

CITY OF ALISO VIEJO

COMMUNITY FACILITIES DISTRICT No. 2005-01 (GLENWOOD AT ALISO VIEJO)

ANNUAL REPORT FISCAL YEAR 2007/08



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INTRODUCTION

This Annual Special Tax Report (“Report”) summarizes certain general, financial and administrative information related to Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) (“CFD No. 2005-01”) of the City of Aliso Viejo (“City”). The Report outlines the following for CFD No. 2005-01: (I) Special Tax Levy for Fiscal Year 2007/08, (II) Summary of Delinquent Special Taxes (III) Background of CFD No. 2005-01, and (IV) Development Summary. The Report also includes (V) Attachments that are referenced by and/or supplement the information outlined herein. All capitalized terms not defined herein are used as defined in the Modified Rate and Method of Apportionment (“RMA”).

SECTION I. SPECIAL TAX LEVY FOR FY 2007/08

Section I of the Report contains information for the determination of the Fiscal Year (“FY”) 2007/08 Special Tax levy.

A. Annual Special Tax Requirement

The Annual Special Tax Requirement represents the funds available to pay directly for the acquisition or construction of authorized facilities and the estimated Administrative Expenses for CFD 2005-01 in FY 2007/08. The Annual Special Tax Requirement calculated in accordance with the RMA (Please see Attachment 3 for a full copy of the RMA) is \$61,812.00. The table below shows the calculation used to determine the FY 2007/08 Annual Special Tax Requirement.

SPECIAL TAX COMPONENTS	FY 2007/08 DOLLARS
Special Taxes Available for Facilities	\$31,212.00
Administrative Expenses for FY 2007/08	30,600.00
Special Tax Requirement	\$61,812.00

B. Distribution of Special Tax

Special Taxes that CFD No. 2005-01 may levy are limited by the RMA. The Fiscal Year 2007/08 Annual Special Tax rate, number of units and/or acres of Acreage levied and aggregate levy amount for each Special Tax classification is listed in the table on the following page.

LAND USE	BUILDING SQUARE FOOTAGE	NUMBER OF UNITS/ ACRES	FY 2007/08 MAXIMUM SPECIAL TAX	FY 2007/08 APPLIED ANNUAL SPECIAL TAX	PERCENT OF MAXIMUM	FY 2007/08 LEVY AMOUNT
ZONE 1						
Residential	< 1,901	15	\$2,927.40	\$2,927.40	100%	\$43,911.00
Residential	1,901 – 2,350	0	4,233.00	4,233.00	100%	0.00
Residential	2,351 – 2,800	0	4,528.80	4,528.80	100%	0.00
Residential	2,801 – 3,250	0	5,217.30	5,217.30	100%	0.00
Residential	3,251 – 3,700	1	5,905.80	5,905.80	100%	5,905.80
Residential	3,701 – 4,150	2	5,997.60	5,997.60	100%	11,995.20
Residential	4,151 – 4,600	0	6,844.20	6,844.20	100%	0.00
Residential	>4,600	0	6,987.00	6,987.00	100%	0.00
ZONE 2						
Residential	< 1,901	0	\$1,122.00	\$1,122.00	100%	\$0.00
Residential	1,901 – 2,350	0	1,224.00	1,224.00	100%	0.00
Residential	2,351 – 2,800	0	1,326.00	1,326.00	100%	0.00
Residential	2,801 – 3,250	0	2,040.00	2,040.00	100%	0.00
Residential	3,251 – 3,700	0	2,703.00	2,703.00	100%	0.00
Residential	3,701 – 4,150	0	2,856.00	2,856.00	100%	0.00
Residential	4,151 – 4,600	0	3,631.20	3,631.20	100%	0.00
Residential	>4,600	0	3,774.00	3,774.00	100%	0.00
NON-RESIDENTIAL AND UNDEVELOPED PROPERTIES						
Non-Residential	n/a	0	55,914.36	0.00	0%	0.00
Undeveloped	n/a	42.434	64,168.20	0.00	0%	0.00
TOTAL	NA	18 UNITS/ 42.434 ACRES	NA	NA	NA	\$61,812.00

C. Estimated Administrative Expenses

Each year a portion of the Special Tax levy goes to pay the ongoing costs of administration. The estimated FY 2007/08 Administrative Expenses are shown below followed by a description of each line item.

ADMINISTRATIVE EXPENSES	FY 2007/08
City Staff and Expenses	\$15,681.36
Outside Fees and Expenses	8,402.00
County Tax Collection Fees	185.44
Other Fees and Expenses	6,331.20
TOTAL EXPENSES	\$30,600.00

City Staff and Expenses – Includes staff time spent on the administration of CFD No. 2005-01, its accounts and obligations as well as expenses related to CFD No. 2005-01 including postage, supplies, copying, telephone, and technology costs.

Outside Fees and Expenses – Includes the City’s estimated costs to hire consultants related to the administration of CFD No. 2005-01. Consultants used include attorneys, fiscal agent and the special tax administrator. These consultants monitor the special taxes collected by CFD No. 2005-01, provide for the timely payment of debt service, and compliance with State and Federal laws and reporting requirements.

County Tax Collection Fee – Refers to the processing fee charge by the County of Orange (“County”) for placing the Special Taxes on the County Property Tax roll.

Other Fees and Expenses – Since Special Taxes are levied for the first time in Fiscal Year 2007/08 and there is no historical information available to anticipate all costs, the Other Expenses has been added to protect CFD No. 2005-01 from unanticipated unbudgeted costs.

SECTION II. SUMMARY OF DELINQUENT SPECIAL TAXES

No Annual Special Taxes were levied by CFD No. 2005-01 in Fiscal Year 2006/07 or in any prior Fiscal Years, therefore there are no parcels delinquent in the payment of Annual Special Taxes.

SECTION III. BACKGROUND OF CFD NO. 2005-01

A. Summary Table of Information

The following table shows information related to the formation of CFD No. 2005-01 and the bond issue for CFD No. 2005-01:

CFD FORMATION	
Date of Resolution of Intention to Establish	March 16, 2005
Resolution of Intention Number	2005-017
Date of Resolution of Formation	April 20, 2005
Resolution of Formation Number	2005-024
BOND ISSUE OF CFD No. 2005-01¹	
Authorized Bond Amount	\$37,500,000
Foreclosure Covenants	<95% aggregate Special Tax levy or >\$5,000 per owner
Bonds Subject to Arbitrage	Yes
County Fund Number	R1 084

1. As of August 31, 2007, no bonds have been issued. Bonds are anticipated to be issued in the last quarter of Calendar Year 2007 and will require foreclosure covenants to protect bondholders and will also be subject to arbitrage.

B. CFD No. 2005-01 Background

On March 16, 2005, the City Council of the City of Aliso Viejo adopted a resolution of intention to form a community facilities district under the Act, including two zones therein, to levy a special tax and to incur bonded indebtedness for the purpose of financing public infrastructure facilities in and for each improvement area within the district. After conducting a noticed public hearing, the City Council adopted resolutions establishing CFD No. 2005-01, providing for a special tax, approving the proposed rate and method of appointment of the special tax and approving the issuance of bonded indebtedness to finance the authorized facilities, and calling a special election to submit to the qualified electors within CFD No. 2005-01 the propositions to levy the special tax and the issuance of bonds.

On April 20, 2005, an election was held within CFD No. 2005-01 in which the landowner(s) eligible to vote unanimously approved the levy of special tax and the incurrence of bonded indebtedness in an amount not to exceed \$37,500,000.

Subsequently, the City Council instituted proceedings to amend the rate and method of apportionment. On November 1, 2006, an election was held at which election the qualified

electors of CFD No. 2005-01 approved amendments to the rate and method of apportionment, which included (1) the establishment of separate special tax rates and zones for parcels subject to both the Orange County Community Facilities District No. 88-1 and CFD No. 2005-01 (“Zone 2”) (2) the reduction of Residential Property Land Uses Classes, and (3) reduction of the Maximum Annual Special Tax rate for Non-Residential Property and Undeveloped Property.

CFD No. 2005-01 consists of approximately 42.32 taxable acres comprising a master-planned development known as Glenwood at Aliso Viejo. At build out, it is anticipated that CFD No. 2005-01 will contain 459 single-family residential (“SFR”) dwelling units, 43 Affordable Units that will not be subject to the CFD No. 2005-01 Special Tax and other parcels represents exempt properties such as slopes open space, public right-of-way, parcels to be owned by the City and developed as a Community Center, Aquatic Center, public park and a golf course. The number of single-family residential dwelling units planned to be built within each Zone is listed in the table below.

ZONE	NUMBER OF PROJECTED UNITS	
1	SFR Property	455
	Affordable Units	43
2	SFR Property	4
TOTAL		502

C. Boundaries

CFD No. 2005-01 is located on the northeast corner of Glenwood Drive and Aliso Creek Road. A reduced map of the boundaries of CFD No. 2005-01 titled “Map of Proposed Boundaries of Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo)” is incorporated herein as Attachment 1.

A full scale map is on file with the Clerk of the City of Aliso Viejo and was recorded with the County Recorder in the County of Orange in Book 90 of Maps of Assessment and Community Facilities Districts, Page 46, Document No. 2005000222493.

D. The Bonds

Authority of Issuance

Bonds are authorized to be issued by the City under the Act, as amended, and other applicable laws of the State of California.

Purpose of the Bonds

As of the date of this Report, no bonds have been issued by CFD No. 2005-01, however bonds are planned to be issued in the last quarter of Calendar Year 2007. Bonds are authorized to be issued in the amount of \$37,500,000. The maturity date will be determined upon the issuance of bonds which is approximately thirty years after issuance. Proceeds of the Bonds will be used primarily to finance the costs of acquisition, construction, expansion, improvement and rehabilitation of authorized facilities within CFD No. 2005-01. These

facilities within CFD No. 2005-01 include but are not limited to the following: (1) Community Conference Center; (2) Aquatic Center; (3) Public Park; (4) Public Parking Lot; (5) Golf Drive; (6) water and sewer facilities to be owned, operated and maintained by Moulton Niguel Water District; (7) storm water facilities operated and owned by the City; (8) street improvements owned and maintained by the County of Orange; (9) other public facilities pursuant to the Glenwood at Aliso Viejo Development Agreement, dated as of September 1, 2004 (“Development Agreement”); (10) offsite traffic mitigation improvements pursuant to the Development Agreement; and, (11) offsite park enhancement improvements pursuant to the Development Agreement.

Bond proceeds will also fund bond related expenses, including underwriter’s discount, reserve fund, capitalized interest and certain administrative expenses of CFD No. 2005-01 including the costs of issuing the Bonds.

SECTION IV. DEVELOPMENT SUMMARY

CFD No. 2005-01 is planned to be developed with five hundred and two (502) single-family residential units, including four hundred and fifty five (455) taxable units of Residential Property and forty-three (43) Affordable Units in Zone 1 and four (4) taxable units of Residential Property in Zone 2. As of March 1, 2007, Building Permits have been issued for 18 total taxable units of Residential Property located within Zone 1. The following table summarizes the number of units with a Special Tax levy for FY 2007/08 by Land Use Class.

LAND USE CLASS	BUILDING SQUARE FOOTAGE	NUMBER OF UNITS
ZONE 1		
Residential Property	< 1,901	15
Residential Property	1,901 – 2,350	0
Residential Property	2,351 – 2,800	0
Residential Property	2,801 – 3,250	0
Residential Property	3,251 – 3,700	1
Residential Property	3,701 – 4,150	2
Residential Property	4,151 – 4,600	0
Residential Property	>4,600	0
ZONE 2		
Residential Property	< 1,901	0
Residential Property	1,901 – 2,350	0
Residential Property	2,351 – 2,800	0
Residential Property	2,801 – 3,250	0
Residential Property	3,251 – 3,700	0
Residential Property	3,701 – 4,150	0
Residential Property	4,151 – 4,600	0
Residential Property	>4,600	0
TOTAL		18 UNITS

SECTION V. ATTACHMENTS

\Val_Verde\CFD_2002-1(Boulder_Springs)\Admin\2005\Reports\Annual Report.doc

Attachment 1
BOUNDARY MAP

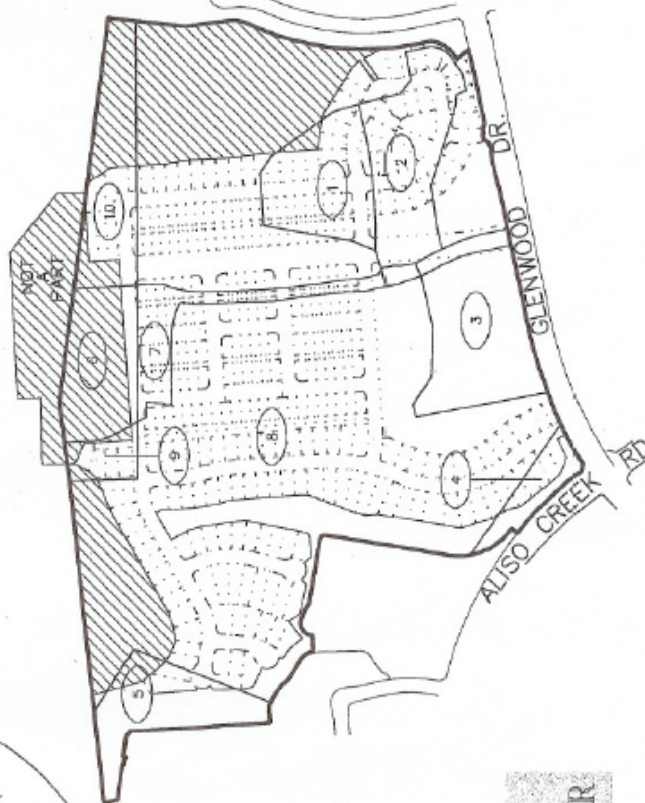
The following page shows the recorded boundary map.

MAP OF PROPOSED BOUNDARIES COMMUNITY FACILITIES DISTRICT NO. 2005-01 (GLENWOOD AT ALISO VIEJO)

CITY OF ALISO VIEJO
COUNTY OF ORANGE
STATE OF CALIFORNIA



VICINITY MAP



- LEGEND
- PROPOSED BOUNDARY
 - MAP REFERENCE NUMBER
 - GOLF COURSE
COMMUNITY CENTER
AQUATICS CENTER

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FILED IN THE OFFICE OF THE CITY CLERK THIS 16th DAY OF MARCH, 2005.

I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING PROPOSED BOUNDARIES OF CITY OF ALISO VIEJO COMMUNITY FACILITIES DISTRICT NO. 2005-01 IS A TRUE AND CORRECT COPY OF THE ORIGINAL MAP AS FILED IN THE OFFICE OF THE COUNTY CLERK OF THE COUNTY OF ORANGE, STATE OF CALIFORNIA, AT THE HOUR OF 11:56 O'CLOCK P.M. IN THE BOOK 810 OF MAPS OF ASSESSMENT AND COMMUNITY FACILITIES DISTRICTS, PAGE 111 AND AS INSTRUMENT NO. 20050201463 IN THE OFFICE OF THE COUNTY RECORDER IN THE COUNTY OF ORANGE, STATE OF CALIFORNIA, ON THE 16th DAY OF MARCH, 2005, BY ITS RESOLUTION NO. 2005-016.

SUSAN A. ROBINSON, SMC
CITY CLERK
CITY OF ALISO VIEJO
Requested by City of Aliso Viejo

FILED THIS 16th DAY OF MARCH, 2005, AT THE HOUR OF 11:56 O'CLOCK P.M. IN THE BOOK 810 OF MAPS OF ASSESSMENT AND COMMUNITY FACILITIES DISTRICTS, PAGE 111 AND AS INSTRUMENT NO. 20050201463 IN THE OFFICE OF THE COUNTY RECORDER IN THE COUNTY OF ORANGE, STATE OF CALIFORNIA.

FEES: 9 Receipt

COUNTY CLERK/RECORDER
TOM DALY

BY Detlev Silla
DEPUTY COUNTY CLERK/RECORDER
COUNTY OF ORANGE
STATE OF CALIFORNIA

THE LINES AND DIMENSIONS OF EACH LOT OR PARCEL SHOWN ON THIS DIAGRAM SHALL BE THOSE LINES AND DIMENSIONS AS SHOWN ON THE ORANGE COUNTY ASSESSOR'S MAPS FOR THOSE PARCELS LISTED.

THE ORANGE COUNTY ASSESSOR'S MAPS SHALL GOVERN FOR ALL DETAILS CONCERNING THE LINES AND DIMENSIONS OF SUCH LOTS OR PARCELS.

MAP REF. NO.	ASSESSOR'S PARCEL NO.	ACRES
1	803-431-14	4.658
2	803-431-45	3.668
3	803-431-16	6.195
4	803-431-37	4.298
5	803-431-49	4.171
6	803-431-48	2.760
7	803-431-18	65.385
8	803-431-50	1.206
9	803-431-51	4.683



300' 150' 0' 300'
SCALE: 1" = 300'

Attachment 2
RATE & METHOD OF APPORTIONMENT
FOR CFD NO. 2005-01(GLENWOOD AT ALISO VIEJO)

**CITY OF ALISO VIEJO
COMMUNITY FACILITIES DISTRICT NO. 2005-01
(GLENWOOD AT ALISO VIEJO)**

MODIFIED RATE AND METHOD OF APPORTIONMENT

An Annual Special Tax shall be levied on all Taxable Property within the boundaries of City of Aliso Viejo Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) (“CFD No. 2005-01”) and collected each Fiscal Year commencing in Fiscal Year 2006-2007 according to the tax liability determined by the Council, through the application of this Modified Rate and Method of Apportionment of the Special Tax to the extent and in the manner herein provided.

1. Definitions

“**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, record of survey or other recorded document creating and describing such area of land. The square footage of an Assessor’s Parcel is equal to the Acreage of such parcel multiplied by 43,560 square feet.

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

“**Administrative Expenses**” means the actual or reasonably estimated costs directly related to the administration of CFD No 2005-01 including, but not limited to the following: the costs of computing the Special Taxes; the costs of preparing the Annual Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the City, the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, CFD No. 2005-01, or any designee thereof complying with arbitrage rebate requirements, including without limitation rebate liability costs and periodic rebate calculations; the costs to the City, CFD No. 2005-01, or any designee thereof complying with disclosure or reporting requirements of the City or CFD No. 2005-01 associated with applicable federal and State laws; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs to the City, CFD No. 2005-01, or any designee thereof related to an appeal of the Special Tax; and the City’s annual administration fees and third party expenses. Administrative Expenses shall also

include amounts estimated or advanced by the City or CFD No. 2005-01 for any other administrative purposes of CFD No. 2005-01, including attorney's fees and other costs related to commencing and pursuing any foreclosure of delinquent Special Taxes.

"Affordable Unit" means a residential unit classified as Land Use Class 1 that is either deed-restricted to maintain the affordability of the residential unit or, at the City's sole discretion, otherwise qualifies as affordable housing. A maximum of 43 Affordable Units will be classified as Exempt Property in accordance with Section 8 below. Any additional units (beyond 43) will be subject to the Special Tax and to mandatory prepayment of the Special Tax Obligation applicable to such Affordable Unit by the Property Owner prior to the issuance of a Certificate of Occupancy.

"Annual Special Tax" means any Special Tax levied within CFD No. 2005-01 pursuant to the Act and this Modified Rate and Method of Apportionment for any Fiscal Year.

"Annual Special Tax Requirement" means that amount required in any Fiscal Year to: (i) pay Debt Service; (ii) pay periodic costs on the Outstanding Bonds, including but not limited to, credit enhancement and rebate payments on the Outstanding Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) accumulate funds to pay directly for acquisition or construction of facilities, provided that the inclusion of such amount does not cause the Special Tax to be levied on Undeveloped Property, and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (vii) a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

"Assessor" means the Assessor of the County.

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

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

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

"Bonds" means any bonds or other indebtedness (as defined in the Act) of CFD No. 2005-01, whether in one or more series, secured by the levy of all or a portion of the Annual Special Taxes.

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

“CFD No. 2005-01” means the City of Aliso Viejo Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo).

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

“Certificate of Occupancy” means a permit issued by the City as a precondition to the occupancy of a residential dwelling unit.

“City” means the City of Aliso Viejo, California.

“Council” means the City Council of the City acting as the legislative body of the CFD under the Act.

“County” means the County of Orange, California.

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

“Developed Property” means for each Fiscal Year, all Taxable Property, exclusive of Property Owner Association Property or Public Property, for which a building permit for new construction or renovations was issued prior to March 1 of the previous Fiscal Year.

“Development Agreement” means the Development Agreement dated September 1, 2004 executed by the City, Aliso Viejo Golf Club Joint Venture and Aliso Viejo Commercial Property Joint Venture and Ordinance 2004-065 and Ordinance 2004-066 and the Assignment and Assumption of Development Agreement, Consent and Estoppel dated December 14, 2005 executed by the City, Aliso Viejo Golf Club Joint Venture, Aliso Viejo Commercial Property Joint Venture and Shea Homes Limited Partnership.

“Exempt Property” means Assessor’s Parcels designated as being exempt from Special Taxes pursuant to Section 8.

“Facilities” means facilities, fees or improvements authorized to be funded by CFD No. 2005-01.

“Final Subdivision” means a subdivision of property created by recordation of a final map or parcel map pursuant to the Subdivision Map Act (California Government

Code Section 66410 et seq.) or recordation of a condominium plan pursuant to California Civil Code 1352 or lot line adjustment that creates individual lots for which building permits may be issued without further subdivision.

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

“Golf Course Property” means any property within CFD No. 2005-01 that is used as a golf course, including but not limited to clubhouse, pro shop, parking, maintenance facilities and other golf-related amenities.

“Indenture” means the indenture, trust agreement, 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 and Table 2 under Section 3 below.

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

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

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

“Outstanding Bonds” mean all Bonds that are deemed to be outstanding under the Indenture.

“Property Owner” means a homebuilder or Golf Course Property developer.

“Property Owner Association Property” means any Assessor’s Parcel within the boundaries of CFD No. 2005-01 owned in fee by 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 Annual Special Tax is equal for all Assessor’s Parcels of Developed Property, or where the Backup Annual Special Tax is being levied, that the ratio of the actual Special Tax levy to the Maximum Annual Special Tax is equal for all Assessor’s Parcels upon which an Annual Backup Special Tax is being levied. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Annual Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property. The term "Proportionately" may

similarly be applied to other categories of Taxable Property as listed in Section 4 below.

“Provisional Taxable Property” means all Assessor’s Parcels of Public Property, Property Owner Association Property or property that would otherwise be classified as Exempt Property pursuant to the provisions of Section 8, but cannot be classified as Exempt Property because to do so would reduce the Acreage of all Taxable Property below the required minimum Acreage as set forth in Section 8.

“Public Property” means any property within the boundaries of CFD No. 2005-01, which is owned by, or irrevocably offered for dedication to, the federal government, the State of California, the County, the City or any other public agency; provided however that any property owned by a public agency and leased to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use. Public Property shall also include any property within CFD No. 2005-01 that is used or expected to be used for the Community Conference Center, Aquatics Center, the Public Park, the Public Parking Lot and Golf Drive as defined in the Development Agreement.

“Residential Floor Area” means all of the square footage of usable area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, or similar area. The determination of Residential Floor Area shall be made by reference to the livable space as identified on the building permit(s) issued for such Assessor’s Parcel or other data that may be furnished to the CFD Administrator by the Property Owner or City.

“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.

“Special Tax” means any special tax levied within CFD No. 2005-01 pursuant to the Act and this Modified Rate and Method of Apportionment.

“Special Tax Obligation” means the total obligation of an Assessor’s Parcel of Taxable Property to pay the Special Tax for the period described in Section 7 below.

“State” means the State of California.

“Taxable Property” means all of the Assessor's Parcels within the boundaries of CFD No. 2005-01, which are not exempt from the levy of the Special Tax pursuant to law or Section 8 below.

“Tract” means a group of Lots owned by the same Property Owner.

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

“Undeveloped Property” means, for each Fiscal Year, all Taxable Property within the boundaries of CFD No. 2005-01 not classified as Developed Property or Provisional Taxable Property.

“Zone 1” means all property located within CFD No. 2005-01 which is not located within Zone 2.

“Zone 2” means all property within CFD No. 2005-01 located within Assessor’s Parcel 623-431-38 (as designated on the County Assessor’s Roll for Fiscal Year 2006-2007).

2. Classification of Property within CFD No. 2005-01

Each Fiscal Year the CFD Administrator shall initially classify all property within the boundaries of CFD No. 2005-01 as Taxable Property or Exempt Property. Taxable Property within the boundaries of CFD No. 2005-01 shall be further classified as Developed Property, Provisional Taxable Property or Undeveloped Property, and all such Taxable Property shall be subject to the levy of Special Taxes in accordance with this Modified Rate and Method of Apportionment determined pursuant to Sections 3 and 4 below. Assessor’s Parcels of Developed Property shall be classified as Residential Property or Non-Residential Property. Assessor’s Parcels of Residential Property shall be further classified to its applicable Land Use Class based on its Residential Floor Area.

3. Maximum Annual Special Tax Rates

A. Developed Property

(i). Maximum Annual Special Tax

The Maximum Annual 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 Annual Special Tax or (ii) the amount derived by application of the Backup Annual Special Tax or the Revised Backup Annual Special Tax.

(ii). Assigned Annual Special Tax

(a) The Assigned Annual Special Tax for Residential Property is shown in Table 1 and Table 2 for the 2006-2007 Fiscal Year.

Table 1
Zone 1 Assigned Annual Special Tax Rates
Fiscal Year 2006-2007

Land Use Class	Description	Residential Floor Area	Fiscal Year 2006-2007 Assigned Annual Special Tax
1	Residential Property	Less than 1,901 Sq. Ft.	\$2,870 per unit
2	Residential Property	1,901 Sq. Ft. to 2,350 Sq. Ft.	\$4,150 per unit
3	Residential Property	2,351 Sq. Ft. to 2,800 Sq. Ft.	\$4,440 per unit
4	Residential Property	2,801 Sq. Ft. to 3,250 Sq. Ft.	\$5,115 per unit
5	Residential Property	3,251 Sq. Ft. to 3,700 Sq. Ft.	\$5,790 per unit
6	Residential Property	3,701 Sq. Ft. to 4,150 Sq. Ft.	\$5,880 per unit
7	Residential Property	4,151 Sq. Ft. to 4,600 Sq. Ft.	\$6,710 per unit
8	Residential Property	Greater than 4,600 Sq. Ft.	\$6,850 per unit

Table 2
Zone 2 Assigned Annual Special Tax Rates
Fiscal Year 2006-2007

Land Use Class	Description	Residential Floor Area	Fiscal Year 2006-2007 Assigned Annual Special Tax
1	Residential Property	Less than 1,901 Sq. Ft.	\$1,100 per unit
2	Residential Property	1,901 Sq. Ft. to 2,350 Sq. Ft.	\$1,200 per unit
3	Residential Property	2,351 Sq. Ft. to 2,800 Sq. Ft.	\$1,300 per unit
4	Residential Property	2,801 Sq. Ft. to 3,250 Sq. Ft.	\$2,000 per unit
5	Residential Property	3,251 Sq. Ft. to 3,700 Sq. Ft.	\$2,650 per unit
6	Residential Property	3,701 Sq. Ft. to 4,150 Sq. Ft.	\$2,800 per unit
7	Residential Property	4,151 Sq. Ft. to 4,600 Sq. Ft.	\$3,560 per unit
8	Residential Property	Greater than 4,600 Sq. Ft.	\$3,700 per unit

On July 1st of each Fiscal Year, commencing July 1, 2007, the Assigned Annual Special Tax for Residential Property shall increase by two-percent (2.0%) of the amount in effect in the prior Fiscal Year.

(b) The Maximum Annual Special Tax for Non-Residential Property shall be \$54,818 per Acre. On July 1st of each Fiscal Year, commencing July 1, 2007, the Maximum Annual Special Tax for Non-Residential Property shall increase by two-percent (2.0%) of the amount in effect in the prior Fiscal Year.

(iii). Multiple Land Use Classes

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

(iv). Backup Annual Special Tax

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

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

The terms above have the following meanings:

B = Backup Annual Special Tax per Assessor's Parcel for the applicable Fiscal Year.

Z = Maximum Annual Special Tax for Undeveloped Property for the applicable Fiscal Year per Acre as shown in Section 3.B.

A = Acreage of Taxable Property, excluding Provisional Taxable Property, in such Final Subdivision that lies within the boundaries of CFD No. 2005-01, as

determined by the CFD Administrator pursuant to Section 8.

T = Total number of Assessor's Parcels of for which building permits for residential construction have or may be issued within the Final Subdivision that lie within the boundaries of CFD No. 2005-01.

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

Except as provided below (and except for the 2% annual increase), once a Final Subdivision is recorded, the Backup Annual Special Tax for each Assessor's Parcel within such Final Subdivision shall be fixed and shall not be recalculated. Notwithstanding the foregoing, if Assessor's Parcels of Residential Property are subsequently changed or modified by recordation of a subsequent Final Subdivision, then the Backup Special Tax as previously determined will be applied to the unchanged Lots and a Revised Backup Special Tax shall be recalculated to equal the amount of the Backup Special Tax that would have been generated if such change did not take place and applied to the Lots that are part of the changed or modified area based on the following formula:

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

The terms above have the following meanings:

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

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

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

B. Undeveloped Property and Provisional Taxable Property.

The Maximum Annual Special Tax for Undeveloped Property and Provisional Taxable Property shall be \$62,910 per Acre for Fiscal Year 2006-2007. On July 1st of each Fiscal Year, commencing July 1, 2007, the Maximum Annual Special Tax for Undeveloped Property and Provisional Taxable Property shall increase by two-percent (2.0%) of the amount in effect in the prior Fiscal Year.

4. Method of Apportionment

For each Fiscal Year the Council shall determine the Annual Special Tax Requirement and levy the Special Tax, until the amount of Special Taxes equals the Annual Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

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

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

Third: If additional monies are needed to satisfy the Annual 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 Annual Special Tax is determined through the application of the Backup Annual Special Tax shall be increased in equal percentages from the Assigned Annual Special Tax up to 100% of the Maximum Annual Special Tax for each such Assessor's Parcel;

Fourth: If additional monies are needed to satisfy the Annual Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Provisional Taxable Property at up to 100% of the Maximum Annual Special Tax for Provisional Taxable Property.

Notwithstanding the above, under no circumstances shall the Annual Special Tax levied against any Assessor's Parcel of Residential Property for which a Certificate of

Occupancy has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2005-01.

5. Collection of Special Taxes

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

6. Prepayment of Special Tax Obligation

The Special Tax Obligation for any Assessor's Parcel may be prepaid in full and permanently satisfied at anytime or prepaid in part prior to the first conveyance to the initial home buyer, as described herein, provided that a prepayment may be made only if at the time of the prepayment there are no delinquent Special Taxes with respect to such Assessor's Parcel and all other Assessor's Parcels which are under the same ownership and located within the CFD. An owner of an Assessor's Parcel intending to prepay the Special Tax Obligation shall provide the CFD Administrator with written notice of intent to prepay and any fee required to calculate the prepayment. Within sixty (60) days of receipt of such written notice and fee payment, the CFD Administrator shall notify such owner of the prepayment amount for such Assessor's Parcel and the date through which the amount of such prepayment shall be valid.

A. Prepayment in Full

The "Prepayment" shall be an amount equal to the sum of (1) Principal, (2) Premium, (3) Defeasance, and (4) Fees, minus the Reserve Fund Credit, where the terms "Principal," "Premium," "Defeasance," "Fees," and "Reserve Fund Credit," have the following meanings:

"Principal" means the principal amount of Bonds to be redeemed from the proceeds of such Prepayment and equals the quotient derived by dividing (a) the applicable Maximum Annual Special Tax for the applicable Assessor's Parcel by (b) the projected aggregate Maximum Annual Special Taxes as determined by the CFD Administrator (and excluding from (b) any Special Taxes for Assessor's Parcels which have fully prepaid the Special Tax), and (c) multiplying the quotient by the principal amount of Outstanding Bonds as of the first interest and/or principal payment date following the then current Fiscal Year.

“Premium” means an amount equal to the Principal multiplied by the applicable redemption premium, if any, for the Bonds so redeemed with the proceeds of any such Prepayment.

“Defeasance” means an amount equal to the amount needed to pay interest on the Principal to be redeemed until the earliest redemption date as determined by the CFD Administrator for the Outstanding Bonds less the amount that is estimated by the CFD Administrator to be received from the reinvestment of the difference of the Prepayment and the Fees. Credit shall also be given for any Special Tax heretofore paid and which will not be needed for purposes of funding the then current Fiscal Year's Annual Special Tax Requirement.

“Unfunded Facilities” means an amount equal to the estimated cost of the unfunded public facilities allocable to the Assessor's Parcel for which the Prepayment is being calculated and is computed by multiplying the quotient calculated when determining Principal by \$34,790,000, less the estimated cost of any such facilities financed by previously issued Bonds. Unfunded Facilities shall equal zero following the issuance of all of the Bonds (i.e., all the authorized Bonds have been issued and/or CFD No. 2005-01 has covenanted not to issue any more Bonds, other than refunding bonds).

“Fees” equal the fees and expenses of CFD No. 2005-01 related to the Prepayment, including but not limited to City Administration Expenses, publishing fees, and bond call fees.

“Reserve Fund Credit” shall equal the lesser of (i) the expected reduction in the applicable reserve fund requirement (as defined in the Indenture), if any, following the redemption of Bonds from proceeds of the Prepayment or (ii) the amount derived by subtracting the new reserve fund requirement in effect after the redemption of Bonds from the balance in the reserve fund (as such term is defined in the Indenture) on the prepayment date, but in no event shall such amount be less than zero.

The sum of the amounts calculated in the preceding steps shall be paid to CFD No. 2005-01 and shall be used to pay and redeem Bonds in accordance with the Indenture and to pay the Fees. Upon receipt of such Prepayment by CFD No. 2005-01, the obligation to pay the Special Tax for such Assessor's Parcel shall be deemed to be permanently satisfied, the Special Tax shall not be levied thereafter on such Assessor's Parcel, and the CFD Administrator shall cause notice of cancellation of the Special Tax for such Assessor's Parcel to be recorded within 30 working days of receipt of the Prepayment.

Notwithstanding the foregoing, no prepayment shall be allowed unless the amount of Special Taxes that may be levied pursuant to this Modified Rate and Method of Apportionment after the proposed prepayment is at least the sum of (i) the estimated Administrative Expenses, based on the average annual Administrative Expenses to date, and (ii) one hundred ten percent (110%) of the maximum annual debt service for the Bonds, taking into account the Bonds to remain outstanding after such prepayment.

B. Prepayment in Part

The Special Tax on all Lots within a Tract of Developed Property or Undeveloped Property for which building permits have been issued may be partially prepaid prior to the conveyance of each Lot to the initial home buyer. The Prepayment shall be calculated as in Section 6.A.; except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meanings:

PP = the partial prepayment

P_E = the Prepayment calculated according to Section 6.A.

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

The Property Owner of any Tract who desires such prepayment shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Special Tax, (ii) the percentage by which the Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if any. The CFD Administrator shall provide the Property Owner with a statement of the amount required for the partial prepayment of the Special Tax for each Lot within the Tract within sixty (60) days of the request and may charge a reasonable fee for providing this service.

With respect to any Assessor's Parcel or Lot that is partially prepaid, the City shall (i) distribute the funds remitted to it according to Section 6.A., and (ii) indicate in the records of CFD No. 2005-01 that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor's Parcel or Lot, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Annual Special Tax, shall continue to be levied on such Assessor's Parcel or Lot pursuant to Section 3.

7. Term of Annual Special Tax

The Annual Special Tax shall be levied for a period not to exceed 40 years commencing with Fiscal Year 2006-2007.

8. Exemptions

A maximum of 43 Affordable Units are exempt from the Special Tax. If, in any Fiscal Year, the CFD Administrator identifies a total number of Affordable Units within CFD No. 2005-01 greater than 43, the Property Owner of the additional Affordable Units will be required to prepay the Special Tax Obligation on such Affordable Units prior to issuance of a Certificate of Occupancy.

The CFD Administrator shall classify as Exempt Property (i) Assessor's Parcels of Public Property, (ii) Assessor's Parcels of Property Owner Association Property, (iii) Assessor's Parcels of Golf Course Property, (iv) Assessor's Parcels with public utility easement making impractical the utilization thereof for purposes other than those permitted in such easement, or (v) as determined reasonably by the CFD Administrator, provided that no such classification would reduce the sum of all Taxable Property in CFD No. 2005-01 to less than 42.32 acres of Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the sum of all Taxable Property in CFD No. 2005-01 to less than 42.32 acres of Acreage be classified as Provisional Taxable Property, and will continue to be subject to the CFD No. 2005-01 Special Taxes accordingly. Exempt Property status for the purpose of this paragraph will be assigned by the CFD Administrator in the chronological order in which property becomes eligible for classification as Exempt Property.

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

If the use of an Assessor's Parcel of Exempt Property changes so that such Assessor's Parcel is no longer classified as one of the uses set forth in the first paragraph of Section 8 above that would make such Assessor's Parcel eligible to be classified as Exempt Property, such Assessor's Parcel shall cease to be classified as Exempt Property and shall be deemed to be Taxable Property.

9. Appeals

Any landowner or resident who pays the Annual Special Tax and believes that the amount of the Annual Special Tax levied on his or her Assessor's Parcel is in error shall first consult with the CFD Administrator regarding such error. If following such consultation, the CFD Administrator determines that an error has occurred, the CFD Administrator may amend the amount of the Annual Special Tax levied on such Assessor's Parcel. If following such consultation and action, if any by the CFD Administrator, the landowner or resident believes such error still exists, such person may file a written notice with the City Clerk of the City appealing the amount of the Annual Special Tax levied on such Assessor's Parcel. Upon the receipt of any such notice, the City Clerk shall forward a copy of such notice to the City Manager or designee, who may establish such procedures as deemed necessary to undertake the review of any such appeal. The City Manager or designee thereof shall interpret this Modified Rate and Method of Apportionment and make determinations relative to the administration of the Annual Special Tax and any landowner or resident appeals as herein specified. The decision of the City Manager or designee shall be final and binding as to all persons.

Attachment 3
FISCAL YEAR 2007/08 SPECIAL TAX ROLL

Assessor Parcel No.	Zone	Units	FY 2007/08 Maximum Tax Rate	FY 2007/08 Applied Tax Rate
623-431-67	1	15	\$43,911.00	\$43,911.00
623-432-14	1	1	5,997.60	5,997.60
623-432-13	1	1	5,997.60	5,997.60
623-432-12	1	1	5,905.80	5,905.80
		Total		\$61,812.00