by the District according to the Rate and Method established for such District. The Special Taxes are collected in the manner and at the same time as ad valorem property taxes are collected and is subject to the same penalties and the same procedure, sale, and lien priority in case of delinquency as is provided for ad valorem property taxes. See "THE COMMUNITY FACILITIES DISTRICTS" and Appendix B — "RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAXES FOR THE COMMUNITY FACILITIES DISTRICTS."

The "Net Special Taxes" pledged by each District to its Local Obligations (and any related Local Obligation Parity Bonds) is defined in the Local Obligation Resolutions as "Gross Special Taxes" minus amounts set aside prior to the payment of the principal of and interest on the Local Obligations to pay Administrative Expenses, but in no case to exceed the Administrative Expenses Cap in each Fiscal Year.

"Gross Special Taxes" is defined as the amount of all Special Taxes received by the District from the Treasurer, together with all payments made with respect to tax-defaulted parcels (including all delinquent and redemption penalties, fees and costs), and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Local Obligation Resolution, but excluding any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the related Local Obligation Resolution, so long as the County has paid to the District the Special Taxes levied for a tax-defaulted parcel pursuant to the Teeter Plan.

Each District will covenant in the Local Obligation Resolution relating to its Local Obligations that it will receive all Special Taxes and amounts paid to it by the Authority under the Authority Indenture in trust for the Owners of its Local Obligations, and will immediately deposit such amounts with the Treasurer, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Local Obligation Resolution.

The Treasurer, under the Local Obligation Resolution will, on each date on which the Special Taxes are apportioned to the District, deposit the Special Taxes in the Special Tax Fund and shall also deposit therein all amounts paid to the Treasurer by the Authority to be held in trust for the Authority as the owner of the related Local Obligations. The Treasurer will transfer the Special

Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Local Obligation Resolution, in the following order of priority, to:

- (1) The Administrative Expense Account of the Special Tax Fund in an amount not to exceed the Administrative Expense Cap;
- (2) The Interest Account of the Special Tax Fund;
- (3) The Principal Account of the Special Tax Fund;
- (4) The Redemption Account of the Special Tax Fund;
- (5) The Reserve Account of the Special Tax Fund;
- (6) The Administrative Expense Account of the Special Tax Fund for Administrative Expenses in excess of the Administrative Expense Cap; and
- (7) The Special Reserve Fund.

Teeter Plan

The Districts are included in the County's Teeter Plan and, as described below, so long as the Teeter Plan remains in effect with respect to the Districts, the Districts will be paid 100% of the amount of Special Taxes levied regardless of whether the County has actually collected the levies. To the extent that the County's Teeter Plan continues in existence and is carried out as adopted, the County's Teeter Plan may help to protect the Owners of the Series A Bonds from the risk of delinquencies in Special Taxes.

In 1949, the California Legislature enacted an alternative method for the distribution of secured property taxes to local agencies. This method, known as the Teeter Plan, is now set forth in Section 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. A county benefits from the Teeter Plan by retaining penalties associated with these delinquent taxes when they are paid and the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of the county generally must elect to do so by July 15 of the fiscal year in which it is to apply. The Board of Supervisors adopted the Teeter Plan on June 29, 1993 and has elected to include in its Teeter Plan special taxes levied in certain community facilities districts, including the Districts, on the secured roll.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency.

See “SPECIAL RISK FACTORS – Teeter Plan Termination.” The County has never discontinued the Teeter Plan with respect to any levying agency.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of special taxes and assessments (if a county has elected to include assessments), 100% of the special tax delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the special tax. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

Local Obligation Parity Bonds

Each Local Obligation Resolution authorizes the applicable District to issue additional bonds secured by Net Special Taxes on a parity with the related Local Obligations for such District but only for the purpose of refunding all or a portion of the Local Obligations or Local Obligation Parity Bonds of such District. For a description of the conditions established in each Local Obligation Resolution for the issuance of Local Obligation Parity Bonds, see Appendix A — “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS.”

Priority of Lien of Special Taxes

Each installment of the Special Taxes and any interest and penalties thereon, constitutes a lien on the parcel of land on which it was imposed until the same is paid. Such lien is co-equal to and independent of the lien for general taxes, any other community facilities district special taxes. See “THE COMMUNITY FACILITIES DISTRICTS — The Districts in the Aggregate” herein.

Covenants of the Districts

In each Local Obligation Resolution, the applicable District will covenant as follows, among other things:

Punctual Payment. It will duly and punctually pay or cause to be paid the principal of and interest on each Local Obligation (and any Local Obligation Parity Bond) issued under its Local Obligation Resolution, together with the premium, if any to the extent that Net Special Taxes and other amounts pledged under the Local Obligation Resolution are available therefor.

Against Encumbrance. It will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Special Taxes or any amounts received from the Authority except as provided in the Local Obligation Resolution, and will not issue any obligation or security having a lien or charge upon the Net Special Taxes superior to or on a parity with the Local Obligations (other than Local Obligation Parity Bonds). Nothing in the Local Obligation Resolution prevents the

District from issuing or incurring indebtedness which is payable from a pledge of Net Special Taxes which is subordinate in all respects to the pledge of Net Special Taxes and amounts received from the Authority to repay the related Local Obligations and the related Local Obligation Parity Bonds.

Levy of Special Tax. So long as any Local Obligations or Local Obligation Parity Bonds are Outstanding, the legislative body of the District will cause the Treasurer to levy Special Taxes in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and in the Revenue Fund under the Indenture and available for such purpose, to pay (1) the principal of and interest on such Local Obligations and any Local Obligation Parity Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Accounts of the Reserve Funds held under the Indenture (and the amount, if any, required to be held in the Reserve Account with respect to Local Obligation Parity Bonds) resulting from the delinquency in the payment of the scheduled debt service on the Local Obligations or Local Obligation Parity Bonds Outstanding (collectively, the “Special Tax Requirement”).

Commence Foreclosure Proceedings. The District covenants for the benefit of the Trustee as the Owner of the Local Obligations and the Owners of any Local Obligation Parity Bonds that, subject to the limitation in the following paragraph, it:

- (i) will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$25,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due, and
- (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied, and
- (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are collected.

Notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as both (1) the amount in the Reserve Account held under the Local Obligation Indenture and in each Account of the Reserve Funds established for the District under the Indenture is at least equal to its Proportionate Share of the Reserve Requirement, and (2) with respect to the Local Obligations, or any Local Obligation Parity Bonds purchased by the Authority, the District has not defaulted in the payment of the principal of or interest on such Local Obligations or Local Obligation Parity Bonds.

Each District may, but is not obligated to, advance funds from any source of legally available funds in order to maintain its Proportionate Share in the applicable Accounts of the Reserve Funds or to avoid a default in payment on the Local Obligations and any Local Obligation Parity Bonds owned by the Authority.

Each District covenants that it will deposit the Gross Special Taxes of any foreclosure in the related Special Tax Fund and will apply such proceeds remaining after the payment of the Administrative Expenses to pay any delinquent installments of principal and interest on the Local Obligations of the District and any Local Obligation Parity Bonds of the District, to make current payments of principal and interest on the Local Obligations of the District and any Local Obligation

Parity Bonds of the District, to bring the amounts in the Accounts of the Reserve Funds held under the Indenture up to the Proportionate Share and, if in the event a separate Reserve Requirement has been established for Local Obligation Parity Bonds, then also to bring the amount on deposit in the Reserve Account held under the Local Obligation Resolution up to the Reserve Requirement.

Reduction of Maximum Special Taxes. Each District covenants that it will not initiate proceedings to reduce the maximum Special Tax rates for a District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method then in effect in the District) in each Bond Year for any related Local Obligations and Local Obligation Parity Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses Cap plus debt service in each Bond Year on all related Local Obligations and any related Local Obligation Parity Bonds to remain Outstanding after the reduction is approved, (ii) the amount in the Accounts of the Reserve Funds for such District is not less than the Proportionate Share and the amount in the Reserve Account is not less than the Reserve Requirement as defined in the Local Obligations Resolution, and (iii) the District is not delinquent in the payment of the principal of or interest on the related Local Obligations and any related Local Obligation Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultants shall compute the Administrative Expenses for each Fiscal Year at the Administrative Expense Cap.

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**COMMUNITY FACILITIES DISTRICT NO. 2002-I
OF THE COUNTY OF ORANGE (LADERA RANCH)**



Antonio Parkway

Crown Valley Parkway

COMMUNITY FACILITIES DISTRICT NO. 2003-1
OF THE COUNTY OF ORANGE (LADERA RANCH)

Antonio Parkway

O'Neil Drive



THE COMMUNITY FACILITIES DISTRICTS

Ladera Ranch Development

The Districts are located within the master development known as Ladera Ranch. Ladera Ranch is an approximately 4,000 acre planned community located in the unincorporated southeast portion of the County. Ladera Ranch is surrounded by a number of planned communities, including Rancho Santa Margarita, Mission Viejo, and Coto de Caza.

The Districts in the Aggregate

Introduction. Set forth under this caption is certain information describing the Districts in the aggregate and separately. Although the Authority believes the information with respect to the Districts in the aggregate is relevant to an informed decision to purchase the Series A Bonds, investors should be aware that the debt service on one Local Obligation may not be used to make up any shortfall in the debt service on another Local Obligation. Moreover, the parcels in each of the Districts are taxed according to that District's specific Rate and Method, and the Special Taxes may only be applied to pay the debt service on the Local Obligations of the District in which they are levied and not on the debt service of any other Local Obligations.

Potential investors should further be aware that Special Taxes are levied against individual parcels within each District and that any such parcel may have a value-to-lien ratio less than the overall value-to-lien ratio for such District and less than the value-to-lien ratio of the Districts in the aggregate.

Development Status. As of January 1, 2013, all of the dwelling units to be constructed within the Districts had been completed and sold. As of such date, there were 1,857 residential units, 29 parcels of nonresidential property and 11 parcels of undeveloped property within CFD No. 2002-1. The 11 parcels of undeveloped property within CFD No. 2002-1 total approximately 12.69 acres. Approximately 9 of these acres are currently used as landscaping and parking adjacent to retail shopping centers and are not expected to be further developed. As of January 1, 2013, there were 1,259 residential units and 1 parcel of nonresidential property within CFD No. 2003-1.

Assessed Value-To-Lien Ratios. The assessed value of all of the taxable property in the Districts (2,554 parcels in total), as established by the County Assessor for Fiscal Year 2013-14, was \$1,494,187,562. The direct and overlapping indebtedness payable from taxes and assessments levied on the parcels within the Districts is approximately \$154,424,390 based on the principal amount of the Local Obligations and the overlapping indebtedness as of September 2, 2013. Table 4 below sets forth the aggregate assessed value-to-lien ratio of all the taxable property in the Districts based on the Fiscal Year 2013-14 assessed values within each of the Districts and the direct and overlapping debt described above. The assessed value-to-lien ratio of both of the Districts taken together including the direct and overlapping debt is 9.68 to 1. The assessed value-to-lien ratio of both of the Districts is 10.51 to 1 when general obligation bonds are excluded from the lien calculation.

TABLE 4

**SOUTH ORANGE COUNTY PUBLIC FINANCING AUTHORITY
THE DISTRICTS IN AGGREGATE
ASSESSED VALUE-TO-LIEN RATIOS**

<i>District</i>	<i>Local Obligations</i>	<i>Overlapping Debt⁽¹⁾</i>	<i>Total Direct and Overlapping Debt⁽¹⁾</i>	<i>Assessed Value⁽²⁾</i>	<i>Estimated Assessed Value- to-Lien Ratio⁽³⁾</i>
CFD No. 2002-1	\$ 57,585,000	\$ 29,944,201	\$ 87,529,201	\$ 886,411,961	10.13:1
CFD No. 2003-1	<u>46,960,000</u>	<u>19,935,189</u>	<u>66,895,189</u>	<u>607,775,601</u>	<u>9.09:1</u>
Total	\$ 104,545,000	\$ 49,879,390	\$ 154,424,390	\$ 1,494,187,562	9.68:1

⁽¹⁾ As of September 2, 2013.

⁽²⁾ Ownership and assessed value as of January 1, 2013, provided by the County Assessor. Assessed value calculated as land value plus improvement value. Includes \$4,604,984 of assessed value for property categorized as Undeveloped Property under the CFD No. 2002-1 Rate and Method.

⁽³⁾ Calculated by dividing the Assessed Value column by the Total Direct and Overlapping Debt column.

Source: David Taussig & Associates, Inc.

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Table 5 sets forth the assessed value-to-lien ranges for the taxable Developed Property in the Districts on an aggregate basis based on the Fiscal Year 2013-14 Special Tax levies and assessed values, the principal amount of the Local Obligations and the overlapping debt as of September 2, 2013.

TABLE 5

**SOUTH ORANGE COUNTY PUBLIC FINANCING AUTHORITY
DEVELOPED PROPERTY IN THE DISTRICTS IN AGGREGATE
ESTIMATED VALUE-TO-LIEN RATIOS BY RANGE**

Assessed Value-to-Lien Ratio Range	Number of Parcels	Fiscal Year 2013-14 Special Tax	Percentages of Fiscal Year 2013-14 Special Tax	Capistrano Unified School District CFD No. 98-2			Metropolitan Water District		Santa Margarita Water District ID No. 4B		Santa Margarita Water District ID No. 4 Bonds Outstanding ⁽¹⁾		Total Direct and Overlapping Debt	Assessed Value ⁽²⁾	Estimated Assessed Value to Lien Ratios
				District Bonds Outstanding	District Bonds Outstanding ⁽¹⁾	Bonds Outstanding ⁽¹⁾	Bonds Outstanding ⁽¹⁾	Bonds Outstanding ⁽¹⁾	Bonds Outstanding ⁽¹⁾	Bonds Outstanding ⁽¹⁾					
0.00 - 2.99	5	\$ 12,004	0.14%	\$ 148,397	\$ 45,809	\$ 26	\$ 659	\$ 2,058	\$ 196,949	\$ 455,713	2.31				
3.00 - 4.99	4	11,888	0.14	148,108	50,325	48	1,866	5,824	206,172	820,3130	3.98				
5.00 - 9.99	1,824	5,622,405	66.94	69,858,780	24,279,938	53,945	1,751,759	5,468,094	101,412,516	892,642,498	8.80				
10.00 - 19.99	702	2,672,790	31.82	33,379,519	12,591,654	33,442	1,118,896	3,492,621	50,616,132	552,635,866	10.92				
2.00 or greater	8	80,540	0.96	1,010,196	678,549	2,495	49,769	155,354	1,896,363	43,028,191	22.69				
Total	2,543	\$ 8,399,628	100.00%	\$ 104,545,000	\$ 37,646,276	\$ 89,957	\$ 2,922,949	\$ 9,123,951	\$ 154,328,133	\$ 1,489,582,578	9.65				

⁽¹⁾ As of September 2, 2013. Allocated based on Fiscal Year 2013-14 levy.

⁽²⁾ Ownership and assessed values as of January 1, 2013, provided by the County Assessor. Assessed value calculated as of land value plus improvement value.

Source: David Taussig & Associates, Inc.

Table 6 sets forth on an aggregate basis for both of the Districts the Special Tax levies, delinquencies and delinquency rates for Fiscal Year 2007-08 through the first installment for Fiscal Year 2013-14.

TABLE 6

**SOUTH ORANGE COUNTY PUBLIC FINANCING AUTHORITY
THE DISTRICTS IN AGGREGATE
HISTORICAL SPECIAL TAX LEVIES, DELINQUENCIES AND DELINQUENCY RATES⁽¹⁾**

<i>Fiscal Year</i>	<i>Amount Levied</i>	<i>Parcels Levied</i>	<i>Delinquencies at Fiscal Year End⁽²⁾</i>			<i>Delinquencies as of January 11, 2014⁽³⁾</i>		
			<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>	<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>
2007-08	\$6,790,490	2,538	N/A	\$386,899	5.70%	0	\$0	0.00%
2008-09	7,029,588	2,540	209	425,329	6.05	2	5,375	0.08
2009-10	7,475,599	2,542	128	284,892	3.81	5	13,008	0.17
2010-11	7,637,566	2,542	91	184,979	2.42	4	12,479	0.16
2011-12	7,442,608	2,542	79	160,871	2.16	10	25,978	0.35
2012-13	8,237,143	2,543	52	114,853	1.39	14	37,955	0.46
2013-14	8,399,628	2,543	N/A	N/A	N/A	74 ⁽⁴⁾	108,826 ⁽⁴⁾	2.59 ⁽⁴⁾

⁽¹⁾ The Districts are participants in the County's Teeter Plan pursuant to which the County pays the Districts 100% of the amount levied without regard to delinquencies.

⁽²⁾ As of fiscal year end of year levied.

⁽³⁾ Delinquency data as of January 11, 2014 provided by the County Tax Collector.

⁽⁴⁾ Delinquency data only includes the first installment for Fiscal Year 2013-14.

Source: The County; David Taussig & Associates, Inc.

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Community Facilities District No. 2002-1

Location and Description. CFD No. 2002-1 was formed in 2002 by the County to finance various public improvements needed to develop property located within CFD No. 2002-1. As of January 1, 2013, CFD No. 2002-1 consisted of 1,251 single-family homes, 452 apartment units, 154 senior housing units, 29 parcels (37.53 acres) of non-residential property, and 11 parcels consisting of 12.69 acres of undeveloped property. CFD No. 2002-1 is located in an unincorporated area in the County, near southeast Mission Viejo and consists of approximately 461 gross acres. See Table 7 below.

Assigned Special Taxes. Table 7 below sets forth the current Assigned Special Taxes that may be levied on the property within CFD No. 2002-1 in Fiscal Year 2013-14 based on the development status within CFD No. 2002-1 as of January 1, 2013. Special Taxes may be levied on each Assessor's Parcel for a period not to exceed 40 years from the fiscal year in which such Assessor's Parcel first becomes Developed Property. Special Taxes may be levied in CFD No. 2002-1 on all taxable parcels until Fiscal Year 2041-42 at which time certain of the parcels will reach the 40 year limit. The final maturity of the CFD No. 2002-1 Bonds is August 15, 2033.

TABLE 7
CFD NO. 2002-1
ASSIGNED SPECIAL TAXES

<i>Description</i>	<i>Tax Class</i>	<i>Residential Floor Area</i>	<i>No. of Units/ (Acres)</i>	<i>Fiscal Year 2013-14 Assigned/Maximum Special Tax Per Unit/Acre</i>	<i>Fiscal Year 2013-14 Actual Special Tax Per Unit/Acre⁽¹⁾</i>	<i>Aggregate Fiscal Year 2013-14 Tax</i>	<i>Percent of Total</i>
Single-Family Detached	1	> 3,600 sq. ft.	68	\$4,670.38	\$ 4,206.15	\$ 286,018.88	6.23%
Single-Family Detached	2	3,300 - 3,600 sq. ft.	57	4,601.52	4,144.14	236,216.55	5.15
Single-Family Detached	3	3,000 - 3,299 sq. ft.	88	4,315.98	3,886.98	342,055.12	7.45
Single-Family Detached	4	2,700 - 2,999 sq. ft.	77	3,944.24	3,552.19	273,518.63	5.96
Single-Family Detached	5	2,400 - 2,699 sq. ft.	94	3,904.35	3,516.27	330,529.38	7.20
Single-Family Detached	6	2,100 - 2,399 sq. ft.	121 ⁽²⁾	3,379.88	3,043.93	367,689.01	8.01
Single-Family Detached	7	1,800 - 2,099 sq. ft.	125 ⁽²⁾	3,090.49	2,783.30	347,871.88	7.58
Single-Family Detached	8	< 1,800 sq. ft.	230	2,859.36	2,572.44	591,663.50	12.89
Single-Family Attached	9	> 1,500 sq. ft.	149	2,405.45	2,166.35	322,787.64	7.03
Single-Family Attached	10	1,300 - 1,500 sq. ft.	126	2,212.01	1,992.14	251,009.64	5.47
Single-Family Attached	11	1,100 - 1,299 sq. ft.	88	1,986.20	1,788.77	157,412.64	3.43
Single-Family Attached	12	< 1,100 sq. ft.	28	1,662.60	1,497.34	41,925.52	0.91
Apartments	13		452	955.65	860.66	389,021.38	8.47
Senior Housing Property	14		154	716.74	645.50	99,407.01	2.17
Day Care Property	15		(1.37)	9,978.45 (acre)	8,986.61	12,392.54	0.27
Non-Residential Property	16		(36.15)	16,630.75 (acre)	14,977.68	541,583.35	11.80
Undeveloped Property	N/A		(12.69)	37,833.39 (acre)	0.00	<u>0.00</u>	<u>0.00</u>
Totals						\$ 4,591,102.67	100.00%

⁽¹⁾ Assigned Special Tax rates for Developed Property (Tax Classes 1-16) and Maximum Special Tax rate for Undeveloped Property. The Maximum Special Tax for a parcel of Developed Property is equal to the greater of (i) the Backup Special Tax or (ii) the Assigned Special Tax determined by reference to Table 1 of Section C of the Rate and Method. The Fiscal Year 2013-14 Backup Special Tax is \$36,590.02 per acre for Developed Property. The Backup Special Tax, Assigned Special Tax, and Maximum Special Tax rates escalate at 2% per year.

⁽²⁾ Reflects partial prepayment of four parcels prior to initial bond sale.

Source: David Taussig & Associates, Inc.

The Special Taxes will be levied in each Fiscal Year within CFD No. 2002-1 in accordance with the CFD No. 2002-1 Rate and Method. For the complete text of the CFD No. 2002-1 Rate and Method, see Appendix B — “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAXES FOR THE COMMUNITY FACILITIES DISTRICTS.”

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Delinquencies. The following table is a summary of Special Tax levies, collections and delinquency rates in CFD No. 2002-1 for Fiscal Year 2007-08 through the first installment for Fiscal Year 2013-14.

TABLE 8

**CFD NO. 2002-1
SPECIAL TAX LEVIES, DELINQUENCIES AND DELINQUENCY RATES
FISCAL YEARS 2007-08 TO 2013-14⁽¹⁾**

<i>Fiscal Year</i>	<i>Amount Levied</i>	<i>Parcels Levied</i>	<i>Delinquencies at Fiscal Year End⁽²⁾</i>			<i>Delinquencies as of January 11, 2014⁽³⁾</i>		
			<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>	<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>
2007-08	\$3,701,548	1,278	N/A	\$159,779	4.32%	0	\$ 0	0.00%
2008-09	3,829,129	1,280	100	199,252	5.20	0	0	0.00
2009-10	4,077,053	1,282	63	132,632	3.25	2	4,996	0.12
2010-11	4,188,887	1,282	41	85,814	2.05	1	3,212	0.08
2011-12	4,157,571	1,282	39	77,253	1.86	4	8,097	0.19
2012-13	4,501,133	1,283	23	48,043	1.07	7	17,908	0.40
2013-14	4,591,103	1,283	N/A	N/A	N/A	40 ⁽⁴⁾	62,178 ⁽⁴⁾	2.71 ⁽⁴⁾

⁽¹⁾ CFD No. 2002-1 is a participant in the County's Teeter Plan pursuant to which the County pays CFD No. 2002-1 100% of the amount levied without regard to delinquencies.

⁽²⁾ As of fiscal year end of year levied.

⁽³⁾ Delinquency data as of January 11, 2014 provided by the County Tax Collector.

⁽⁴⁾ Delinquency data only includes the first installment for Fiscal Year 2013-14.

Source: County of Orange; David Taussig & Associates, Inc.

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Direct and Overlapping Debt. The property within CFD No. 2002-1 is subject to taxation by a number of taxing agencies, some of which have issued debt secured by taxes and assessments levied on such property. The table below sets forth the overlapping debt for CFD No. 2002-1 as of September 2, 2013 and the direct debt for CFD No. 2002-1 which consists of the CFD No. 2002-1 Bonds.

TABLE 9
CFD NO. 2002-1
DIRECT AND OVERLAPPING DEBT

<i>Overlapping District⁽¹⁾</i>	<i>Actual Fiscal Year 2013-14 Total Levy</i>	<i>Amount of Levy on Parcels in District</i>	<i>Percent of Levy on Parcels in CFD No. 2002-1</i>	<i>Total Debt Outstanding</i>	<i>District Share of Total Debt Outstanding</i>
Capistrano Unified School District CFD No. 98-2	\$10,137,865	\$2,177,581	21.4797%	\$104,839,491	\$22,519,182
Metropolitan Water District G.O. Bonds	94,962,540	30,786	0.0324	165,085,000	53,519
Santa Margarita Water District ID No. 4B	892,969	143,950	16.1204	11,095,000	1,788,553
Santa Margarita Water District ID No. 4 ⁽²⁾	2,739,572	568,018	20.7338	26,926,767	5,582,946
				Estimated Share of Overlapping Debt Allocable to the District:	29,944,201
				Plus the CFD No. 2002-1 Bonds:	57,585,000
				Estimated Share of Direct and Overlapping Debt Allocable to the District:	\$87,529,201

⁽¹⁾ As of September 2, 2013.

⁽²⁾ Based on allocation by the Santa Margarita Water District to the Ladera Ranch area for Fiscal Year 2013-14 and on information provided by the Santa Margarita Water District staff.

Source: David Taussig & Associates, Inc.

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Table 10 below sets forth an estimated property tax bill for a typical residential unit in Tax Class 8 under the Rate and Method for CFD No. 2002-1. The estimated tax rates and amounts presented herein are based on information for Fiscal Year 2013-14. The actual amounts charged may vary and may increase in future years. For Fiscal Year 2013-14, the projected total effective tax rate is estimated to be approximately 1.87070% of the average assessed value of residential units within Tax Class 8. If the Special Taxes were levied at the full amount of the Assigned Special Tax, the total effective tax rate would be approximately 1.93602% of the average assessed value. The total effective tax rate for all tax classes for Fiscal Year 2013-14 is estimated to range from 1.78% to 2.00% based on the average assessed value of a residential unit within each tax class. Were the Special Taxes levied at the full amount of the Assigned Special Tax, the total effective tax rate for all tax classes would range from 1.94 to 2.17% of the average assessed value of a residential unit within each tax class. It is not expected that the maximum percentage will be reached. See “THE SERIES A BONDS — Potential Debt Service Coverage on the Local Obligations.”

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TABLE 10
CFD 2002-1
SAMPLE TAX BILL
TAX CLASS 8
TAX YEAR 2013-14

<i>Assessed Valuation and Property Taxes</i>		<i>Percent of Net AV</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
TOTAL ASSESSED VALUE ⁽¹⁾	\$434,682			
NET ASSESSED VALUE ⁽¹⁾	\$427,682			
LAND ASSESSED VALUE ⁽¹⁾	\$188,208			
Unit Size for Single Family Detached Property ⁽²⁾	1,598 sq. ft.			
Lot Size for Single Family Detached Property ⁽³⁾	3,266 sq. ft.			
 AD VALOREM PROPERTY TAXES ⁽⁴⁾				
Basic Levy		1.00000%	\$4,276.82	
Metropolitan Water District G.O. Bonds		0.00350%	\$14.97	
Santa Margarita Water District ID No. 4	0.16060% of land value	0.07067%	\$302.26	
Santa Margarita Water District ID No. 4D ⁽¹¹⁾	0.04070% of land value	<u>0.01791%</u>	<u>\$76.60</u>	
Total General Property Taxes and Overrides		1.09209%	\$4,670.65	
 ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES				
Mosquito & Fire Ant Assessment ⁽⁵⁾			\$5.02	
Vector Control Charge ⁽⁶⁾			\$1.92	
Metropolitan Water District West Standby Charge ⁽⁷⁾			\$10.08	
Santa Margarita Water District ID No. 4 D/S Charge ⁽⁸⁾			\$16.71	
Capistrano Unified School District CFD No. 98-2 ⁽⁹⁾			\$854.78	\$854.78
<u>County of Orange CFD No. 2002-1⁽¹⁰⁾</u>			<u>\$2,572.44</u>	<u>\$2,856.36</u>
Total Assessments and Parcel Charges			\$3,460.95	\$3,744.87
 PROJECTED TOTAL PROPERTY TAXES			 \$8,131.60	 \$8,415.52
 Projected Total Effective Tax Rate (as % of Assessed Value)			 1.87070%	 1.93602%

⁽¹⁾ Based on average assessed value for 230 Tax Class 8 units as of January 1, 2013. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.

⁽²⁾ Based on the average unit size for 230 Tax Class 8 units.

⁽³⁾ Based on the average lot size for 230 Tax Class 8 units.

⁽⁴⁾ Based on actual Fiscal Year 2013-14 ad valorem rates.

⁽⁵⁾ Based on the Fiscal Year 2013-14 rate of \$5.02 per benefit unit. Residential parcels are assessed at 1 benefit unit.

⁽⁶⁾ Based on the Fiscal Year 2013-14 rate of \$1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.

⁽⁷⁾ Based on the Fiscal Year 2013-14 rate of \$10.08 per parcel or per acre, whichever is greater.

⁽⁸⁾ Based on the Fiscal Year 2013-14 rate of \$16.71 per parcel.

⁽⁹⁾ Expected and maximum amount based on the Capistrano Unified School District CFD No. 98-2 Fiscal Year 2013-14 average Special Tax levy for 230 Tax Class 8 units. The Assigned and Backup Special Tax rates escalate at 2% per year once a parcel has been classified as Developed Property.

⁽¹⁰⁾ Expected amount based on the CFD No. 2002-1 Fiscal Year 2013-14 actual Special Tax rate of \$2,572.44 per unit for Tax Class 8 property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Fiscal Year 2013-14 Assigned Special Tax rate is \$2,856.36 per unit and the Fiscal Year 2013-14 Backup Special Tax rate is \$36,590.02 per parcel acre. The Assigned and Backup Special Tax rates escalate at 2% per year.

⁽¹¹⁾ ID 4D *ad valorem* property taxes are applied to repay ID 4B general obligation bonds.

Sources: David Taussig and Associates, Inc.

Table 11 below sets forth the largest taxpayers within CFD No. 2002-1 for Fiscal Year 2013-14 and the delinquency amounts and rates for the first installment of Fiscal Year 2013-14, as of January 11, 2014. In Fiscal Year 2013-14, the single largest taxpayer within CFD No. 2002-1 was responsible for 7.53% of the total Special Tax levy.

TABLE 11
CFD NO. 2002-1
LARGEST TAXPAYERS

<i>Owner⁽¹⁾</i>	<i>Tax Class</i>	<i>Number of Parcels Taxed</i>	<i>Number of Units/Acres Taxed</i>	<i>Actual Fiscal Year 2013-14 Special Tax Levy</i>	<i>Percent of Total Levy</i>	<i>Delinquent Special Tax as of January 11, 2014⁽²⁾</i>	<i>Delinquency Rate⁽²⁾</i>
Mercantile East Ladera	Non-Residential	11	23.07 Acres	\$ 345,595	7.53%	\$0	0.00%
Ladera, LLC	Apartments	1	232 Units	199,675	4.35	0	0.00
Ladera WNG IV LLC	Apartments	1	220 Units	189,347	4.12	0	0.00
CLPF-Remington at Ladera	Senior Housing	1	154 Units	99,407	2.17	0	0.00
Other Residential Owners	N/A	1,251	1,251 Units	3,548,698	77.30	62,178	2.71
Other Non-Residential Owners	N/A	<u>18</u>	14.46 Acres	<u>208,381</u>	<u>4.54</u>	<u>0</u>	<u>0.00</u>
Total		1,283	N/A	\$4,591,103	100.00%	\$62,178	2.71%

⁽¹⁾ Ownership as of January 1, 2013, provided by the County Assessor.

⁽²⁾ Total amount delinquent for first installment of Fiscal Year 2013-14. Delinquency data as of January 11, 2014 provided by the County Tax Collector.

Source: David Taussig & Associates, Inc.

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Assessed Value-To-Lien Ratios. Table 12 below provides the assessed value of developed single family residential property within CFD No. 2002-1 between Fiscal Year 2007-08 and 2013-14. As a result of the significant downturn in the Southern California housing market that began in 2007, the total assessed value for the developed single family residential property within CFD No. 2002-1 and the average assessed value per residential parcel was reduced by 14.0% between Fiscal Years 2007-08 and 2013-14.

TABLE 12
CFD NO. 2002-1
DEVELOPED SINGLE FAMILY
RESIDENTIAL PROPERTY
ASSESSED VALUES
FISCAL YEARS 2007-08 TO 2013-14

<i>Fiscal Year</i>	<i>Assessed Value⁽¹⁾</i>	<i>Percent Change</i>	<i>Developed Residential Property Assessed Value</i>	<i>Number of Developed Residential Parcels⁽²⁾</i>	<i>Average Assessed Value Per Developed Residential Parcel</i>	<i>Average Percent Change (Developed Residential Parcel)</i>
2007-08	\$937,098,385	N/A	\$753,599,622	1,251	\$602,398	N/A
2008-09	931,785,224	(-0.57%)	729,054,930	1,251	582,778	(-3.26%)
2009-10	865,547,140	(-7.11)	654,482,320	1,251	523,167	(-10.23)
2010-11	877,540,853	1.39	667,170,217	1,251	553,310	1.94
2011-12	866,061,653	(-1.31)	657,860,659	1,251	525,868	(-1.40)
2012-13	877,234,215	1.29	645,306,693	1,251	515,833	(-1.91)
2013-14	886,411,961	1.05	647,880,487	1,251	517,890	0.40

⁽¹⁾ As of January 1 of each year. Assessed value is the sum of land value and improvement value.

⁽²⁾ Based on building permits issued as of January 1 of each year. Does not include apartments or senior housing property.

Source: David Taussig & Associates, Inc.

Table 13 below sets forth the estimated assessed value-to-lien ratios for various property classifications in CFD No. 2002-1 based on the estimated direct and overlapping indebtedness of \$87,529,201 within CFD No. 2002-1 (which includes overlapping general obligation debt) and the Fiscal Year 2013-14 assessed values. Excluding the overlapping general obligation debt, the ratio of the assessed value of Developed Property within CFD No. 2002-1 to the total principal amount of all direct and overlapping special tax bonds payable from taxes levied within CFD No. 2002-1 (\$80,104,182, inclusive of the CFD No. 2002-1 Bonds) is approximately 11.07 to 1.

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TABLE 13

**CFD NO. 2002-1
ESTIMATED VALUE-TO-LIEN RATIO
BY PROPERTY TYPE**

Property Classification/Owner ⁽¹⁾ Developed Property ⁽⁴⁾	Number of Parcels	Number of Units/Acres	CFD No. 2002-1 Actual Fiscal Year 2013-14 Levy	CFD No. 2002-1 Bonds Outstanding ⁽²⁾	Capistrano Unified School District CFD No. 98-2 Bonds Outstanding ⁽³⁾	Metropolitan Water District Bonds Outstanding ⁽³⁾	Santa Margarita Water District ID No. 4B Bonds Outstanding ⁽³⁾	Santa Margarita Water District ID No. 4 Bonds Outstanding ⁽³⁾	Total Direct and Overlapping Debt	Assessed Value ⁽¹⁾	Estimated Assessed Value to Lien Ratios
Residential Property											
Single-Family Property	1,251	1,251 Units	\$3,548,698	\$44,510,396	\$14,594,347	\$39,129	\$1,359,202	\$4,242,732	\$64,745,805	\$647,880,487	10.01:1
Apartment Property	2	452 Units	\$389,021	\$4,879,393	\$2,376,337	\$4,301	\$87,049	\$271,723	\$7,618,804	\$70,687,208	9.28:1
Senior Housing Property	1	154 Units	\$99,407	\$1,249,836	\$951,143	\$1,968	\$81,073	\$253,068	\$2,534,089	\$32,340,000	12.76:1
Non-Residential Property	29	36.15 Acres	\$553,976	\$6,948,375	\$4,597,355	\$7,842	\$237,942	\$742,733	\$12,534,246	\$130,899,282	10.44:1
Subtotal Developed Property	1,283		\$4,591,103	\$57,585,000	\$22,519,182	\$53,239	\$1,765,266	\$5,510,256	\$87,432,943	\$881,806,977	10.09:1
Undeveloped Property ⁽⁵⁾	11	12.69 Acres	\$0	\$0	\$0	\$280	\$23,287	\$72,690	\$96,257	\$4,604,984	47.84:1
Total	1,294	N/A	\$4,591,103	\$57,585,000	\$22,519,182	\$53,519	\$1,788,553	\$5,582,946	\$87,529,201	\$886,411,961	10.13:1

⁽¹⁾ Ownership and assessed values as of January 1, 2013. Assessed value calculated as land value plus improvement value. Includes \$4,604,984 of assessed value for property categorized as Undeveloped Property under the CFD No. 2002-1 Rate and Method which is not included in Table 14 below.

⁽²⁾ Based on final bond sizing and allocated based on Fiscal Year 2013-14 levy.

⁽³⁾ As of September 2, 2013. Allocated based on Fiscal Year 2013-14 levy.

⁽⁴⁾ Per the Rate and Method, Developed Property is property for which a building permit was issued as of January 1, 2013.

⁽⁵⁾ Per the Rate and Method, Undeveloped Property is property for which a building permit was not issued as of January 1, 2013.

Source: David Taussig & Associates, Inc.

Table 14 below sets forth the estimated assessed value-to-lien ratios for Developed Property within CFD No. 2002-1 by various ranges based upon the principal amount of the CFD No. 2002-1 Bonds and the overlapping debt information included in Table 13 which is attributable to the Developed Property. Excluding overlapping general obligation debt from the calculation, the ratio of the assessed value of Developed Property within CFD No. 2002-1 to the total principal amount of all direct and overlapping special tax bonds payable from taxes levied within CFD No. 2002-1 (\$80,104,182, inclusive of the CFD No. 2002-1 Bonds) is approximately 11.01 to 1.

TABLE 14
CFD NO. 2002-1
ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS
OF DEVELOPED PROPERTY BY RANGES

Estimated Assessed Value-to-Lien Ratio Range	Number of Parcels	Fiscal Year 2013-14 Special Tax	CFD No. 2002-1 Bonds Outstanding ⁽²⁾	Capistrano Unified School District CFD No. 98-2 Bonds Outstanding ⁽³⁾		Metropolitan Water District Bonds Outstanding ⁽³⁾	Santa Margarita Water District ID No. 4B Bonds Outstanding ⁽³⁾		Santa Margarita Water District ID No. 4 Bonds Outstanding ⁽³⁾	Total Direct and Overlapping Debt	Assessed Value ⁽¹⁾	Estimated Assessed Value-to-Lien Ratio ⁽⁵⁾
				\$			\$					
0 – 2.99	1 ⁽⁴⁾	\$ 1,789	\$ 22,436	\$ 6,728	\$ 5	\$ 73	\$ 229		\$ 29,471	\$ 83,186	2.82:1	
3.00 – 4.99	2 ⁽⁴⁾	7,188	90,158	31,304	29	1,203	3,754		126,447	487,064	3.85:1	
5.00 – 9.99	747	2,509,181	31,472,005	12,038,375	25,076	818,140	2,553,813		46,907,410	414,602,698	8.84:1	
10.00 – 19.99	525	1,992,404	24,990,205	9,764,227	25,634	896,081	2,797,106		38,473,252	423,605,838	11.01:1	
20.00 or more	8	80,540	1,010,196	678,549	2,495	49,769	155,354		1,896,363	43,028,191	22.69:1	
Total	1,283	\$ 4,591,103	\$ 57,585,000	\$ 22,519,182	\$ 53,239	\$ 1,765,266	\$ 5,510,256		\$ 87,432,943	\$ 881,806,977	10.09:1	

⁽¹⁾ Assessed values as of January 1, 2013 provided by the County Assessor. Assessed value calculated as land value plus improvement value.

⁽²⁾ Based on final bond sizing and allocated based on Fiscal Year 2013-14 levy.

⁽³⁾ As of September 2, 2013. Allocated based on Fiscal Year 2013-14 levy.

⁽⁴⁾ Properties have reduced assessed value due to Proposition 60 & Proposition 90, which allow property owners aged 55 and older to transfer the base year value of a sold home to a replacement home of equal or lesser value within the same county (Proposition 60) or to another county in California (Proposition 90). Properties are owned by individuals and have base year values ranging from 1975 to 1980.

⁽⁵⁾ Represents Assessed Value column divided by the Total Direct and Overlapping Debt column.
Source: David Tausig & Associates, Inc.

Community Facilities District No. 2003-1

Location and Description. CFD No. 2003-1 was formed by the County in 2003 to finance various public improvements needed to develop property located within CFD No. 2003-1. CFD No. 2003-1 is a residential development located in the unincorporated southeasterly portion of the County, near southeast Mission Viejo, west of Sienna Parkway and southwest of O’Neill Drive. As of January 1, 2013, CFD No. 2003-1 consisted of approximately 288 gross acres and is built out with 1,259 completed single family residential dwellings.

Assigned Special Taxes. Table 15 below sets forth the current Assigned Special Taxes that may be levied on the property within CFD No. 2003-1 in Fiscal Year 2013-14 based on the development status within CFD No. 2003-1 as of January 1, 2013. Special Taxes may be levied on each Assessor’s Parcel for a period not to exceed 40 years from the Fiscal Year in which such Assessor’s Parcel first becomes Developed Property. The final year that Special Taxes may be levied in CFD No. 2003-1 on all taxable parcels until Fiscal Year 2043-44 at which time certain of the parcels will reach the 40 year limit. The final maturity of the CFD No. 2003-1 Bonds is August 15, 2034.

TABLE 15
CFD NO. 2003-1
ASSIGNED SPECIAL TAXES

<i>Land Use</i>	<i>Tax Class</i>	<i>Residential Floor Area</i>	<i>No. of Units/Acres</i>	<i>Fiscal Year 2013-14 Assigned/Maximum Special Tax Per Unit/Acre⁽¹⁾</i>	<i>Fiscal Year 2013-14 Actual Special Tax Per Unit/Acre⁽¹⁾</i>	<i>Aggregate Fiscal Year 2013-14 Tax</i>	<i>Percent of Total</i>
Single-Family Detached	1	3,600 < sq. ft.	98	\$ 5,728.38	\$ 5,319.26	\$ 503,647.48	13.22%
Single-Family Detached	2	3,300 - 3,600 sq. ft.	7	5,290.31	4,764.24	33,223.68	0.87
Single-Family Detached	3	3,000 - 3,299 sq. ft.	29	4,582.24	4,353.22	126,243.38	3.31
Single-Family Detached	4	2,700 - 2,999 sq. ft.	145	4,254.90	3,817.31	553,509.95	14.53
Single-Family Detached	5	2,400 - 2,699 sq. ft.	54	4,108.60	3,686.06	199,047.78	5.23
Single-Family Detached	6	2,100 - 2,399 sq. ft.	136	3,809.28	3,417.52	464,784.08	12.20
Single-Family Detached	7	1,800 - 2,099 sq. ft.	116	3,462.08	3,106.06	360,300.64	9.46
Single-Family Detached	8	< 1,800 sq. ft.	55	2,945.53	2,642.60	145,343.00	3.82
Single-Family Attached	9	1,900 < sq. ft.	97	2,945.53	2,642.60	256,332.20	6.73
Single-Family Attached	10	1,600 - 1,900 sq. ft.	271	2,813.71	2,524.34	684,096.14	17.96
Single-Family Attached	11	1,300 - 1,599 sq. ft.	141	2,293.06	2,057.23	290,069.43	7.62
Single-Family Attached	12	< 1,300 sq. ft.	110	1,852.90	1,662.34	182,858.50	4.80
Apartments	13		0	955.65	0.00 ⁽²⁾	0.00	0.00
Day Care Property	14		(1.01)	9,978.44 (acre)	8,952.23	9,068.61	0.24
Non-Residential Property	15		(0.00)	16,630.75 (acre)	0.00 ⁽²⁾	0.00	0.00
Undeveloped Property	N/A		(0.00)	46,085.16 (acre)	0.00 ⁽²⁾	0.00	0.00
Totals						\$ 3,808,524.87	100.00%

⁽¹⁾ Assigned Special Tax rates for Developed Property (Tax Classes 1-15) and Maximum Special Tax rate for Undeveloped Property. The Maximum Special Tax for a parcel of Developed Property is equal to the greater of (i) the Backup Special Tax or (ii) the Assigned Special Tax determined by reference to Table 1 of Section C. The Fiscal Year 2013-14 Backup Special Tax is \$46,042.14 per acre for Developed Property. The Backup, Assigned, and Maximum Special Tax rates escalate at 2% per year.

⁽²⁾ For Fiscal Year 2013-14, there were no units/acres in these tax classes.

Source: David Taussig & Associates, Inc.

The Special Taxes will be levied in each Fiscal Year within CFD No. 2003-1 in accordance with the CFD No. 2003-1 Rate and Method. For the complete text of the CFD No. 2003-1 Rate and

Method, see Appendix B — “RATES AND METHODS OF APPORTIONMENT OF SPECIAL TAXES FOR THE COMMUNITY FACILITIES DISTRICTS.”

Delinquencies. The following table is a summary of Special Tax levies, collections and delinquency rates in CFD No. 2003-1 for Fiscal Year 2007-08 through the first installment for Fiscal Year 2013-14.

TABLE 16
CFD NO. 2003-1
SPECIAL TAX LEVIES, DELINQUENCIES AND DELINQUENCY RATES
FISCAL YEARS 2007-08 TO 2013-14⁽¹⁾

<i>Fiscal Year</i>	<i>Amount Levied</i>	<i>Parcels Levied</i>	<i>Delinquencies at Fiscal Year End⁽²⁾</i>			<i>Delinquencies as of January 11, 2014⁽³⁾</i>		
			<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>	<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>
2007-08	\$3,088,942	1,260	N/A	\$227,120	7.35%	0	\$ 0	0.00%
2008-09	3,200,459	1,260	109	226,077	7.06	2	5,375	0.17
2009-10	3,398,546	1,260	65	152,260	4.48	3	8,011	0.24
2010-11	3,448,679	1,260	50	99,165	2.88	3	9,266	0.27
2011-12	3,285,037	1,260	40	83,618	2.55	6	17,881	0.54
2012-13	3,736,010	1,260	29	66,810	1.79	7	20,047	0.54
2013-14	3,808,525	1,260	N/A	N/A	N/A	34 ⁽⁴⁾	46,648 ⁽⁴⁾	2.45 ⁽⁴⁾

⁽¹⁾ CFD No. 2003-1 is a participant in the County’s Teeter Plan pursuant to which the County pays CFD No. 2003-1 100% of the amount levied without regard to delinquencies.

⁽²⁾ As of fiscal year end of year levied.

⁽³⁾ Delinquency data as of January 11, 2014 provided by the County Tax Collector.

⁽⁴⁾ Delinquency data only includes the first installment for Fiscal Year 2013-14.

Source: County of Orange; David Taussig & Associates, Inc.

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Direct and Overlapping Debt. The property within CFD No. 2003-1 is subject to taxation by a number of taxing agencies, some of which have issued debt secured by taxes and assessments levied on such property. The table below sets forth the overlapping debt for CFD No. 2003-1 as of September 2, 2013 and the direct debt for CFD No. 2003-1 which consists of the CFD No. 2003-1 Bonds.

TABLE 17
CFD NO. 2003-1
DIRECT AND OVERLAPPING DEBT

	<i>Actual Fiscal Year 2013-14 Total Levy</i>	<i>Amount of Levy on Parcels in District</i>	<i>Percent of Levy on Parcels in District</i>	<i>Total Debt Outstanding</i>	<i>District Share of Total Debt Outstanding</i>
Overlapping District⁽¹⁾					
Capistrano Unified School District CFD No. 98-2	\$10,137,865	\$1,462,774	14.4288%	\$104,839,491	\$15,127,094
Metropolitan Water District G.O. Bonds	94,962,540	21,121	0.0222%	165,085,000	36,718
Santa Margarita Water District ID No. 4B	892,969	93,175	10.4343%	11,095,000	1,157,683
Santa Margarita Water District ID No. 4 ⁽²⁾	2,739,572	367,663	13.4205%	26,926,767	3,613,695
				Estimated Share of Overlapping Debt Allocable to the District:	19,935,189
				Plus the CFD No. 2003-1 Bonds:	46,960,000
				Estimated Share of Direct and Overlapping Debt Allocable to the District:	66,895,189

⁽¹⁾ As of September 2, 2013.

⁽²⁾ Based on allocation by the Santa Margarita Water District to the Ladera Ranch area for Fiscal Year 2013-14 and on information provided by the Santa Margarita Water District staff.

Source: David Taussig & Associates, Inc.

Table 18 below sets forth an estimated property tax bill for a typical residential unit in Tax Class 10 under the Rate and Method for CFD No. 2003-1. The estimated tax rates and amounts presented herein are based on information for Fiscal Year 2013-14. The actual amounts charged may vary and may increase in future years. For Fiscal Year 2013-14, the projected total effective tax was approximately 2.02406% of the average assessed value of Tax Class 10. If the Special Taxes were levied at the full amount of the Assigned Special Tax, the total effective tax rate would be approximately 2.20076% of the average assessed value. The total effective tax rate for all tax classes for Fiscal Year 2013-14 is estimated to range from 1.84% to 2.03% based on the average assessed value, and were the Special Taxes levied at the full amount of the Assigned Special Tax, the total effective tax rate for all tax classes would range from 2.03% to 2.23% of the average assessed value of a residential unit within each tax class. It is not expected that the maximum percentage will be reached. See “THE SERIES A BONDS — Potential Debt Service Coverage on the Local Obligations.”

TABLE 18
CFD 2003-1
SAMPLE TAX BILL
TAX CLASS 10
TAX YEAR 2013-14

<i>Assessed Valuation and Property Taxes</i>		<i>Percent of Net AV</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
TOTAL ASSESSED VALUE ⁽¹⁾	\$361,463			
NET ASSESSED VALUE ⁽¹⁾	\$354,463			
LAND ASSESSED VALUE ⁽¹⁾	\$135,092			
Unit Size for Single Family Attached Property ⁽²⁾	1,702 sq. ft.			
Lot Size for Single Family Attached Property ⁽³⁾	2,993 sq. ft.			
 AD VALOREM PROPERTY TAXES⁽⁴⁾				
Basic Levy		1.00000%	\$3,544.63	
Metropolitan Water District G.O. Bonds		0.00350%	\$12.41	
Santa Margarita Water District ID No. 4	0.16060% of land value	0.06121%	\$216.96	
Santa Margarita Water District ID No. 4D ⁽¹¹⁾	0.04070% of land value	<u>0.01551%</u>	<u>\$54.98</u>	
Total General Property Taxes and Overrides		1.08022%	\$3,828.98	
 ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES				
Mosquito & Fire Ant Assessment ⁽⁵⁾			\$5.02	
Vector Control Charge ⁽⁶⁾			\$1.92	
Metropolitan Water District West Standby Charge ⁽⁷⁾			\$10.08	
Santa Margarita Water District ID No. 4 D/S Charge ⁽⁸⁾			\$16.71	
Capistrano Unified School District CFD No. 98-2 ⁽⁹⁾			\$929.18	\$929.18
<u>County of Orange CFD No. 2003-1⁽¹⁰⁾</u>			<u>\$2,524.34</u>	<u>\$3,163.03</u>
Total Assessments and Parcel Charges			\$3,487.25	\$4,125.94
 <u>PROJECTED TOTAL PROPERTY TAXES</u>			 <u>\$7,316.23</u>	 <u>\$7,954.92</u>
 Projected Total Effective Tax Rate (as % of Assessed Value)			 2.02406%	 2.20076%

⁽¹⁾ Based on average assessed value for 271 Tax Class 10 units as of January 1, 2013. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.

⁽²⁾ Based on the average unit size for 271 Tax Class 10 units.

⁽³⁾ Based on the average lot size for 271 Tax Class 10 units.

⁽⁴⁾ Based on actual Fiscal Year 2013-14 *ad valorem* rates.

⁽⁵⁾ Based on the Fiscal Year 2013-14 rate of \$5.02 per benefit unit. Residential parcels are assessed at 1 benefit unit.

⁽⁶⁾ Based on the Fiscal Year 2013-14 rate of \$1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.

⁽⁷⁾ Based on the Fiscal Year 2013-14 rate of \$10.08 per parcel or per acre, whichever is greater.

⁽⁸⁾ Based on the Fiscal Year 2013-14 rate of \$16.71 per parcel.

⁽⁹⁾ Expected and maximum amount based on the Capistrano Unified School District CFD No. 98-2 Fiscal Year 2013-14 average Special Tax levy for 271 Tax Class 10 units. The Assigned and Backup Special Tax rates escalate at 2% per year once a parcel has been classified as Developed Property.

⁽¹⁰⁾ Expected amount based on the CFD No. 2003-1 Fiscal Year 2013-14 actual Special Tax rate of \$2,524.34 per unit for Tax Class 10 property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Fiscal Year 2013-14 Assigned Special Tax rate is \$2,813.71 per unit and the Fiscal Year 2013-14 Backup Special Tax rate is \$46,042.14 per parcel acre. The Assigned and Backup Special Tax rates escalate at 2% per year.

⁽¹¹⁾ ID 4D *ad valorem* property taxes are applied to repay ID 4B general obligation bonds.

Sources: David Taussig and Associates, Inc.

Table 19 below sets forth the largest taxpayers, including delinquency information, within CFD No. 2003-1 for Fiscal Year 2013-14 and the delinquency amounts and rates for the first installment of Fiscal Year 2013-14, as of January 11, 2014. No taxpayer within CFD No. 2003-1 is responsible for more than 0.24% of the Fiscal Year 2013-14 Special Tax levy.

TABLE 19
CFD NO. 2003-1
LARGEST TAXPAYERS

<i>Owner⁽¹⁾</i>	<i>Number of Parcels Taxed</i>	<i>Number of Units/Acres Taxed</i>	<i>Actual Fiscal Year 2013-14 Special Tax Levy</i>	<i>Percent of Total Levy</i>	<i>Delinquent Special Tax as of January 11, 2014⁽²⁾</i>	<i>Delinquency Rate⁽²⁾</i>
Residential						
Individual Owners	1,259	1,259 Units	\$3,799,456	99.76%	\$46,648	2.45%
Non-Residential						
Aura LLC	<u>1</u>	1.01 Acres	<u>9,069</u>	<u>0.24</u>	<u>0</u>	<u>0.00</u>
Total	1,260	N/A	\$3,808,525	100.00%	\$46,648	2.45%

⁽¹⁾ Ownership as of January 1, 2013, provided by the Orange County Assessor.

⁽²⁾ Total amount delinquent for first installment of Fiscal Year 2013-14. Delinquency data as of January 11, 2014 provided by the County Tax Collector.

Source: David Taussig & Associates, Inc.

Assessed Value-To-Lien Ratios. Table 20 below provides the assessed value of developed single family residential property within CFD No. 2003-1 between Fiscal Year 2007-08 and 2013-14. As a result of the significant downturn in the Southern California housing market that began in 2007, the total assessed value for the developed residential single family property within CFD No. 2002-1 and the average assessed value per residential parcel was reduced by 28.2% between Fiscal Years 2007-08 and 2013-14.

TABLE 20
CFD NO. 2003-1
DEVELOPED SINGLE FAMILY
RESIDENTIAL PROPERTY
ASSESSED VALUES
FISCAL YEARS 2007-08 TO 2013-14

<i>Fiscal Year</i>	<i>Assessed Value⁽¹⁾</i>	<i>Percent Change</i>	<i>Developed Residential Property Assessed Value⁽²⁾</i>	<i>Number of Developed Residential Parcels</i>	<i>Average Assessed Value Per Developed Residential Parcel</i>	<i>Average Percent Change (Developed Residential Parcel)</i>
2007-08	\$ 844,676,285	N/A	\$ 843,349,463	1,259	\$ 669,857	N/A
2008-09	786,734,649	(-6.86%)	784,920,759	1,259	623,448	(6.93)%
2009-10	628,521,982	(-20.11)	626,671,815	1,259	497,754	(20.16)
2010-11	634,890,758	1.01	633,044,977	1,259	502,816	1.02
2011-12	630,932,204	(-0.62)	629,072,525	1,259	499,660	(0.63)
2012-13	606,654,877	(-3.85)	604,758,005	1,259	480,348	(3.87)
2013-14	607,775,601	0.18	605,383,334	1,259	480,845	0.10

⁽¹⁾ As of January 1 of each year. Assessed value is the sum of land value and improvement value.

⁽²⁾ Based on building permits issued as of January 1 of each year.

Source: David Taussig & Associates, Inc.

Table 21 below sets forth the estimated assessed value-to-lien ratios for various property classifications in CFD No. 2003-1 based on the estimated direct and overlapping indebtedness of \$66,895,189 within CFD No. 2003-1 (which includes overlapping general obligation debt) and the Fiscal Year 2013-14 assessed values. Excluding the overlapping general obligation debt, the ratio of the assessed value of Developed Property within CFD No. 2003-1 to the total principal amount of all direct and overlapping special tax bonds payable from taxes levied within CFD No. 2003-1 (\$62,087,094, inclusive of the CFD No. 2003-1 Bonds) is approximately 9.79 to 1.

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TABLE 21
CFD NO. 2003-1
ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS
BY PROPERTY TYPE

Property Classification/Owner ⁽¹⁾ Developed Property ⁽⁴⁾	Number of Parcels	Number of Units/Acres	CFD No. 2003-1 Actual Fiscal Year 2013-14 Levy	CFD No. 2003-1 Bonds Outstanding ⁽²⁾	Capistrano Unified School District CFD No. 98-2 Bonds Outstanding ⁽³⁾	Metropolitan Water District Bonds Outstanding ⁽³⁾	Santa Margarita Water District ID No. 4B Bonds Outstanding ⁽³⁾	Santa Margarita Water District ID No. 4 Bonds Outstanding ⁽³⁾	Total Direct and Overlapping Debt	Assessed Value ⁽¹⁾	Estimated Assessed Value to Lien Ratios
Residential Property	1,259	1,259 Units	\$3,799,456	\$46,848,182	\$14,998,046	\$36,572	\$1,153,946	\$3,602,028	\$66,638,774	\$605,383,334	9.08:1
Non-Residential Property	1	1.01 Acres	9,069	111,818	129,047	146	3,738	11,667	256,416	2,392,267	9.33:1
Total Developed Property	1,260	N/A	\$3,808,525	\$46,960,000	\$15,127,094	\$36,718	\$1,157,683	\$3,613,695	\$66,895,189	\$607,775,601	9.09:1

⁽¹⁾ Ownership and assessed values as of January 1, 2013. Assessed value calculated as land value plus improvement value.

⁽²⁾ Based on final bond sizing and allocated based on Fiscal Year 2013-14 levy.

⁽³⁾ As of September 2, 2013. Allocated based on Fiscal Year 2013-14 levy.

⁽⁴⁾ Per the Rate and Method, Developed Property is property for which a building permit was issued as of January 1, 2013.

Source: David Taussig & Associates, Inc.

Table 22 below sets forth the estimated assessed value-to-lien ratios for parcels within CFD No. 2003-1 by various ranges based upon the principal amount of the CFD No. 2003-1 Bonds and the overlapping debt information included in Table 17. Excluding overlapping general obligation debt from the calculation, the ratio of the assessed value of Developed Property within CFD No. 2003-1 to the total principal amount of all direct and overlapping special tax bonds payable from taxes levied within CFD No. 2003-1 (\$62,087,094, inclusive of the CFD No. 2003-1 Bonds) is approximately 9.79 to 1.

TABLE 22
CFD NO. 2003-1
ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS
OF DEVELOPED PROPERTY BY RANGES

<i>Estimated Assessed Value-to-Lien Ratio Range</i>	<i>Number of Parcels</i>	<i>Fiscal Year 2013-14 Special Tax</i>	<i>CFD No. 2003-1 Bonds Outstanding⁽²⁾</i>	<i>Capistrano Unified School District CFD No. 98-2 Bonds Outstanding⁽³⁾</i>	<i>Metropolitan Water District Bonds Outstanding⁽³⁾</i>	<i>Santa Margarita Water District ID No. 4B Bonds Outstanding⁽³⁾</i>	<i>Santa Margarita Water District ID No. 4 Bonds Outstanding⁽³⁾</i>	<i>Total Direct and Overlapping Debt</i>	<i>Assessed Value⁽⁴⁾</i>	<i>Estimated Assessed Value-to-Lien Ratio⁽⁵⁾</i>
0 - 2.99	4 ⁽⁴⁾	\$ 10,216	\$ 125,961	\$ 39,081	\$ 21	\$ 586	\$ 1,828	\$ 167,478	\$ 372,527	2.22:1
3.00 - 4.99	2 ⁽⁴⁾	4,700	57,950	19,022	19	663	2,071	79,725	333,246	4.18:1
5.00 - 9.99	1,077	3,113,224	38,389,775	12,241,563	28,869	933,619	2,914,281	54,505,107	478,039,800	8.77:1
10.00 - 19.99	177	680,386	8,389,314	2,827,428	7,808	222,815	695,514	12,142,880	129,030,028	10.63:1
20.00 or more	0	0	0	0	0	0	0	0	0	NA
Total	1,260	\$ 3,808,525	\$ 46,960,000	\$ 15,127,094	\$ 36,718	\$ 1,157,683	\$ 3,613,695	\$ 66,895,189	\$ 607,775,601	9.09:1

⁽¹⁾ Assessed values as of January 1, 2013 provided by the County Assessor. Assessed value calculated as land value plus improvement value.

⁽²⁾ Based on final bond sizing and allocated based on Fiscal Year 2013-14 levy.

⁽³⁾ As of September 2, 2013. Allocated based on Fiscal Year 2013-14 levy.

⁽⁴⁾ Properties have reduced assessed value due to Proposition 60 & Proposition 90, which allow property owners aged 55 and older to transfer the base year value of a sold home to a replacement home of equal or lesser value within the same county (Proposition 60) or to another county in California (Proposition 90). Properties are owned by individuals and have base year values ranging from 1975 to 1979.

⁽⁵⁾ Represents Assessed Value column divided by the Total Direct and Overlapping Debt column.

Source: David Taussig & Associates, Inc.

SPECIAL RISK FACTORS

The purchase of the Series A Bonds involves certain investment risks which are discussed throughout this Official Statement. Each prospective investor should make an independent evaluation of all information presented in this Official Statement in order to make an informed investment decision. Particular attention should be given to the factors described below which, among others, could affect the payment of debt service on the Series A Bonds.

Risks of Real Estate Secured Investments Generally

Because the timely payment of debt service on the Series A Bonds will be dependent upon the timely payment of the Local Obligations and the timely payment of the Local Obligations will be dependent upon the timely payment of Special Taxes, which are secured ultimately by the Taxable Property within the Districts, the Series A Bond Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in and around the vicinity of the Districts, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses; (iv) adverse changes in local market conditions; and (v) increased delinquencies due to rising mortgage costs and other factors.

Risks Related to Housing Market Conditions

The housing market in southern California experienced significant price appreciation and accelerating demand from approximately 2002 to 2006 but subsequently the housing market weakened substantially, with changes from the prior pattern of price appreciation and a slowdown in demand for new housing and declining prices. Beginning in 2007, home developers, appraisers and market absorption consultants were reporting weak housing market conditions due to factors including but not limited to the following: (i) lower demand for new homes; (ii) significant increase in cancellation rates for homes under contract; (iii) the exit of speculators from the new home market; (iv) increasing mortgage defaults and foreclosures, (v) a growing supply of new and existing homes available for purchase; (vi) increase in competition for new homes orders; (vii) prospective home buyers having a more difficult time selling their existing homes in the more competitive environment; (viii) reduced sales prices and/or higher incentives required to stimulate new home orders or to induce home buyers not to cancel purchase contracts, (ix) more stringent credit qualification requirements by home loan providers and (x) increased unemployment levels. Since Fiscal Year 2007-08, assessed valuations in CFD No. 2002-1 have declined by approximately 14.0% and in CFD No. 2003-1 by 28.2%, although assessed valuations have remained stable in the past year, increasing by less than 1%. Although home prices within the Districts appear to have stabilized, one or more of these factors may negatively impact home values in the Districts in the future and affect the willingness or ability of taxpayers to pay their Special Tax payment prior to delinquency.

The Bonds are Limited Obligations of the Authority

The Bonds are limited obligations of the Authority payable only from amounts pledged under the Indenture, which consist primarily of payments made to the Trustee on the Local Obligations and amounts in the Reserve Funds. Funds for the payment of the principal of and the interest on the Local Obligations are derived only from payments of Special Taxes. The amount of Special Taxes that are collected could be insufficient to pay principal of and interest on the Local Obligations due to non-payment of the Special Taxes levied or due to insufficient proceeds received from a judicial foreclosure sale of land within the Districts following delinquency. A District's legal obligation with respect to any delinquent Special Taxes is limited to the institution of judicial foreclosure proceedings under certain circumstances with respect to any parcels for which Special Taxes is delinquent. The Bonds cannot be accelerated in the event of any default.

Failure by owners of the parcels within the Districts to pay Special Tax installments when due, delay in foreclosure proceedings, or the inability of the Districts to sell parcels which have been subject to foreclosure proceedings for amounts sufficient to cover the delinquent installments of Special Taxes levied against such parcels may result in the inability of the Districts to make full or timely payments of debt service on the Local Obligations, which may, in turn, result in the depletion of first the Series B Reserve Fund and then the Series A Reserve Fund and the inability of the Authority to make full or timely payment on the Bonds. The Series A Reserve Fund is not available to pay any interest or principal on the Series B Bonds and the Series B Reserve Fund is not available to pay any interest or principal on the Series A Bonds.

No Obligation of County

The Local Obligations and the interest thereon, and in turn, the Bonds, are not payable from the general funds of the County. Except with respect to the Special Taxes, neither the credit nor the taxing power of the Districts or the County is pledged for the payment of the Local Obligations or the interest thereon, and except to compel a levy of the Special Taxes securing the Local Obligations, no Owner of the Bonds may compel the exercise of any taxing power by the Districts or the County or force the forfeiture of any property of the County or the Districts. The Bonds are not a debt of the County or the Districts or a legal or equitable pledge, charge, lien or encumbrance upon any of the County's or the Districts' property or upon any of the County's or the Districts' income, receipts or revenues, except the Revenues and other amounts pledged under the Indenture.

Property Values

The value of the Taxable Property within the Districts is an important factor in evaluating the investment quality of the Series A Bonds. In the event that a property owner defaults in the payment of a Special Tax installment, a District's only remedy is to judicially foreclose on that property. Prospective purchasers of the Series A Bonds should not assume that the property within the Districts could be sold for the assessed values described herein at a foreclosure sale for delinquent Special Tax installments or for an amount adequate to pay delinquent Special Tax installments.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, increased or decreased annually by an amount determined by the Orange County Assessor based on current market conditions, generally not to exceed an increase of more than 2% per fiscal year from the date of purchase (except in the case of new construction subsequent to such

acquisition). No assurance can be given that a parcel could actually be sold for its assessed value. See “— Risks Related to Housing Market Conditions” above.

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

Natural Disasters

The land within the Districts, like all California communities, may be subject to unpredictable seismic activity, fires, floods or other natural disasters. The occurrence of one of these natural disasters in a District could result in substantial damage to properties in such District which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes. Any major damage to structures as a result of natural disasters could result in a greater reliance on undeveloped property in the payment of Special Taxes.

Hazardous Substances

The value of a parcel may be reduced as a result of the presence of a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

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

None of the Authority, the Districts or the County has knowledge of any hazardous substances being located on the property within the Districts; however, such entities have not conducted any investigation with respect to hazardous substances within the Districts.

Parity Taxes and Special Assessments

Property within the Districts is subject to taxes and other charges levied by several other public agencies. See the discussion of direct and overlapping indebtedness under the heading “THE COMMUNITY FACILITIES DISTRICTS.”

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with the lien of all special taxes and special assessments levied by other agencies and is co-equal to and independent of the lien for general *ad valorem* property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property. See “ — Bankruptcy and Foreclosure” below.

None of the Authority, the Districts or the County has control over the ability of other entities and districts to issue indebtedness secured by special taxes, ad valorem taxes or assessments payable from all or a portion of the property within the Districts. In addition, the landowners within the Districts may, without the consent or knowledge of the Authority, the Districts or the County, petition other public agencies to issue public indebtedness secured by special taxes, ad valorem taxes or assessments. Any such special taxes, ad valorem taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within the Districts described herein.

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

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the proceeds received from the sale of a taxable parcel following a Special Tax delinquency are not sufficient, taking into account other liens imposed by public agencies, to pay the full amount of the Special Tax delinquency, the District has no recourse against the owner of the parcel.

Disclosures to Future Purchasers

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

The Mello-Roos Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by

an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Teeter Plan Termination

In 1993, the County implemented its Teeter Plan as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the Districts, with full tax and assessment levies instead of actual tax and assessment collections. In return, the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may protect the Owners of the Series A Bonds from the risk of delinquencies in the payment of Special Taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to a District would eliminate such protection from delinquent Special Taxes. See "SECURITY FOR THE LOCAL OBLIGATIONS – Teeter Plan."

Special Tax Delinquencies

Special Taxes are the primary source for the repayment of the Local Obligations, which are the only source of Revenues to repay the Bonds. Delinquencies could result in a draw on the Reserve Funds and, if the Reserve Fund for a Series were depleted, in a default in payment on such Series of the Bonds.

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

As set forth in each of the delinquency tables under the heading "THE COMMUNITY FACILITIES DISTRICTS," as of January 11, 2014, the current delinquency rates in each of the Districts is less than 1.0% for prior fiscal years and less than 3.0% for the first installment due in Fiscal Year 2013-14. See Tables 8 and 16.

See "SECURITY FOR THE LOCAL OBLIGATIONS — Covenants of the Districts - Commence Foreclosure Proceedings," for a discussion of the provisions which apply, and procedures which each District is obligated to follow under the Local Obligation Resolutions, in the event of delinquencies in the payment of Special Taxes. See " — Bankruptcy and Foreclosure" below for a discussion of the policy of the Federal Deposit Insurance Corporation (the "FDIC") regarding the payment of special taxes and assessment and limitations on the District's ability to foreclose on the lien of the Special Taxes in certain circumstances.

Insufficiency of Special Taxes

Notwithstanding that the maximum Special Taxes that may be levied in the Districts exceeds debt service due on the Local Obligations, the Special Taxes collected could be inadequate to make

timely payment of debt service either because of nonpayment or because property becomes exempt from taxation.

The Rate and Method governing the levy of the Special Taxes within each District expressly exempts up to a specified number of acres of property owned by public entities, homeowner associations, churches and other specified owners. If for any reason property within a District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, another public agency or other organization determined to be exempt, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within such District. This could result in certain owners of property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

The Mello-Roos Act provides that, if any property within a District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Mello-Roos Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Mello-Roos Act have not been tested in the courts. Due to problems of collecting taxes from public agencies, if a substantial portion of land within a District became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Taxes which could be levied upon the remaining taxable property therein might not be sufficient to pay principal of and interest on the related Local Obligations when due and a default could occur with respect to the payment of such principal and interest, and, in turn, a default could occur in the payment of the principal and interest on the Bonds.

FDIC/Federal Government Interests in Properties

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

In the case of the FDIC, in the event that any financial institution making a loan which is secured by parcels is taken over by the FDIC and the applicable Special Tax is not paid, the remedies available to the Districts may be constrained. The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that taxes other than *ad valorem* taxes which are secured by a valid lien in effect before the FDIC acquired an interest in a property will be paid unless the FDIC determines that abandonment of its interests is appropriate. The Policy Statement provides that the FDIC generally will not pay installments of non-*ad valorem* taxes which are levied after the time the FDIC acquires its fee interest, nor will the FDIC recognize the validity of any lien to secure payment except in certain cases where the Resolution Trust Corporation had an interest in property on or prior to December 31, 1995. Moreover, the Policy Statement provides that, with respect to parcels on which the FDIC holds a mortgage lien, the FDIC will not permit its lien to be foreclosed out by a taxing authority without its specific consent, nor will the FDIC pay or recognize liens for any penalties, fines or similar claims imposed for the non-payment of taxes.

The FDIC has taken a position similar to that expressed in the Policy Statement in legal proceedings brought against Orange County in United States Bankruptcy Court and in Federal District Court. The Bankruptcy Court issued a ruling in favor of the FDIC on certain of such claims. Orange County appealed that ruling, and the FDIC cross-appealed. On August 28, 2001, the Ninth Circuit Court of Appeals issued a ruling favorable to the FDIC except with respect to the payment of pre-receivership liens based upon delinquent property tax.

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

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

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

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

Funds Invested in the County Investment Pool

Funds held under the Indenture are required to be invested in Permitted Investments in accordance with the Indenture and funds held under the Local Obligations Resolutions are required to be invested in Authorized Investments in accordance with the Local Obligation Resolutions. See Appendix A attached hereto for the definitions of Permitted Investments and Authorized Investments. Included as a Permitted Investment under the Indenture and as an Authorized Investment under the Local Obligations Resolutions is the Orange County Investment Pool (the “Pool”) which is operated by the County Treasurer. Information regarding the Pool, including the

Investment Policy for the Pool, the current investments held in the Pool and the recent performance measurements for the Pool may be obtained at the County Treasurer's website at <http://ttc.ocgov.com/investments/>. The Pool includes several separate funds, including the County Money Market Fund and an Extended Fund. Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's") has assigned its 'AAAm' principal stability fund rating to the County Money Market Fund, the part of the Pool into which the Special Tax proceeds collected by the Districts will be invested. The rating reflects only the view of Standard & Poor's, and explanation of the significance of the rating may be obtained from Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041; (212) 438-2124. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Standard & Poor's, if in the judgment of Standard & Poor's, circumstances so warrant. All investments, including the Permitted Investments, the Authorized Investments, and those authorized by law from time to time for investments by municipalities, including the types of investments permitted to be held in the Pool, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal.

The County Treasurer's website referenced above is not in any way incorporated into this Official Statement and is cited for informational purposes only. The Authority makes no representation whatsoever as to the accuracy or completeness of any of the information on such website.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in the Pool following a bankruptcy proceeding filed on behalf of the Pool. In the event of a petition or bankruptcy filing on behalf of the Pool or the adjustment of County debts under Chapter 9 of the Federal Bankruptcy Code, a court might hold that the Bond Owners do not have a valid and/or prior lien on the Special Taxes where such amounts are deposited in the Pool and may not provide the Bond Owners with a priority interest in such amounts. In that circumstance, unless the Bond Owners could "trace" the funds that have been deposited in the Pool, the Bond Owners would be unsecured (rather than secured) creditors. There can be no assurance that the Bond Owners could successfully so trace the Special Taxes. Neither the Authority nor the Districts can predict the effects on the receipt of Special Taxes if the Pool were to suffer significant losses in its portfolio of investments or if the County or the Pool was to become insolvent or declare bankruptcy. See also "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure."

Bankruptcy and Foreclosure

In the event of a delinquency in the payment of the Special Taxes, a District, under certain circumstances, is required to commence enforcement proceedings as described under the heading "SECURITY FOR THE LOCAL OBLIGATIONS — Covenants of the Districts." However, prosecution of such proceedings could be delayed due to crowded local court calendars, dilatory legal tactics, or bankruptcy. It is also possible that a District will be unable to realize proceeds in an amount sufficient to pay the applicable delinquency. Moreover, the ability of the Districts to commence and prosecute enforcement proceedings may be limited by bankruptcy, insolvency and other laws generally affecting creditors' rights (such as the Soldiers' and Sailors' Relief Act of 1940) and by the laws of the State relating to judicial and non-judicial foreclosure. Although bankruptcy proceedings would not cause the liens of the Special Taxes to become extinguished, bankruptcy of a

property owner could result in a delay in the enforcement proceedings because federal bankruptcy laws provide for an automatic stay of foreclosure and tax sale proceedings. Any such delay could increase the likelihood of delay or default in payment of the principal of and interest on the Local Obligations. The various legal opinions delivered in connection with the issuance of the Bonds, including Bond Counsel's approving legal opinion, are qualified as to the enforceability of the Bonds, the Indenture, the Local Obligations and the Local Obligation Resolutions by reference to bankruptcy, reorganization, moratorium, insolvency and other laws affecting the rights of creditors generally or against public corporations such as the Districts.

No Acceleration Provision

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Indenture. Pursuant to the Indenture, an Owner of the Series A Bonds is given the right for the equal benefit and protection of all owners similarly situated to pursue certain remedies described in APPENDIX A — "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS — SUMMARY OF AUTHORITY INDENTURE — EVENTS OF DEFAULT AND REMEDIES OF SERIES A BOND OWNERS" following the occurrence of a Series A Event of Default.

Limitations on Remedies

Remedies available to the Owners of the Series A Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Series A Bonds or to preserve the exclusion from gross income for federal income tax purposes of interest on the Series A Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Series A Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion and by limitations on remedies against public agencies in the State. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the Series A Bonds.

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS — Tax Matters" herein, interest on the Series A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series A Bonds were issued, as a result of future acts or omissions of the Authority, the County or the Districts in violation of covenants in the Indenture or the Local Obligation Resolutions, respectively. Legislative changes have been proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the Series A Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the Series A Bonds. Should such an event of taxability occur, the Series A Bonds are not subject to a special redemption and will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Indenture.

Current or future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. Legislative changes have been proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the Series A Bonds. The introduction or enactment of any of the pending or future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series A Bonds. Prospective purchasers of the Series A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

It is possible that subsequent to the issuance of the Series A Bonds there might be federal, State, or local statutory changes (or judicial or regulatory interpretations of federal, State, or local law) that affect the federal, State, or local tax treatment of the Series A Bonds or the market value of the Series A Bonds. No assurance can be given that subsequent to the issuance of the Series A Bonds such changes or interpretations will not occur. See “LEGAL MATTERS — Tax Matters” below.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the Series A Bonds, or, if a secondary market exists, that the Series A Bonds can be sold for any particular price. Although the Authority has committed to provide certain financial information and operating data on an annual basis, there can be no assurance that such information will be available to Beneficial Owners of the Series A Bonds on a timely basis. The failure to provide the required annual information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of a credit rating, or adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Proposition 218

An initiative measure commonly referred to as the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” The provisions of the Initiative continue to be interpreted by the courts. The Initiative could potentially impact the Special Taxes available to the Districts to pay the principal of and interest on the Local Obligations as described below.

Among other things, Section 3 of Article XIII states that “. . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” The Mello-Roos Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Mello-Roos Act prohibits a legislative body from adopting any resolution to reduce the

rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Mello-Roos Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On August 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

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

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

It may be possible, however, for voters or the Board of Supervisors of the County, acting as the legislative body of each District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Local Obligations, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Local Obligations. Nevertheless, to the maximum extent that the law permits it to do so, each District will covenant in each Local Obligation Resolution executed by it that it will not initiate proceedings under the Mello-Roos Act to reduce the maximum Special Tax rates that may be levied on Developed Property in a District below an amount equal to 110% of the sum of the Administrative Expenses Cap plus debt service for the Local Obligations of such District in each Bond Year. Each District also will covenant in its Local Obligation Resolution that, in the event an initiative is adopted which purports to alter the Rate and Method for the District, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

The interpretation and application of the Initiative will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See “— Limitations on Remedies” above.

Ballot Initiatives and Legislative Matters

Articles XIII A, XIII B, XIII C and XIII D, all of which placed certain limitations on the power of local agencies to tax, collect and expend revenues, were adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the

County, or the Districts to increase revenues or to increase appropriations or on the ability of the landowners within the Districts to complete proposed future development.

LEGAL MATTERS

Tax Matters

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

In the opinion of Bond Counsel, the difference between the issue price of a Series A Bond (the first price at which a substantial amount of the Series A Bonds of the same maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner’s basis in the Series A Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Owner of a Series A Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income of interest (and original issue discount) on the Series A Bonds is based upon certain representations of fact and certifications made by the Authority, the County, the Districts and others and is subject to the condition that the Authority, the County and the Districts comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Series A Bonds to assure that interest (and original issue discount) on the Series A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Series A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series A Bonds. The Authority, the County and the Districts will each covenant to comply with all such requirements.

The amount by which a Bond Owner’s original basis for determining loss on sale or exchange in the applicable Series A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Series A Bond premium, which must be amortized under Section 171 of the Code; such amortizable Series A Bond premium reduces the Series A Bond Owner’s basis in the applicable Series A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Series A Bond premium may result in a Bond Owner realizing a taxable gain

when a Series A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series A Bond to the Owner. Purchasers of the Series A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Series A Bond premium.

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Series A Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series A Bonds might be affected as a result of such an audit of the Series A Bonds (or by an audit of other similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Series A Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Series A Bonds or their market value.

SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE SERIES A BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE INTEREST ON THE SERIES A BONDS OR THE MARKET VALUE OF THE SERIES A BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE SERIES A BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE SERIES A BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE SERIES A BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE SERIES A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE SERIES A BONDS.

Bond Counsel’s opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series A Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture, the Local Obligation Resolutions and the Tax Certificate relating to the Series A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of interest (and original issue discount) on the Series A Bonds for federal income tax purposes with respect to any Series A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the Series A Bonds is excluded from gross income for federal income tax purposes provided that the Authority, the County and the Districts continue to comply with certain requirements of the Code, the ownership of the Series A Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Series A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing

any of the Series A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Series A Bonds.

Should interest on the Series A Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the Series A Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

See Appendix C — “FORM OF BOND COUNSEL OPINION” for a form of the opinion to be provided by Bond Counsel on the date of issuance of the Series A Bonds.

Absence of Litigation

The Authority will certify at the time the Series A Bonds are issued that no litigation is pending or threatened concerning the validity of the Series A Bonds or the Local Obligations and that no action, suit or proceeding is known by the Authority to be pending that would restrain or enjoin the delivery of the Series A Bonds or the Local Obligations, or contest or affect the validity of the Series A Bonds or the Local Obligations or any proceedings of the Authority taken with respect to the Series A Bonds or the Local Obligations. Each of the Districts will also certify at the time the Series A Bonds are issued that no litigation is pending or threatened concerning the validity the Local Obligations and that no action, suit or proceeding is known by such District to be pending that would restrain or enjoin the delivery of the Local Obligations, or contest or affect the validity of the Local Obligations or any proceedings of such District taken with respect to the Local Obligations.

Legal Opinion

Certain proceedings in connection with the issuance of the Series A Bonds are subject to the approval as to their legality of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel for the Authority in connection with the issuance of the Series A Bonds. The opinion of Bond Counsel approving the validity of the Series A Bonds substantially in the form attached as Appendix C hereto will be attached to each Series A Bond. Bond Counsel’s employment is limited to a review of legal procedures required for the approval of the Series A Bonds and to rendering an opinion as to the validity of the Series A Bonds and the exemption of interest on the Series A Bonds from income taxation. Bond Counsel expresses no opinion to the Owners of the Series A Bonds as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Series A Bonds and expressly disclaims any duty to do so.

Payment of the fees of Bond Counsel, the Underwriter and Underwriter’s Counsel is contingent upon issuance of the Series A Bonds.

MISCELLANEOUS

Rating of Series A Bonds

Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc. (“Standard & Poor’s”) has assigned its municipal bond rating of “BBB+” to the Series A Bonds.

Such rating reflects only the views of Standard & Poor’s and an explanation of the significance of such rating may be obtained from Standard & Poor’s. There is no assurance that such

rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by such organization, if in its judgment circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series A Bonds.

Verification of Mathematical Accuracy

Causey Demgen & Moore, P.C., independent accountants, upon delivery of the Series A Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them which were prepared by the Underwriter, relating to the sufficiency of moneys and securities deposited with U.S. Bank National Association to pay, when due, the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements of the Prior CFD No. 2002-1 Bonds and the Prior CFD No. 2003-1 Bonds.

The report of Causey Demgen & Moore, P.C. will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it, and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.

Underwriting

The Series A Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter") at a purchase price of \$69,157,609.10 (representing the par amount of the Series A Bonds, less underwriter's discount of \$296,907.00 and plus original issue premium of \$4,909,516.10).

The purchase contract relating to the Series A Bonds between the Authority and the Underwriter provides that all Series A Bonds will be purchased if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in said purchase contract, including, but not limited to, the approval of certain legal matters by counsel.

Piper Jaffray & Co. is acting as Placement Agent for the Series B Bonds.

Continuing Disclosure

Pursuant to the Continuing Disclosure Certificate, the Authority will agree to provide, or cause to be provided, through the Electronic Municipal Market Access system maintained by the Municipal Securities Rulemaking Board (or with such other entity as is designated or authorized under Rule 15c2-12 adopted by the Securities and Exchange Commission) certain annual financial information and operating data. The Annual Report to be filed by the Authority will include audited financial statements of the Authority and the Districts, if any are prepared, and additional financial and operating data concerning the Districts as set forth in Section 4 of the Continuing Disclosure Certificate attached hereto as Appendix D.

The Continuing Disclosure Certificate will inure solely to the benefit of any Dissemination Agent, the Underwriter and Owners or Beneficial Owners from time to time of the Series A Bonds. A default under the Continuing Disclosure Certificate is not a default under the Indenture and the sole remedy following a default is an action to compel specific performance by the Authority with the terms of the Continuing Disclosure Certificate.

During the last five years, the County and certain of its related entities, including the Authority, have failed to comply in certain respects with continuing disclosure obligations related to outstanding bonded indebtedness. More specifically, as to the Authority:

(i) For two outstanding series of bonds, the Authority omitted to provide in the annual report certain of the required financial and operating data and for several series of bonds the audited financial statements were filed late in fiscal year 2007-08 and not filed in fiscal years 2008-09 and 2009-10; and

(ii) The Authority did not file certain material event notices, or filed late material event notices, regarding changes to the ratings of certain of its obligations, including as a result of rating changes of bond insurance companies that insured outstanding Authority bonds.

The Authority has made additional filings to provide certain of the previously omitted information; provided that with respect to ratings changes, notice has been provided only of the existing rating or ratings applicable to each outstanding series of bonds. The Authority believes that it is now in compliance in all material respects with its prior undertakings for each of its series of bonds that remain outstanding.

With respect to the County and its related entities, other than the Authority, the failure to comply fell into three general categories: (i) failure to provide significant event notices with respect to changes in the ratings of outstanding bonds, primarily related to changes in the ratings of various bond insurers insuring the bonds of the County or its related entities; (ii) late filing of annual reports with respect to a number of the bond issues, in some cases by only a day and in other cases by a longer period of time; (iii) failure to file audited financial statements as a part of annual reports. Copies of the County's audited financial statements were available to investors from other sources but were not filed concurrently with certain of the annual reports, as required by the continuing disclosure undertakings. In addition, with respect to the County of Orange Taxable Refunding Pension Obligation Bonds Series 1996A and the County of Orange Taxable Refunding Pension Obligation Bonds Series 1997A the County failed to file its annual report for any year following fiscal year 2007-08 or to file notice of ratings changes associated with bond insurer ratings downgrades. The failure to file was based on the mistaken view that the County's economic defeasance of these bonds through a refinancing terminated the continuing disclosure obligation, when, in fact, no termination occurred.

The County and various related entities have made additional filings to provide certain of the previously omitted information; provided that with respect to ratings changes, notice has been provided only of the existing rating or ratings applicable to each outstanding series of bonds. Each of these filings may be accessed through EMMA. The Authority believes that the County and its related entities are now in compliance in all material respects with the prior undertakings for all series of bonds that remain outstanding.

In order to ensure ongoing compliance by the Authority with its continuing disclosure undertakings, (i) Authority and County staff have conducted a review of all Authority continuing disclosure undertakings to ensure filing due dates are correctly documented in policies and procedures and a single County staff member has been assigned primary responsibility to monitor compliance; and (ii) the County has contracted with a consultant to assist in filing accurate, complete and timely disclosure reports on behalf of the Authority.

Pending Legislation

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

Additional Information

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or Owners of any of the Bonds.

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The execution and delivery of this Official Statement has been duly authorized by the Authority.

SOUTH ORANGE COUNTY PUBLIC FINANCING
AUTHORITY

By: /s/ Michael B. Giancola
Executive Director

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Indenture governing the terms of the Bonds and the form of Local Obligation Resolution which is being separately executed by each of the Districts, each governing the terms of the Local Obligations. This summary includes only the provisions of the documents not already summarized in the Official Statement and does not purport to be complete and is qualified in its entirety by reference to said documents.

DEFINITIONS; AUTHORIZATION AND PURPOSE OF BONDS; EQUAL SECURITY

Definitions. Unless the context otherwise requires, the terms defined below shall for all purposes of the Indenture and of any Supplemental Indenture and of the Bonds and of any certificate, opinion, request or other documents in the Indenture mentioned have the meanings in the Indenture specified.

“Act” means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State, as it may be amended after the date of the Indenture from time to time.

“Additional Bonds” means additional bonds issued pursuant to the Indenture and secured on a parity with the Bonds.

“Additional Series A Bonds” means additional bonds issued pursuant to the Indenture secured on a parity with Series A Bonds.

“Additional Series B Bonds” means additional bonds issued pursuant to the Indenture and secured on a parity with Series B Bonds.

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

“Alternative Penalty Account” means the account by that name established pursuant to the Indenture.

“Annual Debt Service” means, for each Bond Year and for each Series, the sum of (a) the interest payable on the Outstanding Bonds of such Series in such Bond Year, and (b) the principal amount of the Outstanding Bonds of such Series scheduled to be paid in such Bond Year.

“Authority” means the South Orange County Public Financing Authority, a joint exercise of powers agency established pursuant to the laws of the State, whose members as of the date of the Indenture are the County and Community Facilities District No. 88-2 of the County of Orange.

“Authority Administrative Expenses” means the fees and expenses of the Trustee, including legal fees and expenses (including fees and expenses of outside counsel and the allocated costs of internal attorneys) and the out of pocket expenses incurred by the Trustee and the Authority in carrying out their duties under the Indenture including payment of amounts payable to the United States pursuant to the Indenture.

“Authorized Denomination” means with respect to the Series A Bonds \$5,000 or any integral multiple thereof and with respect to the Series B Bonds \$100,000 or any integral multiple of \$5,000 in excess thereof.

“Authorized Officer” means the Chairman, Executive Director or Treasurer of the Authority or any other Person authorized by the Authority to perform an act or sign a document on behalf of the Authority for purposes of the Indenture.

“Beneficial Owners” means the actual purchasers of the Bonds and with respect to the Series A Bonds, ownership interests of which are recorded on the books of the DTC Participants.

“Bond Counsel” means any attorney at law or firm of attorneys selected by the Authority, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

“Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584), as it may be amended from time to time after the date of the Indenture.

“Bond Register” means the registration books for the Bonds maintained by the Trustee in accordance with the Indenture.

“Bond Year” means each twelve month period extending from August 16 in one calendar year to August 15 of the succeeding calendar year, except in the case of the initial Bond Year which shall be the period from the Closing Date of the Bonds to August 15, 2014, both dates inclusive.

“Bonds” means collectively, the Series A Bonds, the Series B Bonds and any Additional Bonds authorized by and at any time Outstanding pursuant to the Bond Law and the Indenture.

“Business Day” means a day which is not a Saturday or Sunday or a day of the year on which the New York Stock Exchange or banks in New York, New York or Los Angeles, California, or where the Trust Office is located, are not required or authorized to remain closed.

“Certificate of the Authority” means a certificate in writing signed by the Executive Director or Treasurer of the Authority, or by any other officer of the Authority duly authorized in writing by the Board for that purpose.

“CFD Act” means the Mello-Roos Community Facilities Act of 1982, constituting Chapter 2.5 (commencing with Section 53311), Article 1 of Division 2 of Title 5 of the Government Code of that State of California, as amended from time to time.

“Closing Date” means for each Series the date on which the Bonds of such Series were executed and delivered to the Original Purchaser thereof.

“Code” means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations proposed or in effect with respect thereto.

“Community Facilities District” or “CFD” means any one of the Community Facilities Districts.

“Community Facilities District No. 2002-1” or “CFD No. 2002-1” means Community Facilities District No. 2002-1 of the County of Orange (Ladera Ranch), a community facilities district formed pursuant to the CFD Act.

“Community Facilities District No. 2003-1” or “CFD No. 2003-1” means Community Facilities District No. 2003-1 of the County of Orange (Ladera Ranch), a community facilities district formed pursuant to the CFD Act.

“Community Facilities Districts” means, collectively, CFD No. 2002-1 and CFD No. 2003-1.

“Costs of Issuance” means the costs and expenses incurred in connection with the issuance and sale of the Bonds, the Local Obligations, and the acquisition of the Local Obligations by the Authority, including the acceptance and initial annual fees and expenses (including legal fees and expenses) of the Trustee, legal fees and expenses, costs of printing the Bonds and the preliminary and final Official Statements, fees of financial consultants, the Underwriter’s discount, fees of the Placement Agent, any discount of the Original Purchasers, and other fees and expenses set forth in a Request of the Authority.

“Costs of Issuance Fund” means the fund by that name established in the Indenture.

“County” means the County of Orange, California.

“Dated Date” means the date on which the Bonds are issued and authenticated by the Trustee.

“Defeasance Securities” means non-callable, non-prepayable obligations of the type set forth in clauses 1 and 2 of the definition of Permitted Investments.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“DTC Participants” means securities brokers and dealers, banks, trust companies, clearing corporations and other organizations maintaining accounts with DTC.

“Event of Default” means any of the events of default described in the Indenture.

“Fiscal Year” means any twelve month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve month period selected and designated by the Authority as its official fiscal year period.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions of the Indenture.

“Independent Accountant” means any accountant or firm of such accountants appointed and paid by the Authority, and who, or each of whom –

(a) is in fact independent and not under domination of the Authority or the County;

(b) does not have any substantial interest, direct or indirect, in the Authority or the County; and

(c) is not an officer or employee of the Authority, or the County, but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the County.

“Independent Financial Consultant” means any financial consultant or firm of such consultants appointed and paid by the Authority, and who, or each of whom –

(a) is in fact independent and not under domination of the Authority or the County;

(b) does not have any substantial interest, direct or indirect, in the Authority or the County; and

(c) is not an officer or employee of the Authority or the County, but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the County.

“Information Services” means such services providing information with respect to called bonds in accordance with then current guidelines of the Securities and Exchange Commission, such as the Trustee may select in its sole discretion.

“Interest Payment Date” means February 15 and August 15 in each year, beginning August 15, 2014, and continuing thereafter so long as any Bonds remain Outstanding.

“Letter of Representations” means a letter substantially in the form attached to the Indenture, delivered by each purchaser of the Series B Bonds to the Authority to the effect, among other things, that such purchaser (a) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the Series B Bonds, (b) is acquiring the Series B Bonds for its own account for the purpose of investment and not with a view to the distribution thereof, and (c) has no present intention of selling, negotiating, transferring, or otherwise disposing of the Series B Bonds so purchased.

“Local Obligations” means collectively, the following:

(a) \$57,585,000 Community Facilities District No. 2002-1 of the County of Orange (Ladera Ranch) Series 2014 Special Tax Refunding Bonds; and

(b) \$46,960,000 Community Facilities District No. 2003-1 of the County of Orange (Ladera Ranch) Series 2014 Special Tax Refunding Bonds.

“Local Obligations Delinquency Revenues” means Revenues received by the Trustee from the paying agent for a Series of the Local Obligations representing the payment of delinquent debt service on such Local Obligations.

“Local Obligation Resolutions” means the resolutions and any supplements thereto adopted in connection with the issuance of the Local Obligations.

“Maximum Annual Debt Service” means, as of the date of any calculation, the largest Annual Debt Service on a Series during the current or any future Bond Year.

“Original Purchasers” means, with respect to the Series A Bonds, Piper Jaffray & Co., with respect to the Series B Bonds, the WAB Investments, Inc., a wholly-owned subsidiary of Western Alliance Bank, an Arizona corporation, and, with respect to the Bonds of any other Series, the entity or entities that purchase such Bonds from the Authority on the date of issuance thereof.

“Outstanding” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore executed and issued by the Authority and authenticated and delivered by the Trustee under the Indenture except –

(a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation pursuant to the Indenture;

(b) Bonds paid or deemed to have been paid within the meaning of the Indenture or Bonds called for redemption for which funds have been provided as described in the Indenture; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered pursuant to the Indenture or any Supplemental Indenture.

“Owner” or “Bond Owner”, when used with respect to any Bond, means the person in whose name the ownership of such Bond shall be registered on the Bond Register.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested in the Indenture:

1. Cash.
2. United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.
3. Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.
4. Eligible commercial paper shall be of “prime” quality and of the highest ranking or of the highest letter and number rating as provided by a Rating Agency, except that split ratings (i.e., A2/P1) shall not be allowed. The commercial paper shall not exceed 270 days’ maturity and the entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

(a) Has total assets in excess of five hundred million dollars (\$500,000,000), is organized and operating within the United States as a general corporation, and has debt other than commercial paper, if any, that is rated “A” or higher by a Rating Agency.

(b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to

overcollateralization, letters of credit or a surety bond, has commercial paper that is rated “A-1” or higher, or the equivalent, by a Rating Agency.

5. Negotiable certificates of deposit issued by a U.S. national or state-chartered bank, savings bank, savings and loan association, or credit union in this state or state or federal association (as defined by Section 5102 of the California Financial Code) or by a state- licensed branch of a foreign bank. Issuing banks must have a short-term rating of not less than A1/P1 and a long-term rating of not less than an “A” from a Rating Agency, if any.

6. Investments in repurchase agreements which comply with the requirements of California Government Code Section 53601(j) pursuant to which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Trustee by book entry, physical delivery, or by third party custodial agreement. The term of a repurchase agreement shall not exceed one year. The term “securities,” for the purpose of repurchase agreements, means securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. Repurchase agreements are required to be collateralized by securities or cash authorized under California Government Code Section 53601(j)(2) and as described below:

(a) In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

(b) Collateral will be limited to U.S. Treasury securities listed in paragraph (2) above and U.S. Government Agency securities listed in paragraph (3) above. Collateral will be held by an independent third party with whom the Trustee has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Trustee and retained. The Trustee retains the right to substitute or grant substitutions of collateral.

7. Bankers acceptances, also known as time drafts (bills of exchange) that are drawn on and accepted by a commercial bank. Purchases of bankers’ acceptances shall not exceed 180 days maturity. Issuing banks must be rated by each Rating Agency and have a short-term rating of at least A1/P1 and a long-term rating of not less than “A” from a Rating Agency, if any.

8. Shares of beneficial interest issued by diversified management companies that are mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.), which only invest in direct obligations in U.S. Treasury bills, notes and bonds, U.S. Government Agency securities and repurchase agreements with a weighted average maturity of 60 days or less. At a minimum, approved mutual funds shall have met either of the following criteria:

(a) Attained the highest ranking or the highest letter and numerical rating provided by each Rating Agency.

(b) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500,000,000.

9. Municipal debt instruments issued by a local or state agency, including:

(a) Bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

(b) Registered state warrants or treasury notes or bonds, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.

(c) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within a state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Issuing municipalities must have a short-term rating of not less than A1/P1 and a long-term rating of not less than an "A" from a Rating Agency, if any. Municipal debt issued by the County is exempt from this credit rating requirement.

10. Medium-term notes consisting of corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for any short-term pools such as money market funds and five years for any longer-term pools such as an extended fund. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated not less than "A" or its equivalent from each Rating Agency.

11. The Orange County Investment Pool.

"Proportionate Share" means, as of the date of calculation for any issue of the Local Obligations, the percentage derived by dividing the outstanding principal amount of such Local Obligations by the principal amount of the Outstanding Bonds.

"Purchase Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Rating Agency" means Standard & Poor's or Moody's Investors Service, Inc., or both, as the context requires.

"Rebate Fund" means the fund by that name established pursuant to the Indenture.

"Rebate Regulations" means the Treasury Regulations issued under Section 148(f) of the Code.

“Record Date” means, with respect to any Interest Payment Date, the first calendar day of the month in which such Interest Payment Date occurs, whether or not such day is a Business Day.

“Request of the Authority” means a written certificate or request executed by an Authorized Officer.

“Representation Letter” means the representation letter dated as of the Closing Date for a Series among the Authority, the Trustee and DTC.

“Responsible Officer” means any officer of the Trustee assigned to administer the Trustee’s duties under the Indenture.

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

“Revenues” means: (a) all amounts received from the Local Obligations; (b) any proceeds of the Series A Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Indenture with respect to the Series A Bonds (other than the Rebate Fund and the Surplus Fund); and (c) investment income with respect to any moneys held by the Trustee in the funds and accounts established under the Indenture with respect to the Series A Bonds (other than investment income on moneys held in the Rebate Fund and the Surplus Fund).

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041-0099 Attn. Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Series” means each of the Series A Bonds and Series B Bonds and any other bonds issued pursuant to the Indenture which share some common term or characteristic, which are issued at the same time and which are designated as a separate series of Bonds.

“Series A Bonds” means the South Orange County Public Financing Authority Special Tax Revenue Refunding Bonds (Ladera Ranch), 2014 Series A (Senior Lien Bonds).

“Series A Event of Default” means any of the events described in the Indenture.

“Series A Interest Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Series A Principal Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

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

“Series A Reserve Requirement” means an amount equal to the lowest of (i) 10% of the initial principal amount of the Series A Bonds and any Additional Series A Bonds, (ii) Maximum Annual Debt Service on the Outstanding Series A Bonds and any Additional Series A Bonds, or (iii)

125% of Average Annual Debt Service on the Outstanding Series A Bonds and any Additional Series A Bonds. As applied to individual accounts of the Series A Reserve Fund, the Series A Reserve Requirement shall initially be allocated as set forth in the Indenture.

“Series B Bonds” means the South Orange County Public Financing Authority Special Tax Revenue Refunding Bonds (Ladera Ranch), 2014 Series B (Junior Lien Bonds).

“Series B Event of Default” means any of the events described in the Indenture.

“Series B Interest Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Series B Principal Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

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

“Series B Reserve Requirement” means an amount equal to 10% of the Maximum Annual Debt Service on the Outstanding Series B Bonds and any Additional Series B Bonds. As applied to individual accounts of the Series B Reserve Fund, the Series B Reserve Requirement shall initially be allocated as set forth in the Indenture.

“Series of Local Obligations” means each series of the Local Obligations issued pursuant to the Local Obligation Resolutions.

“Six Month Period” shall mean the period of time beginning on the Closing Date for a Series of the Bonds and ending six months thereafter, and each six month period thereafter until the latest maturity date of such Series (and any obligations that refund such Series).

“Special Taxes” means the taxes authorized to be levied by the CFDs on parcels within the CFDs which have been pledged to repay the Local Obligations pursuant to the CFD Act.

“Standard & Poor’s” and “S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill, its successors and assigns.

“State” means the State of California.

“Subordinated Revenues” means (a) any proceeds of the Series B Bonds originally deposited with the Trustee, (b) all amounts remaining in the Revenue Fund on each Interest Payment Date after the deposits required by the Indenture with respect to the Series A Bonds have been made, (c) all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Indenture with respect to the Series B Bonds (other than the Rebate Fund and the Surplus Fund); and (d) investment income with respect to any moneys held by the Trustee in the funds and accounts established under the Indenture with respect to the Series B Bonds (other than investment income on moneys held in the Rebate Fund and the Surplus Fund).

“Supplemental Indenture” means any indenture, agreement or other instrument duly executed by the Authority after the date of the Indenture in accordance with the provisions of the Indenture.

“Surplus Fund” means the fund by that name established pursuant to the Indenture.

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

“Trust Office” means the office of the Trustee at which at any particular time its corporate trust business with respect to the Indenture shall be administered, which office at the date of the Indenture is located in Los Angeles, California, or such other place as designated by the Trustee except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, with a principal corporate trust office in Los Angeles, California, and its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in the Indenture.

“Yield” has the meaning given to such term in the Code.

DEPOSIT AND APPLICATION OF PROCEEDS

Issuance of Bonds. Upon the execution and delivery of the Indenture, the Authority shall execute and deliver the Bonds of each Series of in the principal amounts set forth in the Indenture to the Trustee for authentication and delivery to the Original Purchasers thereof upon the Request of the Authority.

Revenue Fund. The Trustee shall establish and maintain a separate fund to be known as the “Revenue Fund” and the following separate accounts therein: Series A Interest Account, Series A Principal Account, Series B Interest Account, Series B Principal Account, and the Redemption Account. Except as otherwise provided in the Indenture, the Trustee shall deposit all Revenues received after the Closing Date to the Revenue Fund and shall apply amounts in the Revenue Fund as described in the Indenture.

Costs of Issuance Fund. The Trustee shall establish and maintain a fund known as the “Costs of Issuance Fund” into which shall be deposited the amounts set forth in the Indenture. The moneys in the Costs of Issuance Fund shall be used to pay Costs of Issuance from time to time upon receipt by the Trustee of a Request of the Authority. Each such Request of the Authority shall be sufficient evidence to the Trustee of the facts stated in the Indenture and the Trustee shall have no duty to confirm the accuracy of such facts. On the date which is one hundred twenty (120) days following the Closing Date for a Series, or upon the earlier receipt by the Trustee of a Request of the Authority stating that all Costs of Issuance have been paid, the Trustee shall transfer all remaining amounts in the Costs of Issuance Fund to the Revenue Fund. Upon such transfer, the Costs of Issuance Fund shall be closed and the Trustee shall no longer be obligated to make payments for Costs of Issuance. The Authority may at any time file a Request of the Authority requesting that the Trustee retain a specified amount in the Costs of Issuance Fund and transfer to the Revenue Fund all remaining amounts, and upon receipt of such request by the Trustee, the Trustee shall comply with such request.

Purchase Fund. The Trustee shall establish and maintain a separate fund to be known as the “Purchase Fund” into which shall be deposited the proceeds of sale of the Bonds of each Series received by the Authority from the Original Purchasers pursuant to the Indenture. The Trustee shall use the proceeds of the Bonds to purchase Local Obligations on the Closing Date; provided, however, that such Local Obligations may be purchased only if the Trustee has received a certificate of an Independent Financial Consultant or Independent Accountant stating that the Revenues and Subordinated Revenues to be available to the Trustee, assuming timely payment of the Local Obligations, will be sufficient to permit the timely payment of the principal of and interest on all Outstanding Bonds.

Reserve Funds. The Trustee shall establish and maintain a separate fund to be known as the “Series A Reserve Fund” and within such fund, accounts to be known as the “CFD No. 2002-1 Reserve Account” and the “CFD No. 2003-1 Reserve Account,” which shall be administered as provided in the Indenture.

The Trustee shall also establish and maintain a separate fund to be known as the “Series B Reserve Fund” and within such fund, accounts to be known as the “CFD No. 2002-1 Reserve Account” and the “CFD No. 2003-1 Reserve Account,” which shall be administered as provided in the Indenture.

Rebate Fund. The Trustee shall establish and maintain a separate fund to be known as the “Rebate Fund” and a separate Rebate Account and Alternative Penalty Account in the Indenture for the Bonds. The Rebate Fund shall be administered as described in the Indenture.

Surplus Fund. The Trustee shall establish and maintain a separate fund to be known as the “Surplus Fund” which shall be administered as described in the Indenture.

Administrative Expense Fund. The Trustee shall establish and maintain a separate fund to be held by the Trustee and known as the “Administrative Expense Fund” into which shall be deposited the amounts specified in the Indenture. The moneys in the Administrative Expense Fund shall be used to pay Authority Administrative Expenses or shall be transferred to the Surplus Fund, in either case, upon receipt of a Requisition of the Authority.

REVENUES; FLOW OF FUNDS

Revenue Fund. Amounts in the Revenue Fund will be applied as set forth in the Official Statement under the caption “SECURITY FOR THE BONDS—Revenues and Subordinated Revenues; Flow of Funds.”

Reserve Funds. Amounts in the Reserve Funds will be applied as set forth in the Official Statement under the caption “SECURITY FOR THE BONDS—Reserve Funds.”

Surplus Fund. Amounts in the Surplus Fund will be applied as set forth in the Official Statement under the caption “SECURITY FOR THE BONDS—Surplus Fund.”

Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments, as directed pursuant to the Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments. The Trustee shall be entitled to conclusively rely on any

such Request of the Authority and shall be fully protected in relying thereon. In the absence of any such Request of the Authority the Trustee shall invest any such moneys in Permitted Investments described in clause (8) of the definition thereof. Permitted Investments purchased as an investment of moneys in any fund or account established pursuant to the Indenture shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture shall be deposited in the fund or account from which such investment was made; provided, however, that all interest or gain derived from the investment of amounts in the Reserve Funds shall, to the extent the balance in any account thereof exceeds, on August 15 of each year, its respective share of the Series A Reserve Requirement as set forth in the Indenture, be withdrawn by the Trustee on such August 15, commencing August 15, 2014, and deposited in the corresponding account of the Series B Reserve Fund, with any amounts in excess of such account's proportionate share of the Series B Reserve Requirement to be deposited on such August 15 to the special tax fund of the corresponding Community Facilities District to be applied to the payment of debt service on the applicable Local Obligations on the next Interest Payment Date.

For purposes of acquiring any investments under the Indenture, the Trustee may commingle moneys held by it in any of the funds and accounts held by it under the Indenture. The Trustee and its affiliates may act as advisor, sponsor, principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee and its affiliates may make any and all investments permitted in the Indenture through its own investment department. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

Valuation and Disposition of Investments. For the purpose of determining the amount in any fund or account, the value of Permitted Investments credited to such fund or account shall be valued at the original cost thereof (excluding any brokerage commissions and excluding any accrued interest) provided that the investment of any funds held in the Reserve Funds, shall be valued at fair market value and marked to market at least quarterly by the Authority.

COVENANTS OF THE AUTHORITY

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal and interest and premium (if any) to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues, Subordinated Revenues, and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any

of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the applicable Series of Bonds then Outstanding and of all claims for interest thereon which shall have been so extended. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues, Subordinated Revenues, and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Bond Law, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues, the Subordinated Revenues, the Local Obligations and other assets purported to be pledged and assigned, respectively, under the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding limited, special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of the Revenues, the Subordinated Revenues, the Local Obligations and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards in which complete and accurate entries shall be made of transactions made by it relating to the proceeds of Bonds, the Revenues, the Subordinated Revenues, the Local Obligations and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority and the Community Facilities Districts upon reasonable prior notice during regular business hours and under reasonable circumstances, in each case as agreed to by the Trustee.

Not later than 45 days following each Interest Payment Date, the Trustee shall prepare and file with the Authority a report setting forth: (i) amounts withdrawn from and deposited into each fund and account maintained by the Trustee under the Indenture; (ii) the balance on deposit in each fund and account as of the date for which such report is prepared; and (iii) a brief description of all obligations held as investments in each fund and account. Copies of such reports may be mailed to any Owner upon the Owner's written request to the Trustee at the expense of such Owner at a cost not to exceed the Trustee's actual costs of duplication and mailing.

Conditions to Issuance of Additional Obligations. Except as set forth in the Indenture, the Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of Revenues or Subordinated Revenues in whole or in part.

The Authority may issue Additional Series A Bonds and Additional Series B Bonds, in each case in such principal amount as shall be determined by the Authority, pursuant to a Supplemental Indenture adopted or entered into by the Authority but only for the purpose of refunding the Bonds or Additional Bonds. Such Additional Bonds may be issued subject to the following conditions precedent:

(a) The Authority shall be in compliance with all covenants set forth in the Indenture and all Supplemental Indentures;

The proceeds of such Additional Bonds shall be applied to accomplish a refunding of all or a portion of the Bonds Outstanding as specified in a Request of the Authority; provided, however, that Additional Series B Bonds may be applied to redeem Series A Bonds or Additional Series A Bonds only if all Outstanding Series A Bonds and Additional Series A Bonds will be defeased in whole or if otherwise consented to by the Owners of all Outstanding Series B Bonds and Additional Series B Bonds then Outstanding. If issued, Additional Series A Bonds shall be secured and paid under the Indenture in the same manner and on a parity with the Series A Bonds, and the Indenture may be modified and amended in accordance with the Indenture to secure and pay such Additional Series A Bonds on a parity with the Series A Bonds. If issued, Additional Series B Bonds shall be secured and paid under the Indenture in the same manner and on a parity with the Series B Bonds, and the Indenture may be modified and amended in accordance with the Indenture to secure and pay such Additional Series B Bonds on a parity with the Series B Bonds;

The Supplemental Indenture providing for the issuance of such Additional Bonds shall provide that interest thereon shall be payable on February 15 and August 15, and principal thereof shall be payable on August 15 in any year in which principal is payable;

Prior to the delivery of any Additional Bonds, a written certificate must be provided to the Authority and the Trustee by an Independent Accountant or an Independent Financial Consultant which certifies that the Annual Debt Service in each Bond Year on the Additional Bonds does not exceed the Annual Debt Service in each Bond Year on the Bonds defeased or redeemed with the proceeds of such Additional Bonds;

The Supplemental Indenture providing for the issuance of such Additional Bonds may provide for the establishment of separate funds and accounts;

No Event of Default shall have occurred and be continuing with respect to the Bonds or any of the Local Obligations; and

The Authority shall deliver to the Trustee a written Certificate of the Authority certifying that the conditions precedent to the issuance of such Additional Bonds set forth in subsections (a), (b), (c), (d) and (f) above have been satisfied and that, upon the issuance of such Additional Bonds an amount equal to the Series A Reserve Requirement, as adjusted (if necessary) to reflect the issuance of such Additional Bonds will be on deposit in the Series A Reserve Fund and an amount equal to the Series B Reserve Requirement as adjusted (if necessary) to reflect the issuance of such Additional Bonds will be on deposit in the Series B Reserve Fund.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds will not be adversely affected for federal income tax purposes, the Authority covenants to comply with all applicable

requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The Authority will not take or omit to take any action or make any use of the proceeds of the Bonds or of any other moneys or property which would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

(b) Arbitrage. The Authority will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(c) Federal Guarantee. The Authority will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

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

(e) Miscellaneous. The Authority will take no action inconsistent with its expectations stated in any Tax Certificate executed with respect to the Bonds and will comply with the covenants and requirements stated in the Indenture and incorporated by reference in the Indenture.

The covenants set forth in the Indenture shall not be applicable to, and nothing contained in the Indenture shall be deemed to prevent the Authority from issuing Bonds the interest on which has been determined by the Board to be subject to federal income taxation.

Local Obligations. Subject to the provisions of the Indenture, the Authority and the Trustee shall use reasonable efforts to collect all amounts due from the Community Facilities District pursuant to the Local Obligations and shall enforce, and take all steps, actions and proceedings which the Authority and Trustee determine to be reasonably necessary for the enforcement of all of the rights of the Authority thereunder and for the enforcement of all of the obligations and covenants of the County and the Community Facilities Districts thereunder. The Authority shall instruct the Community Facilities Districts to authenticate and deliver to the Trustee the Local Obligations registered in the name of the Trustee.

The Authority, the Trustee and a Community Facilities District may at any time consent to, amend or modify any of the Local Obligations of such Community Facilities District pursuant to the terms thereof, (a) with the prior consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, or (b) without the consent of any of the Owners if such amendment or modification is for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Community Facilities District contained in such Local Obligations, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power therein reserved to or conferred upon the Community Facilities District; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in such Local Obligations, or in any other respect whatsoever as the Community Facilities District may deem necessary or desirable,

provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners of the Bonds; or

(c) to amend any provision thereof to the extent necessary to comply with the Code, but only if and to the extent such amendment will not, in and of itself, adversely affect the exclusion from gross income of the interest on any of the Bonds under the Code, in the opinion of Bond Counsel filed with the Trustee.

Sale of Local Obligations. Notwithstanding anything in the Indenture to the contrary, the Authority may cause the Trustee to sell, from time to time, all or a portion of a Series of Local Obligations, provided that the Authority shall deliver to the Trustee:

(a) a certificate of an Independent Accountant or an Independent Financial Consultant certifying that, following the sale of such Local Obligations, the Revenues, and the Subordinated Revenues to be paid to the Authority (assuming the timely payment of amounts due thereon with respect to any Local Obligations not then in default), together with interest and principal due on any Defeasance Securities pledged to the repayment of the Bonds and the Revenues and Subordinated Revenues then on deposit in the funds and accounts established under the Indenture (valuing any Permitted Investments held under the Indenture at the then fair market value thereof), will be sufficient to pay the principal of and interest on the Bonds when due;

(b) if any Series of Bonds are then rated by Standard & Poor's a notification from Standard & Poor's to the effect that such rating will not be withdrawn or reduced as a result of such sale of Local Obligations; and

(c) an opinion of Bond Counsel that such sale of Local Obligations is authorized under the provisions of the Indenture and will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

Upon compliance with the foregoing conditions by the Authority, the Trustee shall sell such Local Obligations in accordance with the Request of the Authority and disburse the proceeds of the sale of such Local Obligations to the Authority or upon the receipt of a Request of the Authority shall deposit such proceeds in the Revenue Fund.

Continuing Disclosure Certificate. The Authority covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be executed and delivered by the Authority in connection with the issuance of the Series A Bonds. Notwithstanding any other provision of the Indenture, failure of the Authority to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under the Indenture. For purposes of this Section, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series A Bonds (including persons holding Series A Bonds through nominees, depositories and other intermediaries).

THE TRUSTEE

Appointment of Trustee. U.S. Bank National Association, with a corporate trust office presently located in Los Angeles, California, a national banking association organized and existing under and by virtue of the laws of the United States of America, is appointed Trustee by the Authority for the purpose of receiving all moneys required to be deposited with the Trustee under the Indenture and to allocate, use and apply the same as provided in the Indenture. The Authority agrees that it will maintain a Trustee which is a trust company, association or bank of good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers, with a combined capital and surplus of at least Seventy-Five Million Dollars (\$75,000,000), and subject to supervision or examination by federal or state authority, so long as any Bonds are Outstanding. If such bank, association or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture, the combined capital and surplus shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee is authorized to pay the principal of and interest and redemption premium (if any) on the Bonds when duly presented for payment at maturity, or on redemption prior to maturity, to make regularly scheduled interest payments, and to cancel any Bond upon payment thereof.

Acceptance of Trusts. The Trustee accepts the trusts imposed upon it by the Indenture, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture. In case an Event of Default under the Indenture has occurred (which has not been cured or waived), the Trustee may exercise such of the rights and powers vested in it by the Indenture, and shall use the same degree of care and skill and diligence in their exercise, as a reasonable person would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, but shall not be responsible for the acts of any agents, attorneys or receivers appointed by it unless such appointment was the result of negligence or willful misconduct. The Trustee may consult with and act upon the advice of counsel (which may be counsel to the Authority) concerning all matters of trust and its duty under the Indenture and shall be wholly protected in reliance upon the advice or opinion of such counsel in respect of any action taken or omitted by it in good faith and in accordance with the Indenture.

(c) The Trustee shall not be responsible for any recital in the Indenture, or in the Tax Certificate or the Bonds, or for any of the supplements thereto or instruments of further assurance, or for the validity, effectiveness or the sufficiency of the security for the Bonds issued under the Indenture or intended to be secured by the Indenture and the Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the Authority under the Indenture or under the Tax Certificate. The Trustee shall have no responsibility, opinion, or liability with respect to any information, statement, or recital in any offering memorandum, official statement, or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

(d) Except as provided in the Indenture, the Trustee shall not be accountable for the use of any proceeds of sale of the Bonds delivered under the Indenture. The Trustee may become the Owner of Bonds secured by the Indenture with the same rights which it would have if not the Trustee; may acquire and dispose of other bonds or evidences of indebtedness of the Authority with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Bonds, whether or not such committee shall represent the Owners of the majority in aggregate principal amount of the Bonds then Outstanding.

(e) The Trustee shall be protected and shall incur no liability in acting, or refraining from acting in good faith and without negligence, in reliance upon any notice, request, consent, certificate, order, affidavit, letter, telegram, facsimile or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken or omitted to be taken by the Trustee in good faith and without negligence pursuant to the Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any Bond, shall be conclusive and binding upon all future Owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof. The Trustee shall not be bound to recognize any person as an Owner of any Bond or to take any action at such person's request unless the ownership of such Bond by such person shall be reflected on the Bond Register.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a Certificate of the Authority as sufficient evidence of the facts therein contained and prior to the occurrence of an Event of Default under the Indenture of which the Trustee has been given notice or is deemed to have notice, as provided in the Indenture, shall also be at liberty to accept a Certificate of the Authority to the effect that any particular dealing, transaction or action is necessary or expedient, and shall be fully protected in relying thereon, but may at its discretion secure such further evidence deemed by it to be necessary or advisable, but shall in no case be bound to secure the same.

(g) The permissive right of the Trustee to do things enumerated in the Indenture shall not be construed as a duty and notwithstanding any other provision of the Indenture, the Trustee shall not be answerable for other than its negligence or willful misconduct. The immunities and exceptions from liability of the Trustee shall extend to its officers, directors, employees and agents.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default under the Indenture except where a Responsible Officer has actual knowledge of such Event of Default and except for the failure by the Authority to make any of the payments to the Trustee required to be made by the Authority pursuant to the Indenture, including payments on the Local Obligations, or failure by the Authority to file with the Trustee any document required by the Indenture to be so filed subsequent to the issuance of the Bonds, unless a Responsible Officer shall be specifically notified in writing of such default by the Authority or by the Owners of at least twenty five percent (25%) in aggregate principal amount of the Outstanding Bonds of the Series to which such Event of Default relates and all notices or other instruments required by the Indenture to be delivered to the Trustee must, in order to be effective, be delivered to a Responsible Officer at the Trust Office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no Event of Default under the Indenture except as aforesaid. Delivery of a notice to the officer and address for the Trustee set forth in the Indenture, as updated by the Trustee from time to time, shall be deemed notice to a Responsible Officer.

(i) At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, accountants and representatives, shall have the right fully to inspect all books, papers and records of the Authority pertaining to the Bonds, and to make copies of any of such books, papers and records such as may be desired but which is not privileged by statute or by law.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the performance of its duties under the Indenture.

(k) Notwithstanding anything elsewhere in the Indenture with respect to the execution of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of the Indenture, the Trustee shall have the right, but shall not be required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, as may be deemed desirable by the Trustee in its sole discretion for the purpose of establishing the right of the Authority to the execution of any Bonds, the withdrawal of any cash, or the taking of any other action by the Trustee.

(l) Before taking any action referred to in the Indenture, the Trustee may require that an indemnity bond satisfactory to it be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct in connection with any such action.

(m) All moneys received by the Trustee shall, until used or applied or invested as in the Indenture provided, be held in trust for the purposes for which they were received but need not be segregated from other funds.

(n) Whether or not expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of, or affording protection to, the Trustee shall be subject to the provisions of the Indenture.

(o) The Trustee shall not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay (“unavoidable delay”) in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of supplies or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(p) The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to the Indenture provided, however, that: (a) subsequent to such facsimile transmission of written instruction and/or direction the Trustee shall forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee shall have received a current incumbency certificate containing the specimen signature of such designated person.

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

Fees, Charges and Expenses of Trustee. The Trustee shall be entitled to payment and reimbursement by the Authority for reasonable fees for its services rendered under the Indenture and all advances (including any interest on advances), counsel fees and expenses (including fees and expenses of outside counsel and the allocated costs of internal attorneys) and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. Upon the occurrence of an Event of Default under the Indenture, but only upon an Event of Default with respect to a Series, the Trustee shall have a first lien with right of payment prior to payment of any Bond upon the amounts held in Funds and accounts for such Series hereunder for the foregoing fees, charges and expenses incurred by it respectively. The Trustee's right to payment of its fees and expenses shall survive the discharge and payment or defeasance of the Bonds and termination of the Indenture, and the resignation or removal of the Trustee.

Notice to Bond Owners of Default. If an Event of Default under the Indenture occurs with respect to any Bonds of which the Trustee has been given, or is deemed to have notice, as provided in the Indenture, then the Trustee shall promptly give written notice thereof by first class mail to the Owner of each such Bond unless such Event of Default shall have been cured before the giving of such notice.

Intervention by Trustee. In any judicial proceeding to which the Authority is a party which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of Owners of any of the Bonds, the Trustee may intervene on behalf of such Bond Owners, and subject to the Indenture, shall do so if requested in writing by the Owners of at least twenty-five percent (25%) in aggregate principal amount of such Bonds then Outstanding.

Removal of Trustee. The Owners of a majority in aggregate principal amount of the Outstanding Bonds may and the Authority may, so long as no Event of Default then exists, upon 30 days' prior written notice to the Trustee, remove the Trustee initially appointed, and any successor thereto, by an instrument or concurrent instruments in writing delivered to the Trustee. Upon any such removal, the Authority shall appoint a successor or successors thereto; provided that any such successor shall be a bank, association or trust company meeting the requirements set forth in the Indenture.

Resignation by Trustee. The Trustee and any successor Trustee may at any time give prior written notice of its intention to resign as Trustee under the Indenture, such notice to be given to the Authority, the Community Facilities Districts and the County by registered or certified mail. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee. Upon such acceptance, the Authority shall cause notice thereof to be given by first class mail, postage prepaid, to the Bond Owners at their respective addresses set forth on the Bond Register.

Appointment of Successor Trustee. In the event of the removal or resignation of the Trustee pursuant to the Indenture, the Authority shall promptly appoint a successor Trustee. In the event the Authority shall for any reason whatsoever fail to appoint a successor Trustee within thirty (30) days following the delivery to the Trustee of the instrument described in the Indenture or within thirty (30) days following the receipt of notice by the Authority, the Community Facilities Districts

and the County pursuant to the Indenture, the Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee meeting the requirements of the Indenture. Any such successor Trustee appointed by such court shall become the successor Trustee under the Indenture notwithstanding any action by the Authority purporting to appoint a successor Trustee following the expiration of such thirty day period.

Indemnification; Limited Liability of Trustee. The Authority further covenants and agrees to indemnify and save the Trustee and its officers, officials, directors, agents and employees, harmless from and against any loss, expense, including legal fees and expenses, and liabilities which it may incur arising out of or in the exercise and performance of its powers and duties under the Indenture, including the costs and expenses of defending against any claim of liability, but excluding any and all losses, expenses and liabilities which are due to the negligence or intentional misconduct of the Trustee, its officers, directors, agents or employees. No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability under the Indenture unless indemnity reasonably satisfactory to it against such liability or risk is provided to it. The Trustee shall not be liable for any action taken or omitted to be taken by it in accordance with the direction of a majority (or any lesser amount that may direct the Trustee in accordance with the provisions of the Indenture) of the Owners of the principal amount of Bonds Outstanding relating to the time, method and place of conducting any proceeding or remedy available to the Trustee under the Indenture. The rights of the Trustee and the obligations of the Authority under the Indenture shall survive termination of the Indenture, discharge of the Bonds and resignation or removal of the Trustee.

MODIFICATION AND AMENDMENT OF THE INDENTURE

Amendment of the Indenture. The Indenture and the rights and obligations of the Authority and of the Owners of a Series of the Bonds may be modified or amended at any time by a Supplemental Indenture which shall become binding when the Owners of a majority in aggregate principal amount of the affected Series of Bonds then Outstanding are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Authority to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided in the Indenture of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without written consent of the Trustee, modify any of the rights or obligations of the Trustee.

The Indenture and the rights and obligations of the Authority and of the Owners of either Series of the Bonds may also be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption, without consent of any Bond Owners, to the extent permitted by law but only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers in the Indenture reserved to or conferred upon the Authority so long as such addition, limitation or surrender of such rights or powers shall not materially adversely affect the Owners of the Bonds; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other

respect whatsoever as the Authority may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners of the Bonds; or

(c) to amend any provision of the Indenture relating to the Code as may be necessary or appropriate to assure compliance with the Code and the exclusion from gross income of interest on the Bonds, including, but not limited to, amending the procedures set forth in the Indenture with respect to the calculation of amounts due under the Rebate Regulations; or

(d) to amend any provision of the Indenture to place any Additional Series A Bonds on a parity with the Series A Bonds and any Additional Series B Bonds on a parity with the Series B Bonds for all purposes of the Indenture, including, but not limited to, for the purpose of exercising all rights and remedies under the Indenture; or

(e) to amend the provision of the Indenture relating to the Surplus Fund.

The Trustee shall be furnished, at the expense of the Authority, an opinion of Bond Counsel that any such Supplemental Indenture entered into by the Authority and the Trustee complies with the provisions of the Indenture and the Trustee may conclusively rely upon such opinion and shall be fully protected in relying thereon.

EVENTS OF DEFAULT AND REMEDIES OF SERIES A BOND OWNERS

Series A Events of Default. The following events shall be Series A Events of Default under the Indenture.

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

(b) Default in the due and punctual payment of any installment of interest on any Series A Bond when and as such interest installment shall become due and payable;

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Series A Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Series A Bonds at the time Outstanding; provided that such default (other than a default arising from nonpayment of the Trustee's fees and expenses, which must be cured within such 30-day period) shall not constitute a Series A Event of Default under the Indenture if the Authority shall commence to cure such default within said thirty (30)-day period and thereafter diligently and in good faith shall cure such default within a reasonable period of time;

(d) The filing by the Authority of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the

relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property; or

(e) A Series B Event of Default.

Remedies; Rights of Series A Bond Owners. Upon the occurrence of a Series A Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Series A Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture. Subject to the Indenture, in the event of a Series A Event of Default arising out of a nonpayment of Trustee's fees and expenses, the Trustee may sue the Authority to seek recovery of its fees and expenses; provided, however, that such recovery may be made only from Subordinate Revenues or the funds of the Authority and not from Revenues.

If a Series A Event of Default shall have occurred and be continuing and if requested to do so by the Owners of at least a majority in aggregate principal amount of Outstanding Series A Bonds, and, in each case, if indemnified as provided in the Indenture, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture and, as applicable, under the Local Obligations, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Series A Bond Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Series A Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Series A Bond Owners hereunder or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Series A Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Series A Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

In no event shall the principal of the Series A Bonds be accelerated.

Application of Revenues and Other Funds After Series A Event of Default. All amounts received by the Trustee with respect to the Series A Bonds pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the Series A Bonds shall be applied by the Trustee in the following order upon presentation of the several Series A Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid –

First, to the payment of the costs and expenses of the Trustee in declaring such Series A Event of Default and in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel (including outside counsel and the allocated costs of internal attorneys), and to the payment of all other outstanding fees and expenses of the Trustee; and

Second, to the payment of the whole amount of interest on and principal of the Series A Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Series A

Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

- (a) first to the payment of all installments of interest on the Series A Bonds then due and unpaid,
- (b) second, to the payment of all installments of principal of the Series A Bonds then due and unpaid, and
- (c) third, to the payment of interest on overdue installments of principal and interest on Series A Bonds.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of a Series A Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Series A Bonds then Outstanding, it may, in the exercise of its discretion for the best interests of the Owners of the Series A Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues a Series A Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Series A Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation and provided further that the Trustee shall have the right to decline to comply with such written request unless indemnification satisfactory to it has been provided. Any suit, action or proceeding which any Owner of Series A Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Series A Bonds similarly situated and the Trustee is appointed (and the successive respective Owners of the Series A Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Series A Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Series A Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney in fact.

Appointment of Receivers. Upon the occurrence of a Series A Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Series A Bond Owners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and other amounts pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

Non Waiver. Nothing in the Indenture or in the Series A Bonds, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of the Series A Bonds to the respective Owners of the Series A Bonds at the respective dates of maturity, as provided in the Indenture, out of the Revenues and other moneys pledged in the Indenture for such payment.

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

Rights and Remedies of Series A Bond Owners. No Owner of any Series A Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of a Series A Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Series A Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted by the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Series A Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Series A Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner therein provided, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner therein provided and for the equal benefit of all Owners of the Outstanding Series A Bonds.

The right of any Owner of any Series A Bond to receive payment of the principal of and interest and premium (if any) on such Series A Bond as provided in the Indenture or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions above or any other provision of the Indenture.

Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the Authority, the Trustee and the Series A Bond Owners shall be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

EVENTS OF DEFAULT AND REMEDIES OF SERIES B BOND OWNERS

Series B Events of Default. The following events shall be Series B Events of Default under the Indenture.

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

(b) Default in the due and punctual payment of any installment of interest on any Series B Bond when and as such interest installment shall become due and payable;

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Series B Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Series B Bonds at the time Outstanding; provided that such default (other than a default in payment of the Trustee's fees and expenses, which must be cured within such 30-day period unless waived by the Trustee) shall not constitute a Series B Event of Default under the Indenture if the Authority shall commence to cure such default within said 30-day period and thereafter diligently and in good faith shall cure such default within a reasonable period of time; or

(d) The filing by the Authority of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

Remedies; Rights of Series B Bond Owners. Upon the occurrence of a Series B Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Series B Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture; provided, however, that the Trustee shall take no action under the Indenture that would impair the receipt of Revenues necessary to pay the Series A Bonds when due unless a majority in aggregate principal amount of the Outstanding Series A Bonds shall have consented to such action.

If a Series B Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least a majority in aggregate principal amount of Outstanding Series B Bonds and indemnified as provided in the Indenture, and subject to the limitations set forth in the paragraph immediately above the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Series B Bond Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Series B Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the

Series B Bond Owners under the Indenture or now or after the date of the Indenture existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Series B Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Series B Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

In no event shall the principal of the Series B Bonds be accelerated.

Application of Subordinated Revenues and Other Funds After Default. All Subordinated Revenues received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the Series B Bonds shall be applied by the Trustee in the following order upon presentation of the several Series B Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid –

First, to the payment of the costs and expenses of the Trustee in declaring such Series B Event of Default and in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel (including outside counsel and the allocated costs of internal attorneys), and to the payment of all other outstanding fees and expenses of the Trustee; and

Second, to the payment of the whole amount of interest on and principal of the Series B Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Series B Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(a) first, to the payment of all installments of interest on the Series B Bonds then due and unpaid,

(b) second, to the payment of principal of all installments of the Series B Bonds then due and unpaid, and

(c) third, to the payment of interest on overdue installments of principal and interest on Series B Bonds.

Power of Trustee to Control Proceedings. Subject to the limitations set forth in the Indenture, in the event that the Trustee, upon the happening of a Series B Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Series B Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Series B Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues a Series B Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of

a majority in aggregate principal amount of the Outstanding Series B Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation and provided further that the Trustee shall have the right to decline to comply with such written request unless indemnification satisfactory to the Trustee shall have been provided to it. Any suit, action or proceeding which any Owner of Series B Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Series B Bonds similarly situated and the Trustee is appointed (and the successive respective Owners of the Series B Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Series B Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Series B Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney in fact.

Appointment of Receivers. Upon the occurrence of a Series B Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Series B Bond Owners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Subordinated Revenues and other amounts pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

Non Waiver. Nothing in the Indenture, or in the Series B Bonds, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of the Series B Bonds to the respective Owners of the Series B Bonds at the respective dates of maturity, as in the Indenture provided, out of the Subordinated Revenues and other moneys in the Indenture pledged for such payment.

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

Rights and Remedies of Series B Bond Owners. No Owner of any Series B Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of a Series B Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Series B Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers in the Indenture before granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Series B Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Series B Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner in the Indenture provided and for the equal benefit of all Owners of the Outstanding Series B Bonds.

The right of any Owner of any Series B Bond to receive payment of the principal of and interest and premium (if any) on such Series B Bond as in the Indenture provided or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of the Indenture above or any other provision of the Indenture.

Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the Authority, the Trustee and the Series B Bond Owners shall be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

MISCELLANEOUS

Limited Liability of Authority. Notwithstanding anything in the Indenture contained, the Authority shall not be required to advance any moneys derived from any source of income other than the Revenues or Subordinated Revenues, as the case may be, for the payment of the principal of or interest on the Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants in the Indenture contained (except to the extent any such covenants are expressly payable under the Indenture from the Revenues or Subordinated Revenues). The Authority may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the Authority for such purpose without incurring indebtedness.

The Bonds shall be revenue bonds, payable exclusively from the Revenues or Subordinated Revenues, as the case may be, and other funds as provided in the Indenture. The general fund of the Authority is not liable, and the credit of the Authority is not pledged, for the payment of the interest and premium (if any) on or principal of the Bonds. The Owners of the Bonds shall never have the right to compel the forfeiture of any property of the Authority. The principal of and interest on the Series A Bonds and Series B Bonds, respectively, and any premiums upon the redemption of any thereof, shall not be a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues (with respect to the Series A Bonds) and Subordinated Revenues (with respect to the Series B Bonds) and other funds pledged to the payment thereof as provided in the Indenture.

Discharge of Indenture. The Authority may pay and discharge any or all of the Outstanding Bonds in any one or more of the following ways:

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

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established with the Trustee pursuant to the Indenture and available for such purpose, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums; or

(c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, Defeasance Securities in such amount as an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established with the Trustee pursuant to the Indenture and available for such purpose, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

Any Outstanding Bond or Bonds shall be deemed to have been paid and discharged under (c) above if (i) in the case of Bonds to be redeemed prior to the maturity thereof, notice of such redemption shall have been mailed pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the mailing of such notice, (ii) a verification report of an Independent Accountant shall be delivered to the Trustee, and (iii) an opinion of Bond Counsel shall be delivered to the Trustee to the effect that the requirements of the Indenture have been satisfied with respect to such discharge of Bonds. Upon a discharge of one or more Bonds as described above, and notwithstanding that any of such Bonds shall not have been surrendered for payment, the pledge of the Revenues, Subordinated Revenues, and other funds provided for in the Indenture with respect to such Bonds, as applicable, and all other pecuniary obligations of the Authority under the Indenture with respect to such Bonds, shall cease and terminate, except only the obligation of the Authority to comply with the covenants contained in the Indenture, to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose, to pay all expenses and costs of the Trustee and to comply with the covenants contained in the Indenture. Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the Authority or upon a Request of the Authority to either or both of the Community Facilities Districts, as applicable.

Defeasance under paragraph (c) above shall be accomplished only with an irrevocable deposit in escrow of Defeasance Securities and the deposit in the escrow must be sufficient, without reinvestment, to pay all principal and interest as schedule on the Bonds to be defeased to and including the date of redemption.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Authority or the Trustee may be established and maintained in the accounting records of the Authority or the Trustee, as the case may be, either as a fund or an account, and may, for the purpose of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account. All such records with respect to all such funds and accounts held by the Authority shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such funds and accounts held by the Trustee shall be at all times maintained in accordance with corporate trust industry practices; in each case with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

Unclaimed Moneys. Anything in the Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for one (1) year after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for one (1) year after the date of deposit of such moneys if deposited with the Trustee after said date when such Bonds become due and payable, shall be repaid by the Trustee to the Authority, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Bond Owners shall look only to the Authority for the payment of such Bonds; provided, however, that before being required to make such payment to the Authority, the Trustee shall, at the expense of Authority, cause to be mailed to the Owners of all such Bonds, at their respective addresses appearing on the Bond Register, a notice that said moneys remain unclaimed and that, after a date in said notice, which date shall not be less than thirty (30) days after the date of mailing such notice, the balance of such moneys then unclaimed will be returned to the Authority.

SUMMARY OF THE LOCAL OBLIGATION RESOLUTIONS

The Local Obligations issued by the Community Facilities Districts will be issued pursuant to separate Local Obligation Indentures each substantially in the form summarized below.

DEFINITIONS

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

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

“Administrative Expenses” means the administrative costs with respect to the calculation and collection of the Special Taxes, or costs otherwise incurred by the County staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation, the fees and expenses of the Paying Agent and any fees for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance.

“Administrative Expenses Cap” means \$75,000 for Fiscal Year 2013-14, increasing on July 1 of each year thereafter by an amount equal to two percent (2%) of the amount in effect for the prior Fiscal Year.

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

“Authority” means the South Orange County Public Financing Authority and any successor thereto.

“Authority Bonds” means any bonds outstanding under the Authority Indenture which are secured by payments to be made on the Bonds or any Parity Bonds.

“Authority Indenture” means that certain Indenture of Trust between the Authority and the Authority Trustee, dated as of January 1, 2014, pursuant to which the Authority has issued the Authority Bonds.

“Authority Trustee” means U.S. Bank National Association or any successor thereto appointed under the Authority Indenture.

“Authorized Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

1. Cash.
2. United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.

3. Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.

4. Eligible commercial paper shall be of “prime” quality and of the highest ranking or of the highest letter and number rating as provided by a Rating Agency, except that split ratings (i.e., A2/P1) shall not be allowed. The commercial paper shall not exceed 270 days’ maturity and the entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

(a) Has total assets in excess of five hundred million dollars (\$500,000,000), is organized and operating within the United States as a general corporation, and has debt other than commercial paper, if any, that is rated “A” or higher by a Rating Agency.

(b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond, has commercial paper that is rated “A-1” or higher, or the equivalent, by a Rating Agency.

5. Negotiable certificates of deposit issued by a U.S. national or state-chartered bank, savings bank, savings and loan association, or credit union in this state or state or federal association (as defined by Section 5102 of the California Financial Code) or by a state- licensed branch of a foreign bank. Issuing banks must have a short-term rating of not less than A1/P1 and a long-term rating of not less than an “A” from a Rating Agency, if any.

6. Investments in repurchase agreements which comply with the requirements of California Government Code Section 53601(j) pursuant to which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The term of a repurchase agreement shall not exceed one year. The term “securities,” for the purpose of repurchase agreements, means securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. Repurchase agreements are required to be collateralized by securities or cash authorized under California Government Code Section 53601(j)(2) and as described below:

(a) In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

(b) Collateral will be limited to U.S. Treasury securities listed in paragraph (2) above and U.S. Government Agency securities listed in paragraph (3) above. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt)

must be supplied to the Treasurer and retained. The Treasurer retains the right to substitute or grant substitutions of collateral.

7. Bankers acceptances, also known as time drafts (bills of exchange) that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Issuing banks must be rated by each Rating Agency and have a short-term rating of at least A1/P1 and a long-term rating of not less than "A" from a Rating Agency, if any.

8. Shares of beneficial interest issued by diversified management companies that are mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.), which only invest in direct obligations in U.S. Treasury bills, notes and bonds, U.S. Government Agency securities and repurchase agreements with a weighted average maturity of 60 days or less. At a minimum, approved mutual funds shall have met either of the following criteria:

(a) Attained the highest ranking or the highest letter and numerical rating provided by each Rating Agency.

(b) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500,000,000.

9. Municipal debt instruments issued by a local or state agency, including:

(a) Bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

(b) Registered state warrants or treasury notes or bonds, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.

(c) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within a state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Issuing municipalities must have a short-term rating of not less than A1/P1 and a long-term rating of not less than an "A" from a Rating Agency, if any. Municipal debt issued by the County is exempt from this credit rating requirement.

10. Medium-term notes consisting of corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for any short-term pools such as money market funds and five years for any longer-term pools such as an extended fund. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated not less than "A" or its equivalent from each Rating Agency.

11. The Orange County Investment Pool.

The value of the investments in (1) through (11) above, which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

(a) for the purpose of determining the amount in any fund, all Authorized Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, and Merrill Lynch;

(b) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(c) as to any investment not specified above: the value thereof established by prior agreement between the Authority, and the Trustee.

The value of an investment in the Orange County Investment Pool shall be computed in the manner required by State law.

“Authorized Representative of the County” means the County Executive Officer, the Public Finance Manager of the County, or their written designees, or any other person or persons designated by the Board of Supervisors of the County and authorized to act on behalf of the County by a written certificate signed on behalf of the County by the Chairman of the Board of Supervisors and containing the specimen signature of each such person.

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

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

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

“Bond Year” means the twelve month period commencing on August 16 of each year and ending on August 15 of the following year, except that the first Bond Year shall begin on the Delivery Date and end on the next August 15.

“Bonds” means the 2014 Special Tax Refunding Bonds of the District.

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

“Certificate of the County Executive Officer” means a written certificate or warrant request executed by the County Executive Officer, or his or her written designee.

“CFD Reserve Accounts” means the accounts by that name established for the District by the Authority Indenture.

“Code” means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

“Costs of Issuance” means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Paying Agent, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds, Parity Bonds, fees of financial consultants and other fees and expenses set forth in a Certificate of the County Executive Officer and the District’s pro rata share of the costs of issuing any Authority Bonds, including, but not limited to, underwriting costs, rating agency fees, fees and expenses for financial consultants and bond counsel.

“County” means the County of Orange, California.

“Defeasance Securities” means Authorized Investments of the type described in paragraphs (1) and (2) of the definition thereof; provided, however, that the Authorized Investments under paragraph (2) shall be noncallable prior to maturity.

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

“District” means the applicable Community Facilities District (as defined in the Authority Indenture), established pursuant to the Act and the Resolution of Formation.

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

“Gross Special Taxes” means the amount of all Special Taxes received by the District from the Treasurer, together with all payments made with respect to tax-defaulted parcels (including all delinquent and redemption penalties, fees and costs) and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution, but excluding any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution, so long as the County has paid to the District the Special Taxes levied for a tax-defaulted parcel pursuant to the Teeter Plan established by the County pursuant to California Revenue and Taxation Code Sections 4701 et seq.

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

- (1) is in fact independent and not under the domination of the District;
- (2) does not have any substantial interest, direct or indirect, in the District; and

(3) is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District.

“Interest Payment Date” means each February 15 and August 15, commencing August 15, 2014; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next preceding such date.

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

(1) the principal amount of all Outstanding Bonds and Parity Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of all Bonds and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Special Taxes” means Gross Special Taxes minus amounts set aside prior to the payment of the principal of and interest on the Bonds and Parity Bonds, in order to pay Administrative Expenses, but in no case to exceed the Administrative Expenses Cap, in each Fiscal Year.

“Ordinance” means the Ordinance adopted by the legislative body of the District authorizing the levy of the Special Tax.

“Original Purchaser” means the Authority with respect to the Bonds and, with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

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

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Resolution;

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

(3) Bonds and Parity Bonds which have been surrendered to the Paying Agent for transfer or exchange pursuant to the Resolution or for which a replacement has been issued pursuant to the Resolution.

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

“Paying Agent” means the Treasurer or any financial institution appointed by the District pursuant to the Resolution.

“Person” means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

“Prior Bonds” means the District’s prior obligations refunded by the Bonds.

“Prior Supplement” means the supplement to the resolution pursuant to which each series of the Prior Bonds were issued.

“Project” means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

“Project Costs” means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, Paying Agent and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds and the formation of the District, and to pay any other “incidental expenses” of the District, as such term is defined in the Act.

“Proportionate Share” means, as of the date of calculation, as applicable, (i) the portion of the District’s Reserve Requirement required under the Authority Indenture to be on deposit in the CFD Reserve Accounts held under the Authority Indenture.

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

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

“Record Date” means the first day of the month in which any Interest Payment Date occurs, regardless of whether such day is a Business Day.

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

“Reserve Requirement” means zero with respect to the Bonds and with respect to any Parity Bonds the amount established by the District on the Delivery Date of such Parity Bonds.

“Resolution” means the Supplement to Resolution, together with the Resolution of the District authorizing the issuance of the Bonds, approving the Supplement to Resolution, and any Supplemental Resolution approved pursuant to the Resolution.

“Resolution of Formation” means the resolution adopted by the Board of Supervisors of the County pursuant to which the County formed the District.

“Series A Reserve Fund” means the fund by that name established by the Authority Indenture.

“Series A Reserve Requirement” shall have the meaning given such term in the Authority Indenture.

“Series B Reserve Fund” means the fund by that name established by the Authority Indenture.

“Series B Reserve Requirement” has the meaning given such term in the Authority Indenture.

“Sinking Fund Payment” means the annual payment to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Resolution and any annual sinking fund payment to retire any Parity Bonds.

“Six Month Period” means the period of time beginning on the Delivery Date of each issue of Parity Bonds, as applicable, and ending six consecutive months thereafter, and each six month period thereafter until the latest maturity date of the Parity Bonds (and any obligations that refund the Bonds or an issue of Parity Bonds).

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

“Standard & Poor’s” means Standard & Poor’s Corporation, its successors and assigns.

“Supplemental Resolution” means any resolution authorizing the issuance of any Parity Bonds.

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

“Term Bonds” means any term maturities of an issue of Local Obligations.

“Treasurer” means the Treasurer Tax Collector of the County acting on behalf of the District, or her written designee.

GENERAL AUTHORIZATION AND BOND TERMS

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

are not a debt of the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds and any Parity Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District's property, or upon any of its income, receipts or revenues, except the Net Special Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of the Resolution and the Act, set aside for the payment of the Bonds, any Parity Bonds and interest thereon and neither the members of the legislative body of the District or the Board of Supervisors of the County nor any persons executing the Bonds or any Parity Bonds are liable personally on the Bonds or any Parity Bonds by reason of their issuance.

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

CREATION OF FUNDS AND APPLICATION OF PROCEEDS

There is created and established and shall be maintained by the Treasurer the following funds and accounts:

- (1) The Special Tax Fund (the "Special Tax Fund") (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account, and an Administrative Expense Account); and
- (2) The Surplus Fund (the "Surplus Fund").

There is continued and shall be maintained by the Treasurer the Acquisition and Construction Fund (the "Acquisition and Construction Fund").

The amounts on deposit in the foregoing funds and accounts shall be held by the Treasurer and the Treasurer shall invest and disburse the amounts in such funds and accounts in accordance with the provisions of the Resolution and shall disburse investment earnings thereon in accordance with the provisions of the Resolution. The Treasurer may appoint a fiscal agent, trustee or other agent to act as a custodian of the funds to the extent permitted by applicable law.

In connection with the issuance of any Parity Bonds, the Treasurer may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds

Deposits to and Disbursements from Special Tax Fund. The Treasurer shall, on each date on which the Special Taxes are apportioned to the District, deposit the Special Taxes in the Special Tax Fund and shall also deposit therein all amounts paid to the Treasurer by the Authority in accordance with the terms of the Authority Indenture to be held in trust. The Treasurer shall transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Resolutions, in the following order of priority, to:

- (1) The Administrative Expense Account of the Special Tax Fund in an amount not to exceed the Administrative Expenses Cap;
- (2) The Interest Account of the Special Tax Fund;
- (3) The Principal Account of the Special Tax Fund;
- (4) The Redemption Account of the Special Tax Fund;
- (5) The Reserve Account of the Special Tax Fund;
- (6) The Administrative Expense Account of the Special Tax Fund to fund Administrative Expenses which exceed the Administrative Expenses Cap; and
- (7) The Surplus Fund.

Administrative Expense Account. The Treasurer shall from the first available Special Taxes in the Special Tax Fund transfer to and deposit in the Administrative Expense Account the amount specified in a Certificate of the County Executive Officer up to an amount equal to the Administrative Expenses Cap for such Bond Year; provided, however, if the Treasurer has not received a Certificate of the County Executive Officer prior to the date on the next transfer is to be made pursuant to the Resolution, then the transfer shall be in an amount equal to the Administrative Expenses Cap for such Bond Year. In the event Administrative Expenses exceed the Administrative Expenses Cap in any Bond Year, the total amount transferred in a Bond Year shall not exceed the Administrative Expenses Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Accounts held under the Authority Indenture to the Proportionate Share of the Reserve Requirement. Once the requirements of the preceding sentence have been satisfied, upon receipt of a Certificate of the County Executive Officer, the Treasurer shall transfer from the Special Tax Fund for deposit to the Administrative Expense Account the amount specified in such Certificate. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by the Treasurer.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Treasurer from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer required by the Resolution, at least five Business Days prior to each February 15 and August 15, the Treasurer shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account and, with respect to any Bonds or Parity Bonds owned by the Authority, shall wire transfer such amounts to the Authority Trustee at least five Business Days prior to each February 15 and August 15; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account as and to the extent that amounts are available to be transferred in accordance with the Resolution:

(a) To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to August 15 of each year, commencing August 15, 2014, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such August 15 and any principal payment due on a previous August 15 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

In the event that the amounts in the Interest Account are inadequate to pay the amounts due, then the amounts in the Interest Account shall be applied to pay a pro rata portion of the interest due on all Bonds and Parity Bonds. In the event that on any date amounts in the Principal Account and amounts in the Redemption Account to be applied to pay Sinking Fund Payments are inadequate to pay the principal on the Bonds and any Parity Bonds when due, then the amounts in the Principal Account and the Redemption Account shall be applied to pay a pro rata portion of the principal due on the Bonds and the Parity Bonds on such date.

Redemption Account of the Special Tax Fund. Commencing on August 15, 2014 and on each August 15 thereafter until all Bonds and Parity Bonds are redeemed, after the deposits have been made to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund as required by the Resolution, the Treasurer shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account five Business Days prior to each August 15 equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such August 15 and, with respect to any Bonds or Parity Bonds owned by the Authority, shall wire transfer such amounts to the Resolution. Moneys so deposited in the Redemption Account shall be used and applied by the Paying Agent to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in the Resolution, and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedule in the Supplemental Resolution for such Parity Bonds.

After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Resolution and to the Redemption Account for Sinking Fund Payments then due pursuant to the Resolution, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Resolution, or to call Parity Bonds for optional redemption as set forth in any Supplemental Resolution for Parity Bonds, the Treasurer shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption and, with respect to any Bonds or Parity Bonds owned by the Authority, shall wire transfer such amounts to the Paying Agent five Business Days prior to the redemption date; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Accounts held under the Authority Indenture will equal the Proportionate Share and the amount in the Reserve Account equals the Reserve Requirement.

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

Reserve Account of the Special Tax Fund. After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund and to the Redemption Account for Sinking Fund Payments, the Treasurer shall transfer to the Reserve Account the amount, if any, necessary to cause the amount in the Reserve Account, taking into account the amounts then on deposit in the Reserve Account, to be equal to the Reserve Requirement. If subsequent to the issuance of the Bonds a Reserve Requirement is established by the District, thereafter there shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement.

Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund pursuant to the Resolution upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Treasurer shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

Whenever moneys are withdrawn from the Reserve Account, after making the required transfers to the Administrative Expense Account, the Interest Account, the Principal Account, and the Redemption Account of the Special Tax Fund, the Treasurer shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Treasurer determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include

the amount necessary to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

In connection with an optional redemption of Parity Bonds in accordance with any Supplemental Resolution, or a partial defeasance of Parity Bonds in accordance with the Resolution, amounts in the Reserve Account may be applied to such optional redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such optional redemption or partial defeasance equals the Reserve Requirement. To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on an issue of Parity Bonds in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this paragraph shall be withdrawn from the Reserve Account on the fifth Business Day before each February 15 and August 15 and transferred to the Interest Account of the Special Tax Fund.

Surplus Fund. After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund, to the Reserve Account, and to the Redemption Account for Sinking Fund Payments, as soon as practicable after each August 15, and in any event prior to each September 1, the Treasurer shall transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, other than amounts in the Special Tax Fund which the District has included as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Resolution. Moneys deposited in the Surplus Fund may be transferred by the Treasurer (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor, (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement, (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses, (iv) to the Acquisition and Construction Fund, or (v) for any other lawful purpose of the District.

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

Acquisition and Construction Fund. The District may deposit additional amounts to the Acquisition and Construction Fund from time to time. The moneys in the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs or Costs of Issuance.

Amounts for Project Costs shall be disbursed by the Treasurer from the account in the Acquisition and Construction Fund designated in the Addendum to Warrant Request, substantially in the form of attached to the Resolution, which must be submitted in connection with each requested disbursement.

Upon receipt of a Certificate of the County Executive Officer that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs or Costs of Issuance, the Treasurer shall transfer all or such specified portion of the moneys remaining on deposit in one or more of the accounts in the Acquisition and Construction Fund to the Special Tax Fund, or to the Surplus Fund if requested in the Certificate and if there shall have been delivered to the Treasurer with such Certificate an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Authority Bonds, the Prior Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Investments. Moneys held in any of the Funds, Accounts and Subaccounts under the Resolution shall be invested at the direction of the Treasurer in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the the Surplus Fund and the Rebate Fund and each Account therein shall be deposited in those respective Funds and Accounts, and (ii) all other investment earnings shall be deposited in the Interest Account of the Special Tax Fund. Moneys in the Funds, Accounts and Subaccounts held under the Resolution may be invested by the Treasurer, from time to time, in Authorized Investments subject to the following restrictions:

Moneys in the Acquisition and Construction Fund shall be invested in Authorized Investments which will by their terms mature, or are available for withdrawal without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything in the Resolution to the contrary, amounts in the Acquisition and Construction Fund on the Delivery Date for the Bonds shall be invested in Authorized Investments of the type set forth in clause (9) of the definition thereof which comply with the provisions of the Tax Certificate.

Moneys in the Interest Account, the Principal Account, the Redemption Account, and the Reserve Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (2) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to the Resolution or in Authorized Investments of the type described in clauses (1), (7) and (11) of the definition thereof.

The Treasurer and the Paying Agent, at the direction of the Treasurer, shall sell at the best price obtainable, or present for redemption, any Authorized Investment whenever it may be

necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost. Notwithstanding anything in the Resolution to the contrary, the Treasurer and the Paying Agent shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Resolution.

REDEMPTION OF BONDS

Optional Redemption. Subject to the limitations set forth below, the Bonds of a District maturing on or after August 15, 2022 may be redeemed, at the option of the District from any source of funds, in whole, or in part in the order of maturity selected by the District, and by lot within a maturity, on any date on or after August 15, 2021 at the following redemption prices or at such lesser redemption prices as are consented to by the Authority so long as all Bonds are owned by the Authority, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
August 15, 2021 through and including August 14, 2022	102%
August 15, 2022 through and including August 14, 2023	101
August 15, 2023 and any date thereafter	100

So long as the Bonds are owned by the Authority, the District may optionally redeem the Bonds only if it shall have delivered to the Authority a certificate of an Independent Financial Consultant to the effect that, following such optional redemption of the Bonds, the Revenues (as defined in the Authority Indenture), assuming timely payment on all Local Obligations (as defined in the Authority Indenture), will be adequate to make timely payment on the principal and interest on the Authority Bonds and the Authority shall have consented, in writing, to such optional redemption by the District. In the event the District elects to redeem Bonds as provided above, and, if applicable, has received the written consent of the Authority, the District shall give written notice to the Paying Agent of its election to so redeem, the redemption date and the principal amount of the Bonds to be redeemed. The notice to the Paying Agent shall be given at least 60 but no more than 90 days prior to the redemption date, or such shorter period as shall be acceptable to the Paying Agent.

Mandatory Sinking Fund Redemption.

The Term Bond of CFD No. 2002-1 maturing on August 15, 2033 shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on August 15, 2014, and on each August 15 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Term Bond of CFD No. 2002-1 so called for redemption shall be selected by the Paying Agent by lot and shall be redeemed at a redemption price for each redeemed Term Bond of CFD No. 2002-1 equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

CFD NO. 2002-1 TERM BOND MATURING AUGUST 15, 2033

<i>Redemption Date (August 15)</i>	<i>Principal Amount</i>
2014	\$ 100,000
2015	535,000
2016	590,000
2017	640,000
2018	695,000
2019	755,000
2020	820,000
2021	885,000
2022	950,000
2023	1,025,000
2024	1,100,000
2025	1,180,000
2026	1,260,000
2027	1,350,000
2028	1,440,000
2029	1,535,000
2030	1,635,000
2031	1,745,000
2032	1,855,000
2033 (maturity)	1,970,000

The Term Bond of CFD No. 2003-1 maturing on August 15, 2034 shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on August 15, 2014, and on each August 15 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Term Bond of CFD No. 2003-1 so called for redemption shall be selected by the Paying Agent by lot and shall be redeemed at a redemption price for each redeemed Term Bond of CFD No. 2003-1 equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

CFD NO. 2003-1 TERM BOND MATURING AUGUST 15, 2034

<i>Redemption Date (August 15)</i>	<i>Principal Amount</i>
2014	\$ 100,000
2015	390,000
2016	425,000
2017	465,000
2018	510,000
2019	555,000
2020	600,000
2021	650,000
2022	700,000
2023	755,000
2024	815,000

2025	875,000
2026	935,000
2027	1,005,000
2028	1,070,000
2029	1,145,000
2030	1,220,000
2031	1,300,000
2032	1,385,000
2033	1,470,000
2034 (maturity)	1,565,000

If during the Fiscal Year immediately preceding one of the redemption dates specified in the foregoing mandatory sinking fund dates above a District purchases its Term Bonds, at least 45 days prior to the redemption date the applicable District shall notify the Paying Agent as to the principal amount purchased and the amount of Bonds so purchased shall be credited at the time of purchase, to the extent of the full principal amount thereof, to reduce such upcoming Sinking Fund Payment for the applicable maturity of the applicable series of Bonds. All Bonds purchased pursuant to this paragraph shall be cancelled pursuant to the Resolution.

In the event of a partial optional redemption of a maturity of Term Bonds, each of the remaining Sinking Fund Payments for such Term Bonds, as described above, will be reduced, as nearly as practicable, on a pro rata basis in integral multiples of \$5,000.

The redemption provisions for Parity Bonds shall be set forth in a Supplemental Resolution.

COVENANTS AND WARRANTY

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

Covenants. So long as any of the Bonds or Parity Bonds issued under the Resolution are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Resolution (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

(a) Punctual Payment; Against Encumbrances. The District covenants that it will receive all Special Taxes and amounts paid to it by the Authority under the terms of the Authority Indenture in trust and will immediately deposit such amounts with the Treasurer, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Resolution. All such Special Taxes and amounts received from the Authority shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Resolution, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued under the Resolution, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and the Parity Bonds

and in accordance with the Resolution to the extent that Net Special Taxes and amounts received from the Authority are available therefor, and that the payments into the Funds and Accounts created under the Resolution will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Resolution, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution and all Supplemental Resolutions and of the Bonds and any Parity Bonds issued under the Resolution.

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

The District shall, not later than June 1 of each year, notify the Authority Trustee in the event that it does not have on deposit funds sufficient to pay the principal of and interest on the Bonds and any Parity Bonds for the following August 15.

(b) Levy of Special Tax. So long as any Bonds or Parity Bonds issued under the Resolution are Outstanding, the legislative body of the District covenants to cause the levy of the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and amounts on deposit in the Revenue Fund under the Authority Indenture on August 16 of each year which have been transferred from the Surplus Fund to the Revenue Fund to the credit of the District and available for such purpose, to pay (1) the principal of and interest on the Bonds and any Parity Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account or the Reserve Accounts held under the Authority Indenture resulting from the delinquency in the payment of scheduled debt service on the Bonds or any Parity Bonds.

(c) Commence Foreclosure Proceedings. The District covenants for the benefit of the Owners of the Bonds and any Parity Bonds that it will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$25,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied, and diligently pursue such foreclosure proceedings until such delinquent amounts are collected; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as both (1) the amount in the Reserve Account is at least equal to the Reserve Requirement and the amount in the Reserve Accounts held under the Authority Indenture is at least equal to the Proportionate Share, and (2) the District is not in default in the payment of the principal of or interest on the Bonds or any such Parity Bonds. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account at the Reserve Requirement and the CFD Reserve Accounts held under the Authority Indenture at the Proportionate Share or to avoid a default in payment on the Bonds and any Parity Bonds.

The District covenants that it will deposit any Gross Special Taxes received in connection with a foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment

of Administrative Expenses to make current payments of principal and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and the amounts in the CFD Reserve Accounts held under the Authority Indenture up to the Proportionate Share and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds.

(d) Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Special Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account therein), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided that nothing contained in the Resolution shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

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

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

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

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

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

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

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

(6) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture, including payment to the Authority of amounts required to pay the District’s pro rata share of any rebate amounts owing to the United States on the Authority Bonds.

(g) Reduction of Maximum Special Taxes. The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Resolution would interfere with the timely retirement of the Bonds and Parity Bonds. The District determines it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method then in effect in the District) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses Cap plus debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, (ii) the amount in the CFD Reserve Accounts held under the Authority Indenture is not less than the Proportionate Share and the amount in the Reserve Account is not less than the Reserve Requirement, and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultant shall compute the Administrative Expenses for each Fiscal Year at the Administrative Expenses Cap.

(h) Covenants to Defend. The District covenants that in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax without satisfying the requirements of the Resolution or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Resolution, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(i) Limitation on Right to Tender Bonds. The District covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds or Parity Bonds to the Treasurer in full payment or partial payment of any Special Taxes.

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

AMENDMENTS TO RESOLUTION

Supplemental Resolutions or Orders Not Requiring Bondowner Consent. The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt resolutions or orders supplemental to the Resolution for any of the following purposes:

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

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

(c) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Resolution;

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

(e) to modify, alter, amend or supplement the Resolution in any other respect which is not materially adverse to the Bondowners.

Supplemental Resolutions or Orders Requiring Bondowner Consent. Exclusive of the resolutions or orders supplemental set forth in the Resolution, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such resolutions or orders supplemental to the Resolution as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Resolution; provided, however, that nothing in the Resolution shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond, (b) a reduction in the principal amount of, or

redemption premium on, any Bond or Parity Bond or the rate of interest thereon, (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond, or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such resolution or order, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

THE PAYING AGENT

Paying Agent. The Treasurer shall be the Paying Agent for the Bonds and any Parity Bonds unless and until another Paying Agent is appointed by the District under the Resolution. The District may, at any time, appoint a successor Paying Agent satisfying the requirements of the Resolution for the purpose of receiving all money which the District is required to deposit with the Paying Agent under the Resolution and to allocate, use and apply the same as provided in the Resolution. In the event that the District fails to deposit with a Paying Agent appointed by the District any amount due under the Resolution when due, such Paying Agent shall provide immediate telephonic notice to the Treasurer's office and shall confirm the amount of such shortfall in writing.

The Paying Agent is authorized to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with the Resolution, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Paying Agent is authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds all as provided in the Resolution, and to provide for the authentication of Bonds and Parity Bonds, and shall perform all other duties assigned to or imposed on it as provided in the Resolution. The Paying Agent shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Paying Agent is authorized to redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Paying Agent shall cancel all Bonds and Parity Bonds upon payment thereof in accordance with the provisions of the Resolution.

Removal of Paying Agent. The District may at any time at its sole discretion remove the Paying Agent initially appointed, and any successor thereto, by delivering to the Paying Agent a written notice of its decision to remove the Paying Agent and may appoint a successor or successors thereto; provided that any such successor, other than the Treasurer, shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Paying Agent. If any bank or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Resolution the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Resignation of Paying Agent. The Paying Agent may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Paying Agent. Upon receiving such notice of resignation, the District shall promptly appoint a successor

Paying Agent satisfying the criteria in the Resolution by an instrument in writing. Any resignation or removal of the Paying Agent and appointment of a successor Paying Agent shall become effective only upon acceptance of appointment by the successor Paying Agent.

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

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

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

Whenever in the administration of its duties under the Resolution the Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may, in the absence of bad faith on the part of the Paying Agent, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate shall be full warrant to the Paying Agent for any action taken or suffered under the provisions of the Resolution upon the faith thereof, but in its discretion the Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

EVENTS OF DEFAULT; REMEDIES

Events of Default. Any one or more of the following events shall constitute an “event of default”:

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

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

(c) Except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Resolution,

the Bonds or any Parity Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Paying Agent or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

The District agrees to give notice to the Authority and the Authority Trustee immediately upon the occurrence of an event of default under (a) or (b) above and within 30 days of the District's knowledge of an event of default under (c) above.

Remedies of Owners. Following the occurrence of an event of default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

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

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

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

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

In case the moneys held by the Paying Agent after an event of default pursuant to the Resolution shall be insufficient to pay in full the whole amount so owing and unpaid upon the Outstanding Bonds and Parity Bonds, then all available amounts shall be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

DEFEASANCE AND PARITY BONDS

Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Resolution or any Supplemental Resolution, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Special Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Resolution and any Supplemental Resolution relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to the Resolution, the Treasurer shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Treasurer shall pay over or deliver to the District's general fund all money or securities held by it pursuant to the Resolution which are not

required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

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

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

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

(c) by depositing with an escrow bank appointed by the District with notice to the Treasurer, in trust, noncallable Defeasance Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Resolution and any Supplemental Resolution with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Paying Agent to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in the Resolution or any covenants in a Supplemental Resolution relating to compliance with the Code. Notice of such election shall be filed with the Paying Agent not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Paying Agent. In connection with a defeasance under (c) above and under (b) above, if required by the Act, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Paying Agent or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with the Resolution, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) addressed to the District to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Resolution and any applicable Supplemental Resolution.

Upon a defeasance, the Paying Agent and/or the Treasurer, upon request of the District, shall release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under the Resolution and any Supplemental Resolution and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance under the Resolution of all Outstanding Bonds and Parity Bonds, the Paying Agent shall pay over or deliver to the District any funds held by the Paying Agent at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the

Bonds and Parity Bonds when due. The Paying Agent shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds or Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness. The District may at any time after the issuance and delivery of the Bonds under the Resolution issue Parity Bonds payable from the Net Special Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Resolution or under any Supplemental Resolution; provided, however, that Parity Bonds may only be used for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then outstanding. Parity Bonds may be issued subject to the following additional specific conditions, which are conditions precedent to the issuance of any such Parity Bonds:

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

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

(1) The refunding purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including payment of all costs incidental to or connected with such refunding;

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

(3) The date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on an August 15, (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

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

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

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

(7) The amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Accounts of the District held under the Authority Indenture to increase

the amount therein to the Proportionate Share or to increase the amount in the Reserve Account to the Reserve Requirement;

(8) The form of such Parity Bonds; and

(9) Such other provisions as are necessary or appropriate and not inconsistent with the Resolution.

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

(1) A certified copy of the Supplemental Resolution authorizing the issuance of such Parity Bonds;

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

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

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

(5) A certificate from one or more Independent Financial Consultants which, when taken together, certify that (a) if following the issuance of the Parity Bonds any Outstanding Bonds or Parity Bonds will be owned by the Authority under the Authority

Indenture, the provisions of the Authority Indenture have been satisfied, or (b) if following the issuance of the Parity Bonds no Outstanding Bonds or Parity Bonds will be owned by the Authority, the amount of the maximum Special Taxes that may be levied by the District on Developed Property (which for purposes of this calculation shall mean property upon which a completed structure is located) pursuant to the Act and the applicable resolutions and ordinances of the District in each remaining Bond Year based on then existing development in the District is at least equal to the sum of Annual Debt Service for each corresponding Bond Year on all Outstanding Bonds and Parity Bonds theretofore issued and the Parity Bonds proposed to be issued. For purposes of making the certifications required by this paragraph (c), the Independent Financial Consultants may rely on reports or certificates of such other persons as may be acceptable to the District, the County, Bond Counsel and the Original Purchasers of the proposed Parity Bonds; and

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

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APPENDIX B
RATES AND METHODS OF APPORTIONMENT
OF SPECIAL TAXES FOR
THE COMMUNITY FACILITIES DISTRICTS

**RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR
COMMUNITY FACILITIES DISTRICT NO. 2002-1
OF THE COUNTY OF ORANGE (LADERA RANCH)**

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2002-1 of the County of Orange (Ladera Ranch) ("CFD No. 2002-1") and collected each Fiscal Year commencing in Fiscal Year 2002-03, in an amount determined by the Board through the application of the appropriate Special Tax for "Developed Property," "Taxable Property Owner Association Property," "Taxable Public Property," "Taxable Religious Property" and "Undeveloped Property" as described below. All of the real property in CFD No. 2002-1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2002-1: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the County or designee thereof or both); the costs of collecting the Special Taxes (whether by 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 County, CFD No. 2002-1 or any designee thereof of complying with arbitrage rebate requirements; the costs to the County, CFD No. 2002-1 or any designee thereof of complying with disclosure requirements of the County, CFD No. 2002-1 or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the County, CFD No. 2002-1 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the County's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the County or CFD No. 2002-1 for any other administrative purposes of CFD No. 2002-1, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

"Apartment Property" means any Assessor's Parcel of Residential Property that consists of a building or buildings comprised of attached residential units available for rental, but not purchase, by the general public and under common management, excluding Senior Housing Property.

"Assessor's Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's parcel number.

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

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

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

“**Board**” means the Board of Supervisors of the County of Orange, acting as the legislative body of CFD No. 2002-1.

“**Bonds**” means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2002-1 under the Act.

“**CFD Administrator**” means the County Executive Officer, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

“**CFD No. 2002-1**” means Community Facilities District No. 2002-1 of the County of Orange (Ladera Ranch).

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

“**Day Care Property**” means up to 0.538 Acres located in parcel 5 of Lot Line Adjustment No. LL 2001-034 and up to 0.981 Acres located in parcel 10 of Lot Line Adjustment No. LL 2001-035, so long as such property is subject to covenants and restrictions that are recorded with the County Recorder that limit the use of such property to early care and education centers. If such parcels include more Acres than shown in the previous sentence, those Acres in excess of the amounts indicated will not be considered Day Care Property, but will be classified and taxed as Non-Residential Property.

“**Developed Property**” means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property, for which a building permit for new construction was issued prior to January 1 of the prior Fiscal Year.

“**Fiscal Year**” means the period starting July 1 and ending on 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.

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

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

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

“Property Owner Association Property” means any property within the boundaries of CFD No. 2002-1 that is owned in fee or by easement, or dedicated to, a property owner association, including any master or sub-association.

“Proportionately” means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor’s Parcels of Developed Property within CFD No. 2002-1. For Undeveloped Property, “Proportionately” means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Undeveloped Property in CFD No. 2002-1.

“Public Property” means any property within the boundaries of CFD No. 2002-1 that is transferred to a public agency on or after the date of formation of CFD No. 2002-1 and is used for rights-of-way or any other purpose and is owned by or dedicated to the federal government, the State of California, the County or any other public agency; provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

“Religious Property” means all property within the boundaries of CFD No. 2002-1 which (i) is either (a) used primarily as a place of worship or (b) vacant land or land under construction that is intended to be used primarily as a place of worship as determined by the CFD Administrator; and (ii) is exempt from ad valorem property taxes because it is owned by a religious organization. Religious Property, without limitation, does not include any Assessor’s Parcels used primarily for religious schools, day care centers, or congregate care facilities.

“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.

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

“Senior Housing Property” means up to 154 dwelling units located on parcel 1 of Lot Line Adjustment No. LL 2001-022, so long as such property is subject to the Covenant and Declaration of Restriction recorded on December 18, 2001, that limits the use of such property to senior citizen housing. If more than 154 dwelling units are located on such parcel, those units in excess of 154 will not be considered Senior Housing Property, but will be classified and taxed as either Apartment Property, Single Family Attached Property, or Single Family Detached Property, as applicable.

“Single Family Attached Property” means all Assessor’s Parcels of Residential Property for which building permits have been issued for attached residential units, excluding Apartment Property and Senior Housing Property.

“**Single Family Detached Property**” means all Assessor’s Parcels of Residential Property for which building permits have been issued for detached residential units.

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

“**Special Tax Requirement**” means that amount required in any Fiscal Year for CFD No. 2002-1 to pay the sum of: (i) debt service on all Outstanding Bonds; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) any amounts required to establish or replenish any reserve funds for all Bonds issued or to be issued by CFD No. 2002-1; and (v) any amounts required for construction of facilities eligible under the Act. In arriving at the Special Tax Requirement, the CFD Administrator shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year and shall give a credit for funds available to reduce the annual Special Tax levy.

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

“**Taxable Property**” means all of the Assessor’s Parcels within the boundaries of CFD No. 2002-1 which are not exempt from the Special Tax pursuant to law or Section E below.

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

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

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

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

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

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within CFD No. 2002-1 shall be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Residential Property shall be assigned to Land Use Classes 1 through 14, Day Care Property shall be assigned to Land Use Class 15, and Non-Residential Property shall be assigned to Land Use Class 16.

The Assigned Special Tax for Residential Property shall be based on whether it is Single Family Detached Property, Single Family Attached Property, Apartment Property, or Senior Housing Property and on the Residential Floor Area of the dwelling unit(s) located on the Assessor's Parcel. The Assigned Special Tax for Day Care Property and Non-Residential Property shall be based on the Acreage of the Assessor's Parcel.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property

a. Maximum Special Tax

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

b. Assigned Special Tax

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

TABLE 1

**Assigned Special Taxes for Developed Property
For Fiscal Year 2002-03
Community Facilities District No. 2002-1**

<i>Land Use Class</i>	<i>Residential Floor Area</i>	<i>Description</i>	<i>Assigned Special Tax</i>
1	> 3,600 SF	Single Family Detached Property	\$3,756.22 per unit
2	3,300 – 3,600 SF	Single Family Detached Property	\$3,700.84 per unit
3	3,000 – 3,299 SF	Single Family Detached Property	\$3,471.19 per unit
4	2,700 – 2,999 SF	Single Family Detached Property	\$3,172.21 per unit
5	2,400 – 2,699 SF	Single Family Detached Property	\$3,140.13 per unit
6	2,100 – 2,399 SF	Single Family Detached Property	\$2,718.32 per unit
7	1,800 – 2,099 SF	Single Family Detached Property	\$2,485.57 per unit
8	< 1,800 SF	Single Family Detached Property	\$2,297.27 per unit
9	> 1,500 SF	Single Family Attached Property	\$1,934.62 per unit
10	1,300 – 1,500 SF	Single Family Attached Property	\$1,779.04 per unit
11	1,100 – 1,299 SF	Single Family Attached Property	\$1,597.43 per unit
12	< 1,100 SF	Single Family Attached Property	\$1,337.17 per unit
13	N/A	Apartment Property	\$768.60 per unit
14	N/A	Senior Housing Property	\$576.45 per unit
15	N/A	Day Care Property	\$8,025.30 per Acre
16	N/A	Non-Residential Property	\$13,375.50 per Acre

c. Increase in the Assigned Special Tax

The Assigned Special Taxes in Table 1 shall be applicable for Fiscal Year 2002-03, and shall increase thereafter, commencing on July 1, 2003 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Assigned Special Tax for the previous Fiscal Year.

d. Multiple Land Use Classes

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

e. Backup Special Tax

The Backup Special Tax in CFD No. 2002-1 shall equal \$29,428 per Acre for Fiscal Year 2002-03, and shall increase thereafter, commencing on July 1, 2003 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Backup Special Tax for the previous Fiscal Year.

2. Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Undeveloped Property

a. Maximum Special Tax

The Maximum Special Tax for Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Undeveloped Property in CFD No. 2002-1 shall be \$30,428 per Acre for Fiscal Year 2002-03, and shall increase thereafter, commencing on July 1, 2003 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Maximum Special Tax for the previous Fiscal Year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2002-03 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes levied 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 at up to 100% of the applicable Assigned Special Tax;

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

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

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious 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. 2002-1.

E. EXEMPTIONS

No Special Tax shall be levied on up to 7.2 Acres of Religious Property, and up to 215.863 Acres of Property Owner Association Property and/or Public Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Religious Property, Property Owner Association Property or Public Property. However, should an Assessor's Parcel no longer be classified as Religious Property, Property Owner Association Property or Public Property, its tax-exempt status will be revoked.

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

F. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that CFD No. 2002-1 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

Tenders of Bonds may be accepted for payment of Special Taxes upon the terms and conditions established by law and by CFD No. 2002-1. However, the use of Bond tenders shall only be allowed on a case-by-case basis as specifically approved by the Board.

G. PREPAYMENT OF SPECIAL TAX FOR TRACT 16250

The Special Tax obligation applicable to a Lot within Tract 16250 may be prepaid and the obligation of such Lot to pay any Special Tax may be fully or partially satisfied as described herein, provided that such prepayment will only be permitted prior to the earlier of (i) the date escrow closes to an individual homeowner for such Lot, or (ii) the issuance of the first series of Bonds by CFD No. 2002-1. The CFD Administrator may charge a reasonable fee for calculation of the Prepayment Amount as defined below.

The following definitions apply to this Section G:

“**CFD Public Facilities Costs**” means \$46.5 million.

“**Lot**” means lot 1 through 13 within Tract 16250.

“**Tract 16250**” means Tract 16250 that was recorded with the Recorder of the County on May 24, 2002.

1. Prepayment in Full

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

	Facilities Amount	
	plus	<u>Administrative Fees and Expenses</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 a Lot for which a building permit has been issued, compute the Assigned Special Tax and Backup Special Tax for that Lot as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor’s Parcel. For a Lot for which a building permit has not been issued, the CFD Administrator shall estimate the Assigned Special Tax and Backup Special Tax for such Lot as though it was already designated as Developed Property, based on the Residential Floor Area anticipated for such Lot.
3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for the entire CFD No. 2002-1 based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 2002-1 as determined by the CFD Administrator, excluding any Assessor’s Parcels which have been prepaid, and

- (b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the estimated Backup Special Taxes at buildout of CFD No. 2002-1 using the Backup Special Tax amount for the current Fiscal Year, excluding any Assessor’s Parcels which have been prepaid.
4. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the CFD Public Facilities Costs to determine the amount of the CFD Public Facilities Costs to be prepaid (the “Facilities Amount”).
 5. Verify the administrative fees and expenses of CFD No. 2002-1 in connection with such prepayment, including the costs of computation of the prepayment and the costs of recording any notices to evidence the prepayment as determined by the CFD Administrator (the “Administrative Fees and Expenses”).
 6. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4 and 5 (the “Prepayment Amount”).
 7. From the Prepayment Amount, the amount computed pursuant to paragraph 4 shall be deposited into the Acquisition and Construction Fund established under the Indenture. The amount computed pursuant to paragraph 5 shall be retained by CFD No. 2002-1.

With respect to any Lot that is prepaid, the Board 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 Lot, and the obligation of such Lot to pay the Special Tax shall cease.

2. Prepayment in Part

The amount of the prepayment shall be calculated as in Section G.1; 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 G.1
- F = the percentage by which the owner of the Lot is partially prepaying the Special Tax.

With respect to any Lot that is partially prepaid, the County shall (i) distribute the funds remitted to it according to Section G.1, and (ii) indicate in the records of CFD No. 2002-1 that there has been a partial prepayment of the Special Tax and the applicable percentage of the Assigned Special Tax, Backup Special Tax and Maximum Special Tax to which that Lot will remain subject. The remaining Special Tax (equal to $1.00 - F$ times the applicable Assigned Special Tax, Backup Special Tax and/or Maximum Special Tax) will continue to be levied on such Lot pursuant to Section D.

H. TERM OF SPECIAL TAX

The Special Tax shall be levied on each Assessor's Parcel for a period not to exceed forty years from the Fiscal Year in which such Assessor's Parcel first becomes Developed Property.

**RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR
COMMUNITY FACILITIES DISTRICT NO. 2003-1
OF THE COUNTY OF ORANGE (LADERA RANCH)**

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2003-1 of the County of Orange (Ladera Ranch) ("CFD No. 2003-1") and collected each Fiscal Year commencing in Fiscal Year 2004-05, in an amount determined by the Board through the application of the appropriate Special Tax for "Developed Property," "Religious Property," "Taxable Property Owner Association Property," "Taxable Public Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 2003-1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2003-1: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the County or designee thereof or both); the costs of collecting the Special Taxes (whether by 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 County, CFD No. 2003-1 or any designee thereof of complying with arbitrage rebate requirements; the costs to the County, CFD No. 2003-1 or any designee thereof of complying with disclosure requirements of the County, CFD No. 2003-1 or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the County, CFD No. 2003-1 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the County's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the County or CFD No. 2003-1 for any other administrative purposes of CFD No. 2003-1, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

"Apartment Property" means any Assessor's Parcel of Residential Property that consists of a building or buildings comprised of attached residential units available for rental, but not purchase, by the general public and under common management.

"Assessor's Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's parcel number.

"Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by Assessor's Parcel number.

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

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

"Board" means the Board of Supervisors of the County of Orange, acting as the legislative body of CFD No. 2003-1.

"Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2003-1 under the Act.

"CFD Administrator" means the County Executive Officer, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

"CFD No. 2003-1" means Community Facilities District No. 2003-1 of the County of Orange (Ladera Ranch).

"County" means the County of Orange.

"Day Care Property" means up to 1.013 Acres located in lot 6 of tract 16341 so long as such property is subject to covenants and restrictions that are recorded with the County Recorder that limit the use of such property to early care and education centers. If such parcel includes more Acres than shown in the previous sentence, those Acres in excess of the amount indicated will not be considered Day Care Property, but will be classified and taxed as Non-Residential Property.

"Developed Property" means, for each Fiscal Year, all Taxable Property, exclusive of Religious Property, Taxable Property Owner Association Property, or Taxable Public Property, for which a building permit for new construction was issued prior to January 1 of the prior Fiscal Year.

"Fiscal Year" means the period starting July 1 and ending on 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.

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

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

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

"Property Owner Association Property" means any property within the boundaries of CFD No. 2003-1 that is owned in fee or by easement, or dedicated to, a property owner association, including any master or sub-association.

"Proportionately" means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor's Parcels of Developed Property within CFD No. 2003-1. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property in CFD No. 2003-1.

"Public Property" means any property within the boundaries of CFD No. 2003-1 that is transferred to a public agency on or after the date of formation of CFD No. 2003-1 and is used for rights-of-way or any other purpose and is owned by or dedicated to the federal government, the State of California, the County or any other public agency; provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

"Religious Property" means all property within the boundaries of CFD No. 2003-1 which (i) is either (a) used primarily as a place of worship or (b) vacant land or land under construction that is intended to be used primarily as a place of worship as determined by the CFD Administrator; and (ii) is exempt from *ad valorem* property taxes because it is owned by a religious organization. Religious Property, without limitation, does not include any Assessor's Parcels used primarily for religious schools, day care centers, or congregate care facilities.

"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.

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

"Single Family Attached Property" means all Assessor's Parcels of Residential Property for which building permits have been issued for attached residential units, excluding Apartment Property.

"Single Family Detached Property" means all Assessor's Parcels of Residential Property for which building permits have been issued for detached residential units.

"Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Developed Property, Religious Property, Taxable Property Owner Association Property, Taxable Public Property, and Undeveloped Property to fund the Special Tax Requirement.

"Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 2003-1 to pay the sum of: (i) debt service on all Outstanding Bonds; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) any amounts required to establish or replenish any reserve funds for all Bonds issued or to be issued by CFD No. 2003-1; and (v) any amounts required for construction of facilities eligible under the Act. In arriving at the Special Tax Requirement, the CFD Administrator shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year and shall give a credit for funds available to reduce the annual Special Tax levy.

"State" means the State of California.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 2003-1 which are not exempt from the Special Tax pursuant to law or Section E below.

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

"Taxable Public Property" means all Assessor's Parcels of Public Property that are not exempt pursuant to Section E below.

"Trustee" means the trustee, fiscal agent, or paying agent under the Indenture.

"Undeveloped Property" means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Religious Property, Taxable Property Owner Association Property, or Taxable Public Property.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within CFD No. 2003-1 shall be classified as Developed Property, Religious Property, Taxable Public Property, Taxable Property Owner Association Property or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Residential Property shall be assigned to Land Use Classes 1 through 13, Day Care Property shall be assigned to Land Use Class 14, and Non-Residential Property shall be assigned to Land Use Class 15.

The Assigned Special Tax for Residential Property shall be based on whether it is Single Family Detached Property, Single Family Attached Property, or Apartment Property and on the Residential Floor Area of the dwelling unit(s) located on the Assessor's Parcel. The Assigned Special Tax for Day Care Property and Non-Residential Property shall be based on the Acreage of the Assessor's Parcel.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property

a. Maximum Special Tax

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

b. Assigned Special Tax

The Assigned Special Tax for each Land Use Class for Fiscal Year 2004-05 is shown below in Table 1.

TABLE 1

**Assigned Special Taxes for Developed Property
For Fiscal Year 2004-05
Community Facilities District No. 2003-1**

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	> 3,600 SF	Single Family Detached Property	\$4,793.26 per unit
2	3,300 – 3,600 SF	Single Family Detached Property	\$4,426.70 per unit
3	3,000 – 3,299 SF	Single Family Detached Property	\$4,060.14 per unit
4	2,700 – 2,999 SF	Single Family Detached Property	\$3,560.31 per unit
5	2,400 – 2,699 SF	Single Family Detached Property	\$3,437.90 per unit
6	2,100 – 2,399 SF	Single Family Detached Property	\$3,187.44 per unit
7	1,800 – 2,099 SF	Single Family Detached Property	\$2,896.92 per unit
8	< 1,800 SF	Single Family Detached Property	\$2,464.69 per unit
9	> 1,900 SF	Single Family Attached Property	\$2,464.69 per unit
10	1,600 – 1,900 SF	Single Family Attached Property	\$2,354.39 per unit
11	1,300 – 1,599 SF	Single Family Attached Property	\$1,918.73 per unit
12	< 1,300 SF	Single Family Attached Property	\$1,550.43 per unit
13	N/A	Apartment Property	\$ 799.65 per unit
14	N/A	Day Care Property	\$8,349.52 per Acre
15	N/A	Non-Residential Property	\$13,915.87 per Acre

c. Increase in the Assigned Special Tax

The Assigned Special Taxes in Table 1 shall be applicable for Fiscal Year 2004-05, and shall increase thereafter, commencing on July 1, 2005 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Assigned Special Tax for the previous Fiscal Year.

d. Multiple Land Use Classes

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

e. Backup Special Tax

The Backup Special Tax in CFD No. 2003-1 shall equal \$38,526 per Acre for Fiscal Year 2004-05, and shall increase thereafter, commencing on July 1, 2005 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Backup Special Tax for the previous Fiscal Year.

2. Religious Property, Taxable Property Owner Association Property, Taxable Public Property, and Undeveloped Property

a. Maximum Special Tax

The Maximum Special Tax for Religious Property, Taxable Property Owner Association Property, Taxable Public Property, and Undeveloped Property in CFD No. 2003-1 shall be \$38,562 per Acre for Fiscal Year 2004-05, and shall increase thereafter, commencing on July 1, 2005 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Maximum Special Tax for the previous Fiscal Year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2004-05 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes levied 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 at up to 100% of the applicable Assigned Special Tax;

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

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

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Religious Property, Taxable Property Owner Association Property or Taxable Public Property at up to the Maximum Special Tax for Religious Property, Taxable Property Owner Association Property or Taxable Public 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. 2003-1.

E. EXEMPTIONS

No Special Tax shall be levied on up to 177.98 Acres of Property Owner Association Property and/or Public Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property or Public Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property or Public Property, its tax-exempt status will be revoked.

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

F. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 2003-1 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

Tenders of Bonds may be accepted for payment of Special Taxes upon the terms and conditions established by law and by CFD No. 2003-1. However, the use of Bond tenders shall only be allowed on a case-by-case basis as specifically approved by the Board.

G. PREPAYMENT OF SPECIAL TAX

The Special Tax obligation applicable to a Lot (as defined below) may be prepaid and the obligation of such Lot to pay any Special Tax may be fully or partially satisfied as described herein, provided that such prepayment will only be permitted prior to the earlier of (i) the date escrow closes to an individual homeowner for such Lot, or (ii) the issuance of the first series of Bonds by CFD No. 2003-1. The CFD Administrator may charge a reasonable fee for calculation of the Prepayment Amount as defined below.

The following definitions apply to this Section G:

"CFD Public Facilities Costs" means \$45.7 million.

"Lot" means a lot for which a building permit may be issued, which is located within a Final Map.

"Final Map" means (i) a final map or parcel map, or portion thereof, approved by the County pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.) that creates individual lots for which building permits may be issued, or (ii) for condominiums, a final map approved by the County and a condominium plan recorded pursuant to California Civil Code Section 1352 creating such individual lots.

1. Prepayment in Full

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

	Facilities Amount	
	plus	Administrative Fees and Expenses
Total: equals	<u>Prepayment Amount</u>	

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 a Lot for which a building permit has been issued, compute the Assigned Special Tax for that Lot as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel. For a Lot for which a building permit has not been issued, the CFD Administrator shall estimate the Assigned Special Tax for such Lot as though it was already designated as Developed Property, based on the Residential Floor Area anticipated for such Lot.
3. Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for the entire CFD No. 2003-1 based on the Developed Property Special Taxes which could be charged in the current Fiscal Year

on all expected development through buildout of CFD No. 2003-1 as determined by the CFD Administrator, excluding any Assessor's Parcels which have been prepaid, and

4. Multiply the quotient computed pursuant to paragraph 3 by the CFD Public Facilities Costs to determine the amount of the CFD Public Facilities Costs to be prepaid (the "Facilities Amount").
5. Verify the administrative fees and expenses of CFD No. 2003-1 in connection with such prepayment, including the costs of computation of the prepayment and the costs of recording any notices to evidence the prepayment as determined by the CFD Administrator (the "Administrative Fees and Expenses").
6. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4 and 5 (the "Prepayment Amount").
7. From the Prepayment Amount, the amount computed pursuant to paragraph 4 shall be deposited into the Acquisition and Construction Fund established under the Indenture, or if such fund has not yet been established, into another construction fund established by CFD No. 2003-1 for such purpose. The amount computed pursuant to paragraph 5 shall be retained by CFD No. 2003-1.

With respect to any Lot that is prepaid, the CFD Administrator 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 Lot, and the obligation of such Lot to pay the Special Tax shall cease.

2. Prepayment in Part

The amount of the prepayment shall be calculated as in Section G.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = [(P_E - AE) \times F] + AE$$

These terms have the following meaning:

AE	=	the Administrative Fees and Expenses
PP	=	the partial prepayment
PE	=	the Prepayment Amount calculated according to Section G.1
F	=	the percentage by which the owner of the Lot is partially prepaying the Special Tax.

With respect to any Lot that is partially prepaid, the County shall (i) distribute the funds remitted to it according to Section G.1, and (ii) indicate in the records of CFD No. 2003-1 that there has been a partial prepayment of the Special Tax and the applicable percentage of the Assigned Special Tax, Backup Special Tax and Maximum Special Tax to which that Lot will remain subject. The remaining Special Tax (equal to $1.00 - F$ times the applicable Assigned Special Tax, Backup Special Tax and/or Maximum Special Tax) will continue to be levied on such Lot pursuant to Section D.

H. TERM OF SPECIAL TAX

The Special Tax shall be levied on an Assessor's Parcel for a period not to exceed forty years from the Fiscal Year in which such Assessor's Parcel first becomes Developed Property.

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APPENDIX C

FORM OF BOND COUNSEL OPINION

January 29, 2014

South Orange County Public Financing Authority
Santa Ana, California

Re: \$64,545,000 South Orange County Public Financing Authority Special Tax Revenue Refunding Bonds (Ladera Ranch) 2014 Series A (Senior Lien Bonds)

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the South Orange County Public Financing Authority (the "Authority") taken in connection with the issuance by the Authority of its Special Tax Revenue Refunding Bonds (Ladera Ranch) 2014 Series A (Senior Lien Bonds) (the "Bonds") and such other information and documents as we consider necessary to render this opinion.

In rendering this opinion, we have relied upon certain representations and certifications of fact made by the Authority, the County of Orange (the "County"), the Community Facilities Districts, the initial purchaser of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Marks Roos Local Bond Pooling Act of 1985, as amended (Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code) (the "Act"), that certain Indenture of Trust dated January 1, 2014 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as Trustee, approving the Indenture. The Bonds are dated as of their date of delivery and mature on the dates and in the amounts set forth in the Indenture. Interest on the Bonds is payable on the dates and at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the forms set forth in the Indenture and are redeemable in the amounts, at the times and in the manner set forth in the Indenture. Capitalized terms not defined herein shall have the meaning set forth in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized by the Authority and are legal, valid and binding limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California.

(2) The Indenture has been duly executed and delivered by the Authority. The Indenture creates a valid pledge of the Revenues to secure the Bonds and the amounts on deposit in certain funds and accounts established under the Indenture to secure the Bonds, as and to the extent provided in the Indenture. The Indenture is enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California; provided, however, that we express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the Indenture.

(3) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(4) Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

(5) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues to the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations (as described in paragraph 3 above), and is exempt from State of California personal income tax.

(6) The amount by which a Bond owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinions expressed in paragraphs (3) and (5) above as to the exclusion from gross income for federal income tax purposes of interest and original issue discount on the Bonds is subject to the condition that the Authority, the County and the Community Facilities Districts comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest

(and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority, the County and the Community Facilities Districts each has covenanted to comply with all such requirements. Except as set forth in paragraphs (3) through (6) above, we express no opinion as to any tax consequences related to the Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate and the Local Obligations Resolutions may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion of interest (and original issue discount) on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel terminates upon the issuance of the Bonds and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur).

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (“Disclosure Certificate”), dated as of January 1, 2014, is executed and delivered by the SOUTH ORANGE COUNTY PUBLIC FINANCING AUTHORITY (the “Issuer”) in connection with the issuance of \$64,545,000 aggregate principal amount the South Orange County Public Financing Authority Special Tax Revenue Refunding Bonds, 2014 Series A (Senior Lien Bonds) (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of January 1, 2014 (the “Indenture”), by and between U.S. Bank National Association, as trustee (the “Trustee”), and the Issuer. The proceeds of the Bonds will be used to acquire the Local Obligations (as defined below). The proceeds of the Local Obligations will refund certain outstanding obligations of the Districts (as defined below), to fund the reserve fund securing the Bonds and to pay costs of issuance of the Bonds. The Issuer covenants as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Section 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income purposes.

“County” means the County of Orange, California.

“Disclosure Representative” shall mean the Executive Director of the Issuer, or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean, initially, the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Trustee and the Issuer a written acceptance of such designation.

“Districts” shall mean Community Facilities District No. 2002-1 of the County of Orange (Ladera Ranch) and Community Facilities District No. 2003-1 of the County of Orange (Ladera Ranch).

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“Local Obligations” shall mean the Community Facilities District No. 2002-1 of the County of Orange (Ladera Ranch) 2013 Special Tax Refunding Bonds and the Community Facilities District No. 2003-1 of the County of Orange (Ladera Ranch) 2013 Special Tax Refunding Bonds.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Owners” shall mean the registered owners of the Bonds as set forth in the registration books maintained by the Trustee.

“Repository” shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the EMMA website of the MSRB, currently located at <http://emma.msrb.org>.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“Underwriter” shall mean any underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or, if the Dissemination Agent is other than the Issuer, upon written direction shall cause the Dissemination Agent to, not later than March 1 after the end of the Issuer’s Fiscal Year (June 30) commencing with the report due by March 1, 2014, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer and the Districts, if any exist, may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer’s or the Districts’ fiscal year changes, the Issuer shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

(b) In the event that the Dissemination Agent is an entity other than the Issuer, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to the due date for an Annual Report the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a). The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent

may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is other than the Issuer and if the Dissemination Agent is unable to verify that an Annual Report has been provided to EMMA by the date required in subsection (a), the Dissemination Agent shall send a notice to EMMA, in the form required by EMMA.

(d) If the Dissemination Agent is other than the Issuer, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the repository if other than the MSRB through EMMA; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided to EMMA and the date it was provided.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

Section 4. Content of Annual Reports. The Issuer's Annual Report due on March 1, 2014, will consist of the Official Statement and the Issuer's and the District's audited financial statements for Fiscal Year 2012-13. Thereafter, the Issuer's Annual Report shall contain or include by reference the following:

(a) Financial Statements. The audited financial statements of the Issuer and the Districts for the prior fiscal year, if any have been prepared and which, if prepared, shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board; provided, however, that the Issuer and the Districts may, from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer or the Districts shall modify the basis upon which its financial statements are prepared, the Issuer or the Districts, as applicable, shall provide the information referenced in Section 8 below. If the Issuer or the Districts are preparing audited financial statements and such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following:

(i) the principal amount of the Bonds outstanding as of the August 16 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Indenture and the Series A Reserve Requirement (as defined in the Indenture) as of the August 16 preceding the filing of the Annual Report;

(iii) any changes to the Rates and Methods of Apportionment of the Special Taxes for the Districts approved or submitted to the qualified electors for approval prior to the filing

of the Annual Report and a description of any parcels for which the Special Taxes have been prepaid in the Fiscal Year for which the Annual Report is being prepared;

(iv) an update of the estimated assessed value-to-lien ratio for the Districts substantially in the form of Table 4 in the Official Statement based upon the most recent Special Tax levy preceding the date of the Annual Report and on the assessed values of property for the current fiscal year;

(v) the percentage of the maximum Special Taxes levied by the Districts with respect to each series of Local Obligations;

(vi) the status of any foreclosure actions being pursued by the Districts with respect to delinquent Special Taxes;

(vii) a table showing by District the total Special Taxes levied and the total Special Taxes collected for the prior fiscal year and the total Special Taxes that, as of December 31, remain unpaid for each prior fiscal year in which Special Taxes were levied and the number of delinquent parcels in each District;

(viii) a statement as to whether the Teeter Plan remains in effect with regard to the Districts; and

(ix) any information not already included under (i) through (viii) above that the Issuer is required to file in its annual report to the California Debt and Investment Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB through EMMA. The Issuer shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);

6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
3. appointment of a successor or additional trustee or the change of the name of a trustee;
4. nonpayment related defaults;
5. modifications to the rights of Owners of the Bonds;
6. notices of redemption; and
7. release, substitution or sale of property securing repayment of the Bonds.

(c) Upon the occurrence of a Listed Event under Section 5(b) above, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice

of such occurrence with the Repository in a timely manner not more than 10 business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the Issuer and that the Dissemination Agent, if other than the Issuer, shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

Section 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent, if other than the Issuer, shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing thirty (30) days written notice to the Issuer and the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver related to the provisions of Sections 3(a), 4, or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking hereunder, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment related to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the

change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the formed accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, the Trustee at the written direction of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate, but only to the extent funds have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorney. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. Where an entity other than the Issuer is acting as the Dissemination Agent, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

Issuer: South Orange County Public Financing Authority
County Executive Office
10 Civic Center Plaza, 3rd Floor
Santa Ana, CA 92701
Attention: Executive Director

Participating Underwriter: Piper Jaffray & Co.
1100 S. Coast Highway, Suite 300A
Laguna Beach, CA 92651
Attention: Public Finance

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notice or communications should be sent.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Trustee, the Dissemination Agent, the Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

This Disclosure Certificate is executed as of the date and year first set forth above.

SOUTH ORANGE COUNTY PUBLIC FINANCING
AUTHORITY

By: _____
Its: Disclosure Representative

APPENDIX E

DTC AND THE BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct

or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, redemption price and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of

such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

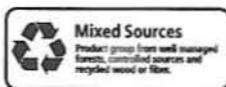
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

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