

*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 more fully herein, 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. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. See “TAX MATTERS” herein.*

County of Riverside

State of California

**\$4,075,000**  
**CITY OF MORENO VALLEY**  
**COMMUNITY FACILITIES DISTRICT NO. 87-1 (TOWNGATE)**  
**IMPROVEMENT AREA NO. 1**  
**SPECIAL TAX REFUNDING BONDS**

**Dated: Date of Delivery****Due: October 1, as shown on inside cover**

The City of Moreno Valley Community Facilities District No. 87-1 (Towngate), Improvement Area No. 1 Special Tax Refunding Bonds (the “Bonds”) are being issued and delivered to (i) refund the \$5,000,000 City of Moreno Valley Towngate Community Facilities District No. 87-1, Improvement Area No. 1 Special Tax Bonds currently outstanding in the principal amount of \$3,810,000 (the “Prior Bonds”), (ii) fund the reserve requirement for the Bonds, and (iii) pay the costs related to the issuance of the Bonds. Community Facilities District No. 87-1 (Towngate), City of Moreno Valley, County of Riverside, State of California (the “District”) was formed and Improvement Area No. 1 therein was designated by the City of Moreno Valley (the “City”) and is located in the City of Moreno Valley, Riverside County, California.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California), and are being issued pursuant to that certain Bond Indenture, dated as of October 1, 2007 (the “Indenture”), by and between the District and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The Bonds are special obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) levied on and collected from the owners of the taxable property within the District and from certain other funds pledged under the Indenture, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the qualified electors within the District. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes” herein.

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. See APPENDIX E—“DTC AND THE BOOK-ENTRY SYSTEM” herein.

Principal of, premium, if any, and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Bonds. See “THE BONDS—Description of the Bonds” and APPENDIX E—“DTC AND THE BOOK-ENTRY SYSTEM” herein.

Interest on the Bonds is payable on April 1 and October 1 of each year, commencing April 1, 2008.

Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are special limited obligations of the District payable solely from Net Taxes and certain other amounts held under the Indenture as more fully described herein.

The Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking fund redemption prior to maturity as described herein. See “THE BONDS—Redemption” herein.

**CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WHEN DUE. THE PURCHASE OF THE BONDS INVOLVES SIGNIFICANT INVESTMENT RISKS, AND THE BONDS ARE NOT 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 BONDS.**

This cover page contains certain information for general reference only. It is not a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Bonds.

**MATURITY SCHEDULE**  
(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the Underwriter by its counsel, Best Best & Krieger LLP and for the City, the Community Redevelopment Agency of the City of Moreno Valley and the District by Robert D. Herrick, Moreno Valley, California, City Attorney and General Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about November 29, 2007.



## \$4,075,000 BONDS

Base CUSIP<sup>®†</sup> No.: 616865

<i><b>Maturity Date October 1</b></i>	<i><b>Principal Amount</b></i>	<i><b>Interest Rate</b></i>	<i><b>Yield</b></i>	<i><b>CUSIP<sup>†</sup> No.</b></i>	<i><b>Maturity Date October 1</b></i>	<i><b>Principal Amount</b></i>	<i><b>Interest Rate</b></i>	<i><b>Yield</b></i>	<i><b>CUSIP<sup>†</sup> No.</b></i>
2008	\$220,000	3.750%	3.75%	DM0	2016	\$250,000	4.375%	4.65%	DV0
2009	190,000	3.900	3.90	DN8	2017	260,000	4.500	4.75	DW8
2010	195,000	4.050	4.05	DP3	2018	275,000	4.600	4.80	DX6
2011	205,000	4.150	4.15	DQ1	2019	290,000	4.700	4.85	DY4
2012	210,000	4.000	4.25	DR9	2020	300,000	4.700	4.90	DZ1
2013	220,000	4.100	4.35	DS7	2021	315,000	4.750	4.95	EA5
2014	230,000	4.200	4.45	DT5	2022	330,000	4.800	5.00	EB3
2015	240,000	4.250	4.55	DU2	2023	345,000	4.875	5.05	EC1

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**CITY OF MORENO VALLEY  
COUNTY OF RIVERSIDE  
STATE OF CALIFORNIA**

**CITY COUNCIL**

Charles R. White, Mayor  
William H. Batey II, Mayor Pro Tem  
Bonnie Flickinger, Council Member  
Richard A. Stewart, Council Member  
Frank West, Council Member

**CITY OFFICIALS**

Robert G. Gutierrez, City Manager  
Robert D. Herrick, City Attorney  
Rick C. Hartmann, Deputy City Manager  
Steven M. Chapman, Finance Director/City Treasurer  
Chris A. Vogt, P.E., Public Works Director/City Engineer  
Sue Maxinoski, Special Districts Manager  
Barry Foster, Economic Development Director  
Mitch Slagerman, Redevelopment Manager  
Alice Reed, City Clerk

**BOND COUNSEL**

Stradling Yocca Carlson & Rauth  
Newport Beach, California

**FINANCIAL ADVISOR**

Ross Financial  
San Francisco, California

**VERIFICATION AGENT**

Grant Thornton, LLP  
Minneapolis, Minnesota

**TRUSTEE**

Wells Fargo Bank, National Association  
Los Angeles, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by the City and the District. No dealer, broker, salesperson or other person has been authorized by the City, the District, the Trustee or the Underwriter to give any information or to make any representations in connection with the offer or sale of the 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 City, the District, 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 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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 and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with a nationally recognized municipal securities depository.

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 City or the District. 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 City or the District 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 City for further information in connection therewith.

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.

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 District does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.**

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# INLAND EMPIRE



**\$4,075,000**  
**CITY OF MORENO VALLEY**  
**COMMUNITY FACILITIES DISTRICT NO. 87-1 (TOWNGATE)**  
**IMPROVEMENT AREA NO. 1**  
**SPECIAL TAX REFUNDING BONDS**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance of the \$4,075,000 City of Moreno Valley Community Facilities District No. 87-1 (Towngate), Improvement Area No. 1 Special Tax Refunding Bonds (the “Bonds”). The proceeds of the Bonds will be used to: (i) refund the \$5,000,000 City of Moreno Valley Towngate Community Facilities District No. 87-1, Improvement Area No. 1 Special Tax Bonds, dated as of April 1, 1993, currently outstanding in the principal amount of \$3,810,000 (the “Prior Bonds”), (ii) fund the reserve requirement for the Bonds, and (iii) pay the costs related to the issuance of the Bonds.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and are being issued pursuant to a Bond Indenture by and between Community Facilities District No. 87-1 (Towngate) of the City of Moreno Valley, County of Riverside, State of California (the “District”) and Wells Fargo Bank, National Association (the “Trustee”), dated as of October 1, 2007 (the “Indenture”). The Bonds are secured under the Indenture by a pledge of and lien upon Net Taxes (as defined therein) and all moneys on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account therein).

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 this entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of the Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined herein shall have the meanings set forth in APPENDIX B—“SUMMARY OF THE INDENTURE” herein.

**The District; Prior Bonds; Refunding Plan**

Under the Mello-Roos Community Facilities Act of 1982, as amended (constituting Section 53300 *et seq.* the California Government Code) (the “Act”), the City Council, as governing board of the City (“Governing Body”) is authorized to establish a community facilities district and act as the legislative body for the district. Subject to approval by a two-thirds vote of the qualified electors voting, and compliance with the applicable provisions of the Act, the Governing Board may authorize the issuance of bonds and the levy and collection of a special tax within such a district to repay the bonds and to pay for certain services permitted under the Act. A rate and method of apportionment of special tax (the “Rate and Method”) was approved governing the levy of Special Taxes within Improvement Area No. 1 (“Improvement Area No. 1” or the “Improvement Area”). See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

On March 23, 1993, the City Council, acting as the Governing Body of the District, adopted Resolution No. 93-16 authorizing the issuance of the Prior Bonds. The District subsequently issued the Prior Bonds pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, constituting Sections 53311 *et seq.* of the California Government Code (the “Act”). Proceeds of the Prior Bonds were used to finance public infrastructure improvements and detention basin land acquisition. Construction or installation of all facilities financed by the Prior Bonds has been completed.

The proceeds of the Bonds, together with certain other available moneys, are being used to refund the Prior Bonds, to fund a debt service reserve account for the Bonds and to pay certain costs of issuing the Bonds.

The boundaries of the Improvement Area presently encompass a total of approximately 144.74 acres and approximately 143.49 net taxable acres as follows: (i) "Tax Rate Area 1," which includes approximately 80.15 assessable acres of private development property; and (ii) "Tax Rate Area 2," which includes approximately 63.34 assessable acres of private development property. See discussion under the heading "THE COMMUNITY FACILITIES DISTRICT AND THE IMPROVEMENT AREA—The District; the Improvement Area" and "—Location" herein.

By the adoption of Resolution No. 2007-120 on October 23, 2007, the Governing Board authorized the issuance of the Bonds to refund the Prior Bonds.

### **Taxable Property Values**

As of January 1, 2007 (the most recent date for which assessed values are available), the secured and unsecured assessed value for real taxable property within the Improvement Area was \$143,889,809 (the "Assessed Value"). The relationship among the assessed value, special taxes within the Improvement Area, the Bonds and scheduled annual debt service is discussed herein under the headings "THE COMMUNITY FACILITIES DISTRICT AND THE IMPROVEMENT AREA—Estimated Assessed Debt Service Coverage" and "—Estimated Assessed Value-to-Lien Ratios."

### **The City**

The City of Moreno Valley (the "City") encompasses approximately 50.6 square miles. As of January 1, 2007, the City had a population of approximately 180,466. The City is located approximately 65 miles east of the City of Los Angeles, in proximity to California Route 60 and Interstate 215. Incorporated on December 3, 1984, the City operates as a general law city under California law. The City has a council-manager form of government, with the Mayor and four Council members elected by district for overlapping four-year terms. The City Council acts as the governing board of the Community Redevelopment Agency of the City of Moreno Valley (the "Agency").

### **Sources of Payment for the Bonds**

As used in this Official Statement, the term "Special Tax" is that tax which has been authorized pursuant to the Act to be levied against taxable property within the Improvement Area pursuant to the Act and in accordance with the Rate and Method. See APPENDIX A—"RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." Under the Indenture, the District has pledged to repay the Bonds from Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the "Net Taxes") and from amounts on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account therein) established under the Indenture.

The Net Taxes are the primary security for the repayment of the Bonds. In the event that the Net Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Trustee in certain funds under the Indenture, including amounts held in the Reserve Account therein and such amounts, if any, as shall have been received from the Agency. See "SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund" herein.

The Bonds are special obligations of the District payable (after payment of administrative expenses up to the Administrative Expense Cap) solely from, and secured by a pledge of and lien upon, the annual Net Taxes (as defined below) authorized by the Act to be levied by the City on land within the Improvement Area and collected within the Improvement Area, proceeds from the sale of property collected pursuant to the foreclosure provisions of the Act and the Indenture for the delinquency of such Special Taxes, certain



payments from the Agency (if any) as described under “SOURCES OF PAYMENT FOR THE BONDS—Possibility of Agency Payments; No Prior Agency Payments,” and certain funds and accounts established under the Indenture. Administrative Expenses are expected to be \$30,000 for the Fiscal Year commencing July 1, 2007, which amount shall be increased each Fiscal Year by two percent (2%) of the amount of the administrative expenses for the preceding Fiscal Year.

The Bonds, the interest thereon, and any premiums payable on the redemption of any thereof, are not an indebtedness of the District, the City, the State or any of its political subdivisions, and neither the District, the City, the State nor any of its political subdivisions is liable on the Bonds, nor in any event shall said Bonds or interest be payable out of any funds or properties other than those of the District as set forth in the Indenture. Neither the Governing Board of the District or the City Council of the City, nor the officials, employees and agents of the District or the City, nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

**Foreclosure Proceedings.** The District has covenanted for the benefit of the owners of the Bonds that it will commence, and diligently pursue to completion, judicial foreclosure proceedings against Assessor’s parcels with delinquent Special Taxes in excess of \$1,000 by the December 1 following the close of the fiscal year in which such Special Taxes were due, and it will commence and diligently pursue to completion judicial foreclosure proceedings against all Assessor’s parcels with delinquent Special Taxes by the December 1 following the close of any fiscal year in which it receives Special Taxes in an amount which is less than 90% of the total Special Tax levied for the fiscal year, and will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes.” See discussion also under the headings “THE COMMUNITY FACILITIES DISTRICT AND THE IMPROVEMENT AREA—Direct and Overlapping Debt” and “—Estimated Assessed Value-to-Lien Ratios” herein. There is no assurance that the property within the Improvement Area can be sold for the assessed values described herein or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current or future landowners within the Improvement Area. See “SPECIAL RISK FACTORS—Property Values” herein.

**EXCEPT FOR THE NET TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES, CERTAIN AMOUNTS HELD UNDER THE INDENTURE, AS MORE FULLY DESCRIBED HEREIN.**

### **Description of the Bonds**

The Bonds in the aggregate principal amount of \$5,000,000 are authorized to be issued by the District under and subject to the terms of the Indenture, the Act and other applicable laws of the State of California. The Bonds will be issued as fully registered bonds, without coupons, in book-entry form in the denominations of \$5,000 or any integral multiple thereof.

**Payments.** Interest on the Bonds accrues from the date of delivery of the Bonds at the rates set forth on the inside cover page hereto, and is payable semi-annually on each April 1 and October 1, commencing April 1, 2008. The principal amount of the Bonds is payable at maturity upon surrender of the Bonds for payment.

**Registration.** The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Bonds (the “Beneficial Owners”) in the denominations set forth on the cover page hereof, under the book-entry only system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See APPENDIX E—“DTC AND THE BOOK-ENTRY SYSTEM” herein.

**Redemption.** The Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking fund redemption prior to maturity. See discussion under the heading “THE BONDS—Redemption” herein.

The District will permit property owners to discharge their Special Tax obligation by paying off such obligation in cash as described in APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

### **Tax Matters**

In the opinion of Bond Counsel, under existing law, the interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with certain covenants set forth in the Indenture described herein, is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Set forth in Appendix D is the form of opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain tax consequences incident to the ownership of the Bonds, see “TAX MATTERS” herein.

### **Professionals Involved in the Offering**

Wells Fargo Bank, National Association, Los Angeles, California, will act as Trustee under the Indenture and as Escrow Bank under the Escrow Agreement. Wells Fargo Bank, National Association will act as the initial Dissemination Agent under the Continuing Disclosure Agreement to be executed by the District. The legal proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed on for the City, the Agency and the District by Robert D. Herrick, General Counsel. Other professional services have been performed by Ross Financial, San Francisco, California, as Financial Advisor and Grant Thornton, LLP, as Verification Agent.

For information concerning respects in which certain of the above-mentioned professionals, advisors, counsel and agents may have a financial or other interest in the offering of the Bonds, see discussion under the heading “FINANCIAL INTERESTS” herein.

### **Continuing Disclosure**

The District has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain financial information and operating data on an annual basis. The District has further agreed to provide, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5). See discussion under the heading “CONTINUING DISCLOSURE” herein, Appendix C hereto for a description of the specific nature of the annual reports to be filed by the District and notices of material events and a copy of the continuing disclosure agreements pursuant to which such annual reports are to be made. The District has never failed to comply with Rule 15c2-12 in any of its previous undertakings.

### **Bond Owners’ Risks**

Certain events could affect the timely repayment of the principal of and interest on the Bonds when due. See the section of this Official Statement entitled “SPECIAL RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds.

## **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Brief descriptions of the Bonds and the Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Bonds and the constitution and laws of the State as well as the proceedings of the Governing Board, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Indenture. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

Copies of the Indenture, the Continuing Disclosure Agreement, the Escrow Agreement and other documents and information referred to herein are available for inspection and (upon request and payment to the District of a charge for copying, mailing and handling) for delivery from the City at 14177 Frederick Street, Moreno Valley, California 92552-0805, Attention: Executive Director.

## **Changes Since Date of Preliminary Official Statement**

This Official Statement includes changes since the date of the Preliminary Official Statement as follows: (i) at Table 4, the numbers appearing under the headings “Debt Service Allocable to Tax Rate Area 1,” “Debt Service Allocable to Tax Rate Area 2,” “Debt Service Coverage as Percentage, Tax Rate Area 1” and “Debt Service Coverage as Percentage, Tax Rate Area 2” have been modified to reflect final pricing of the Bonds; and (ii) at Table 7, footnotes 2 and 4 and numbers appearing under the headings “Proportionate Amount of Bonds, Corresponding Tax Rate Area,” “Estimated Value-to-Lien Ratio, Tax Rate Area,” “Allocated Amount of Towngate Bonds” and “Estimated Combined Value-to-Lien Ratio” have been modified to reflect final pricing of the Towngate Refunding Bonds and the Bonds, and footnote 2 has been revised to reflect final pricing of the Towngate Refunding Bonds, which refund the 1994A Bonds and the 1994B Bonds.

## **REFUNDING PLAN**

The Bonds are being issued to (i) refund the Prior Bonds currently outstanding in the aggregate principal amount of \$3,810,000, (ii) fund the Reserve Account in an amount equal to the Reserve Requirement, and (iii) pay costs of issuance.

Pursuant to an Escrow Agreement, dated as of October 1, 2007 (the “Escrow Agreement”), by and between the City, on behalf of the District, and Wells Fargo Bank, National Association, as Escrow Bank (the “Escrow Bank”), a portion of the proceeds of the Bonds together with funds held by the trustee for the Prior Bonds shall be deposited into the Escrow Fund established thereunder. Moneys in the Escrow Fund, together with interest earnings thereon, will be in an amount necessary to pay when due the regularly scheduled principal of and interest on the Prior Bonds through April 1, 2008, and on April 1, 2008 pay the redemption price of the remaining outstanding principal amount of the Prior Bonds. Moneys on deposit in the Escrow Fund will be invested by the Escrow Bank in Federal Securities or held uninvested in cash, all as further provided in the Escrow Agreement. Upon the issuance of the Bonds, Grant Thornton, LLP, will deliver a report verifying the sufficiency of the moneys deposited in the Escrow Fund. See discussion under the heading “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein.

## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected uses of Bond proceeds:

	<i><b>Bonds</b></i>
<u>Sources of Funds</u>	
Principal Amount of Bonds	\$ 4,075,000.00
Net Original Issue Discount	57,154.05
Transferred Moneys <sup>(1)</sup>	<u>410,245.31</u>
TOTAL SOURCES	<u>\$ 4,428,091.26</u>
 <u>Uses of Funds</u>	
Escrow Fund	\$ 3,894,275.75
Reserve Account	370,986.37
Costs of Issuance <sup>(2)</sup>	<u>162,829.14</u>
TOTAL USES	<u>\$ 4,428,091.26</u>

<sup>(1)</sup> Funds transferred with respect to the Prior Bonds.

<sup>(2)</sup> Includes legal fees, Underwriter's Discount, Trustee fees, financial advisor fees, costs of printing and rounding amount.

## THE BONDS

### Description of the Bonds

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of DTC. Interest, principal and premium, if any, on the Bonds is payable by the Trustee to DTC. DTC is responsible for disbursing such payments to the Beneficial Owners in accordance with the DTC book-entry only system. See APPENDIX E—"DTC AND THE BOOK-ENTRY SYSTEM" attached hereto.

Interest on the Bonds accrues from the date of delivery of the Bonds, and is payable semi-annually on April 1 and October 1 of each year (each an "Interest Payment Date"), commencing April 1, 2008, at the annual interest rates shown on the inside cover of this Official Statement. The Bonds are issuable in denominations of \$5,000 or any integral multiple thereof. Interest will accrue on the Bonds on the basis of a 360-day year comprised of twelve 30-day months. See the Maturity Schedule on the inside cover and discussion under the heading "THE BONDS—Debt Service Schedule for the Bonds" herein.

Interest on any Bond will be paid to the person whose name appears as its owner in the registration books held by the Trustee on the close of business on the Record Date. Interest will be paid by check of the Trustee mailed on each Interest Payment Date by first class mail, postage prepaid, to the Bondowner at its address on the registration books. Pursuant to a written request prior to the Record Date of a Bondowner of at least \$1,000,000 in aggregate principal amount of Bonds, payment will be made by wire transfer in immediately available funds to a designated account in the United States. Principal of the Bonds and any premium due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee in Los Angeles, California.

The Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking fund redemption as described herein. For a more complete description of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see "THE BONDS" and APPENDIX B—"SUMMARY OF THE INDENTURE" herein.

### Redemption

**Optional Redemption.** The Bonds shall be subject to optional redemption, in whole or in part by lot from such maturities as are selected by the District, on any date on or after April 1, 2008, at the option of the

District, from any source of funds, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
April 1, 2008 through September 30, 2015	103%
October 1, 2015 through September 30, 2016	102
October 1, 2016 through September 30, 2017	101
October 1, 2017 and thereafter	100

Bonds will be deemed to consist of \$5,000 portions, and any such portion may be separately redeemed.

***Extraordinary Mandatory Redemption.*** The Bonds are subject to extraordinary redemption as a whole, or in part on a pro rata basis among maturities, on any Interest Payment Date, and will be redeemed by the Trustee, from prepayments of Special Taxes deposited to the Redemption Account plus amounts transferred from the Reserve Account (see “SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund”), at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
April 1, 2008 through September 30, 2015	103%
October 1, 2015 through September 30, 2016	102
October 1, 2016 through September 30, 2017	101
October 1, 2017 and thereafter	100

The Rate and Method permits landowners within the Improvement Area to prepay all or a portion of their Special Tax obligation under certain circumstances. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES—Prepayment and Satisfaction of Special Tax Obligation.”

***Notice of Redemption.*** So long as the Bonds are held in book-entry form, notice of redemption will be mailed by the Trustee to DTC and not to the Beneficial Owners of the Bonds under the DTC book-entry only system. Neither the District nor the Trustee is responsible for notifying the Beneficial Owners, who are to be notified in accordance with the procedures in effect for the DTC book-entry system. See APPENDIX E—“DTC AND THE BOOK-ENTRY SYSTEM” herein. The Trustee is obligated to mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the respective registered Owners of the Bonds at the addresses appearing on the Bond registration books. The notice of redemption must: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds are to be redeemed; (v) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (vi) state the date of issue of the Bonds as originally issued; (vii) state the rate of interest borne by each Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Trustee.

So long as notice by first class mail has been provided as set forth above, the actual receipt by the Owner of any Bond of notice of such redemption is not a condition precedent to redemption, and failure to receive such notice will not affect the validity of the proceedings for redemption of such Bonds or the cessation of interest on the date fixed for redemption.

With respect to any notice of optional redemption of Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be

redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

***Effect of Redemption.*** When notice of redemption has been given, and when the amount necessary for the redemption of the Bonds called for redemption is set aside for that purpose in the Redemption Account or the Principal Account, the Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the Bonds at the place specified in the notice of redemption, and no interest will accrue on the Bonds called for redemption from and after the redemption date, and the Owners of the redeemed Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such Bonds or portions of Bonds only to the Redemption Account or the Principal Account, as applicable, and shall have no rights, except with respect to the payment of the redemption price from the Redemption Account.

### **Registration, Transfer and Exchange**

***Registration.*** The Trustee will keep sufficient books for the registration and transfer of the Bonds. The ownership of the Bonds will be established by the Bond registration books held by the Trustee.

***Transfer or Exchange.*** Whenever any Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount of authorized denominations; provided that the Trustee will not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding the date of any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

**Debt Service Schedule for the Bonds**

The following is the scheduled debt service for the Bonds. However, it should be noted that the Rate and Method allows prepayment of the Special Taxes in full or in part which may result in extraordinary mandatory redemption of the Bonds. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes” and “THE BONDS—Redemption—Extraordinary Mandatory Redemption.”

<i>Year Ending (October 1)</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Annual Debt Service</i>
2008	\$ 220,000	\$ 150,986.37	\$ 370,986.37
2009	190,000	171,733.76	361,733.76
2010	195,000	164,323.76	359,323.76
2011	205,000	156,426.26	361,426.26
2012	210,000	147,918.76	357,918.76
2013	220,000	139,518.76	359,518.76
2014	230,000	130,498.76	360,498.76
2015	240,000	120,838.76	360,838.76
2016	250,000	110,638.76	360,638.76
2017	260,000	99,701.26	359,701.26
2018	275,000	88,001.26	363,001.26
2019	290,000	75,351.26	365,351.26
2020	300,000	61,721.26	361,721.26
2021	315,000	47,621.26	362,621.26
2022	330,000	32,658.76	362,658.76
2023	345,000	16,818.76	361,818.76
<b>TOTAL</b>	<u>\$ 4,075,000</u>	<u>\$ 1,714,757.77</u>	<u>\$ 5,789,757.77</u>

**SOURCES OF PAYMENT FOR THE BONDS**

**Limited Obligations**

The Bonds are special, limited obligations of the District payable only from amounts pledged under the Indenture and from no other sources.

The Net Taxes are the primary security for the repayment of the Bonds under the Indenture. Under the Indenture, the District has pledged to repay the Bonds from the Net Taxes (which are Special Tax revenues remaining after the payment of annual Administrative Expenses) and amounts on deposit in the Special Tax Fund (other than amounts held in the Administrative Expense Account therein). Special Tax revenues include the proceeds of the Special Taxes received by the District, including any scheduled payments thereof, the net proceeds from the redemption of delinquent Special Taxes or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien, and penalties and interest thereon.

In the event that the Special Tax revenues are not received when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expenses Account therein), including amounts held in the Reserve Account therein, for the exclusive benefit of the Owners of the Bonds.

**NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL**

**TAXES AND OTHER AMOUNTS PLEDGED UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN.**

**Special Taxes**

*Authorization and Pledge.* The incurring of up to \$21,000,000 of indebtedness the District was initially approved by qualified voters with the District in 1987. Subsequently, in 1993, voters within the Improvement Area approved the issuance by the District of special tax bonds for the Improvement Area, in addition to previously issued District bonds, of up to \$5,000,000. See discussion under the heading “THE COMMUNITY FACILITIES DISTRICT AND THE IMPROVEMENT AREA—Summary of Proceedings for the District and the Improvement Area.”

In connection with the issuance of the Bonds, the District has covenanted in the Indenture that each year it will levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on any Outstanding Bonds to which the Special Taxes are pledged, to replenish the Reserve Account and to pay the estimated Administrative Expenses.

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” hereto. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Outstanding Bonds when due. See discussion under the heading “SPECIAL RISK FACTORS—Insufficiency of Special Taxes” herein.

*Rate and Method of Apportionment of Special Tax.* All capitalized terms used in this section shall have the meaning set forth in Appendix A.

The Special Tax will be levied on and collected from each taxable parcel in the Improvement Area subject to the Special Tax as set forth in the Rate and Method, the complete text of which is contained in APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” Special Taxes are to be levied under the Rate and Method each fiscal year on all non-exempt taxable property and when collected will be used to pay Bond principal and interest, administrative costs, and to replenish the Reserve Account. Special Taxes will be calculated each year and the amount levied on each parcel will be dependent on the amount of Bonds Outstanding and the cost of administration of the District.

Under the Rate and Method, the maximum amount of Special Taxes applicable is \$4,450 per “Taxable Acre” (as defined in APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX”) for Tax Rate Area 1 and \$3,850 per Taxable Acre for Tax Rate Area 2. As of July 1, 2007, there are approximately 80.15 Taxable Acres in Tax Rate Area 1 and approximately 63.34 Taxable Acres in Tax Rate Area 2. If the maximum tax rate for Tax Rate Area 1 were applied to all taxable property within Tax Rate Area 1, the total Special Taxes levied thereunder would be \$356,667. If the maximum tax rate for Tax Rate Area 2 were applied to all taxable property within the Tax Rate Area 2, the total Special Taxes levied thereunder would be \$243,859. There is no escalator clause for the Improvement Area Special Tax Rates. The Tax Rate Area 1 Special Tax Requirement will be 59% of the annual Special Tax Requirement and the Tax Rate Area 2 Special Tax Requirement will be 41% of such requirement. Under the Rate and Method, Special Taxes from Tax Rate Area 1 are not available for the payment of Tax Rate Area 2 Special Taxes, and Special Taxes from Tax Rate Area 2 are not available for the payment of Tax Rate Area 1 Special Taxes.

Each year the Governing Board shall determine the total Special Tax to be levied and collected for the current fiscal year including, but not limited to, the amounts required to pay for debt service on any indebtedness, replenish the Reserve Account as necessary, and pay incidental or administrative expenses incurred by the District.



The Special Taxes and any penalties thereon constitute a lien against the lots and parcels of land within the Improvement Area, which will be annually imposed until they are paid. Such lien is on parity with all special taxes and special assessments and is co-equal to and independent of the lien for general property taxes, regardless of when the taxes are imposed upon the same property. *The Special Taxes have priority over all existing and future private liens imposed on the property within the Improvement Area.* Although the Special Taxes constitute liens on taxed parcels within the Improvement Area, they do not constitute a personal indebtedness of the owners of property within the Improvement Area. There is no assurance that the owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. See “SPECIAL RISK FACTORS” herein. With certain limitations, the City has covenanted to commence foreclosure proceedings in the event delinquencies occur.

***Net Revenue Pledge.*** All Special Taxes levied under the Rate and Method on Taxable Property within the Improvement Area (including any property later annexed into the Improvement Area) remaining after payment of Administrative Expenses each year are pledged on a parity as security for payment of all Outstanding Bonds. See APPENDIX B—“SUMMARY OF THE INDENTURE.”

***Collection and Application of Special Taxes.*** The Special Taxes on all Taxable Property are levied and collected by the Treasurer-Tax Collector of Riverside County (the “County”) in the same manner and at the same time as *ad valorem* property taxes. The District may, however, collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

Under the terms of the Indenture, all Special Taxes under the Rate and Method received by the District are to be deposited in the Special Tax Fund. Special Taxes deposited in the Special Tax Fund each fiscal year are to be applied by the Trustee under the Indenture in the following order of priority: (i) to deposit the Administrative Expenses Cap (as defined in the Indenture) into the Administrative Expenses Account to pay Administrative Expenses; (ii) to pay the principal of and interest on the Bonds when due; (iii) to replenish the Reserve Account to the Reserve Requirement; (iv) to make any required transfers to the Rebate Fund; (v) to pay Administrative Expenses of the District above the Administrative Expenses Cap referenced in (i) above; and (vi) for any other lawful purpose of the District. See APPENDIX B—“SUMMARY OF THE INDENTURE” herein.

***Covenant to Foreclose; Proceeds of Foreclosure Sales.*** The net proceeds received following a judicial foreclosure sale of land within the Improvement Area resulting from a landowner’s failure to pay the Special Taxes when due are included within the Special Tax revenues pledged to the payment of principal of and interest on the Bonds under the Indenture.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the Governing Board, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted to commence judicial foreclosure proceedings against all parcels of property owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$1,000 by the December 1 following the close of each fiscal year in which such Special Taxes were due, and that it will commence such foreclosure proceedings against all parcels with delinquent Special Taxes by the December 1 following the close of each fiscal year in which it receives Special Taxes in an amount which is less than 90% of the total Special Taxes levied for the fiscal year, and will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid. The District is not obligated to advance funds from any source of legally available funds in order to avoid a default in the payment of the Bonds. See APPENDIX B—“SUMMARY OF THE INDENTURE—COVENANTS AND WARRANTY—Covenants—Commence Foreclosure Proceedings” herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. See discussion under the heading “SPECIAL RISK FACTORS—Bankruptcy and Foreclosure” and “—FDIC/Federal Government Interests in Properties” herein. Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See discussion under the heading “SPECIAL RISK FACTORS—Property Values” herein. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. Moreover, if the District chooses to purchase the property sold at foreclosure using a “credit bid” (where the District submits a bid crediting all or part of the amount required to satisfy the judgment for the delinquent amount of the Special Tax), as permitted under Section 53356.5 of the Act, the District must pay the amount of its credit bid into the redemption fund established for the Bonds, but this payment may be made up to 24 months after the date of the foreclosure sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

### **Reserve Account of the Special Tax Fund**

In order to secure further the payment of principal of and interest on the Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Account and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement, which is defined as the amount, as of any date of calculation, equal the least of (i) 10% of the initial principal amount of the Bonds, less original issue discount, if any, plus original issue premium, if any, or; (ii) the Maximum Annual Debt Service on the Bonds, or (iii) one hundred twenty-five percent (125%) of average annual debt service on the Bonds (the “Reserve Requirement”). Subject to the limits on the maximum annual Special Tax which may be levied within the Improvement Area, as described in Appendix A, the District has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement. Amounts in the Reserve Account are to be applied to (i) pay debt service on the Bonds, to the extent other monies are not available therefor; and (ii) pay the principal and interest due in the final year of maturity of the Bonds. See APPENDIX B—“SUMMARY OF THE INDENTURE” herein.

In place of funds held by the Trustee in the Reserve Account to satisfy the Reserve Requirement, the District may substitute a municipal bond debt service reserve fund policy, a surety bond or a letter of credit satisfying the criteria set forth in the Indenture.

### **Additional Bonds**

Pursuant to the Indenture, excepting for parity bonds issued to refund all or a portion of the Bonds, no additional bonds may be issued, payable from the Special Tax revenues or amounts in the funds and accounts established under the Indenture. No parity bonds are outstanding. See APPENDIX B—“SUMMARY OF THE INDENTURE” herein.

### **Possibility of Agency Payments; No Prior Agency Payments**

The Rate and Method provides that in the event amounts are received by the District for the benefit of owners of the Improvement Area as payments by the Agency, such amounts will be applied to reduce Special Taxes to be levied on property within the Improvement Area. The payment of any amounts by the Agency is subject to a number of conditions and limitations. As of October 1, 2007, no payments have been made by the Agency to the District for the benefit of the Improvement Area, and no such payments have been due.

Investors should assume that no payments will be made by the Agency to the District for the benefit of the Improvement Area.

## **THE COMMUNITY FACILITIES DISTRICT AND THE IMPROVEMENT AREA**

### **The District; the Improvement Area**

The District was formed and, subsequently the Improvement Area was designated pursuant to the Act. The Act was enacted by the California Legislature to provide a method of financing certain public capital facilities and services. Once duly established, a community facilities district is a legally constituted governmental entity within defined boundaries, with the governing board or legislative body of the local agency acting on its behalf. Subject to approval by a two-thirds vote of the qualified electors voting, and compliance with the applicable provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such a district to repay such indebtedness, to pay directly for authorized facilities or services and to pay administrative expenses incident to the activities of the district.

### **Location**

The Improvement Area consists of approximately 144.74 acres, of which approximately 143.49 acres are net taxable developable acres of land. The Improvement Area comprises part of the TownGate Development and part of the District. The TownGate Development is comprised of 590.7 acres (inclusive of the Improvement Area and the remainder of property within the District) and is a mixed use commercial and residential project comprised of various residential product types and varied commercial uses. The District consists of approximately 254.28 net taxable developable acres of land located within the TownGate Development (of which 143.49 acres are included within the Improvement Area) at its northern boundaries located in the City bounded on the north by State Route 60 (Moreno Valley Freeway), on the west by Day Street, on the south by Eucalyptus Avenue/TownGate Boulevard and on the east by Frederick Street. At the eastern portion of the District, TownGate Community Shopping Center, the TownGate Plaza and a regional mall, Moreno Valley Mall at TownGate (the "Mall") have been developed. See "TownGate Development" below for a description thereof.

### **Summary of Proceedings for the District and the Improvement Area**

Pursuant to the Act, pursuant to Resolution No. 87-99 adopted by the City Council on October 20, 1987, the District was formed and bonded indebtedness of the District in an aggregate principal amount not to exceed \$21,000,000 was authorized. On November 17, 1992, by its Resolution No. 92-119, the City Council designated the Improvement Area and authorized the submittal of additional special tax, under the Rate and Method within the Improvement Area to the qualified electors. On November 17, 1992 by its Resolution No. 92-120, the City Council declared the necessity to incur additional indebtedness for the Improvement Area and submitted a proposition therefor to the qualified voters of the Improvement Area. On March 9, 1993, by the Resolution No. 93-12 the City Council declared the results of the election, with each measure voted on having received the favorable 2/3 vote by the qualified electors of the Improvement Area. On March 23, 1993, by Resolution No. 93-16 the City authorized the issuance of bonds to finance improvements within the Improvement Area and by its Ordinance No. 392 authorized the levy of special taxes in the Improvement Area; such ordinance became effective on April 22, 1993. A Notice of Special Tax Lien on property within the Improvement was recorded in the Official Records of Riverside County on March 23, 1993 as Document No. 107319. On April 15, 1993, the Prior Bonds were issued.

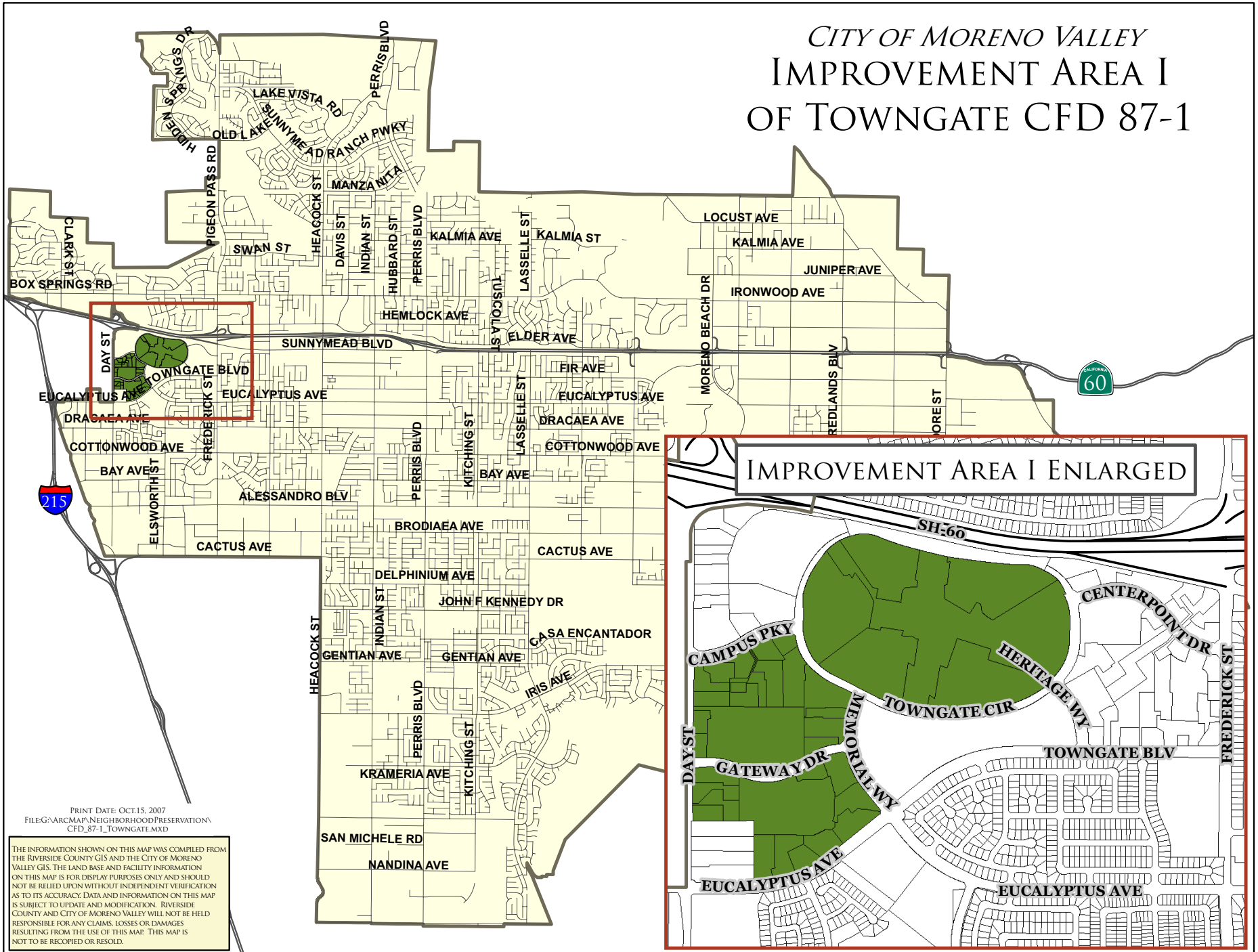
### **Other Bonds of the District**

The District has previously issued its City of Moreno Valley Towngate Community Facilities District No. 87-1, Special Tax Refunding Bonds, Series A, as issued June 1, 1994 (the "1994A Bonds") and the City of

Moreno Valley Towngate Community Facilities District No. 87-1, Special Tax Refunding Bonds, Series B, as issued June 1, 1994 (the "1994B Bonds"). 1994A Bonds are currently outstanding in the amount of \$10,710,000, and 1994B Bonds are currently outstanding in the amount of \$2,340,000. The 1994A Bonds and the 1994B Bonds are secured by the payment of special taxes from taxable property within the District, including the Improvement Area. It is contemplated that the 1994A Bonds and the 1994B Bonds will be refunded at or about the same time as the issuance of the Bonds, and that such refunding bonds will continue to be secured by special taxes payable by owners of taxable property within the District, including the Improvement Area. **Special taxes imposed under the rate and method of apportionment applicable to the 1994A Bonds, the 1994B Bonds and any bonds which refund such 1994A Bonds or 1994B Bonds will not be available for payment of the Bonds.** Since Fiscal Year 2002-03, while the District has been subject to the levy of Special Taxes, all amounts necessary to pay scheduled principal and interest payments on the 1994A Bonds and the 1994B Bonds have been funded by payments from the Agency.

The Agency and the City have entered into an agreement entitled "Agency Towngate Agreement," dated as of October 1, 2007 (the "Agency Towngate Agreement") under which the Agency has agreed to make payments sufficient to pay scheduled principal and interest payments on the 1994A Bonds and the 1994B Bonds and bonds which refund the 1994A Bonds and the 1994B Bonds (the "Towngate Refunding Bonds") which are expected to be issued substantially concurrently with the Bonds. **Payments by the Agency under the Agency Towngate Agreement will not be available for payment under the Bonds.**

# CITY OF MORENO VALLEY IMPROVEMENT AREA I OF TOWNGATE CFD 87-1



15

PRINT DATE: OCT.15, 2007

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THE INFORMATION SHOWN ON THIS MAP WAS COMPILED FROM THE RIVERSIDE COUNTY GIS AND THE CITY OF MORENO VALLEY GIS. THE LAND BASE AND FACILITY INFORMATION ON THIS MAP IS FOR DISPLAY PURPOSES ONLY AND SHOULD NOT BE RELIED UPON WITHOUT INDEPENDENT VERIFICATION AS TO ITS ACCURACY. DATA AND INFORMATION ON THIS MAP IS SUBJECT TO UPDATE AND MODIFICATION. RIVERSIDE COUNTY AND CITY OF MORENO VALLEY WILL NOT BE HELD RESPONSIBLE FOR ANY CLAIMS, LOSSES OR DAMAGES RESULTING FROM THE USE OF THIS MAP. THIS MAP IS NOT TO BE REPRODUCED OR RESOLD.

## **Improvements Within the Improvement Area**

Following is a summary description of development that has occurred within the Improvement Area.

### ***Development within Tax Rate Area 1:***

Moreno Valley Mall at TownGate opened on October 14, 1992. The 1.3 million square foot regional mall includes four department store anchors: J.C. Penney, Harris/Gottschalks, Sears & Roebuck, and Macy's. In addition to the anchors, the Mall includes 430,000 square feet of gross leaseable area, of which approximately 89% is currently leased. A fifth anchor site, Harkins Theatres, an upscale cinema theater with 16-auditorium style screening rooms and 3,500-stadium style seats, opened on June 23, 2006. A new Mall entrance that has been proposed by the property owner for the parking deck between Harkin's Theatres and Macy's, would allow up to 16,000 square feet of future restaurant space in the remaining area between the theatre and the Mall ring road (Towngate Circle). The Macaroni Grill Restaurant has submitted plans to the City, and City staff has been informed by representatives of the property owner, Gateway Company ("Gateway"), that TGI Friday's has signed a Letter of Intent for future development within this area.

### ***Development within Tax Rate Area 2:***

TownGate Promenade is an approximately 35-acre shopping center. The anchor of this center, Costco Wholesale (formerly Price Club), opened September 25, 1992, and in 2007 expanded their warehouse to include an additional 14,000 square feet of retail warehouse space. West of Costco, four nationally recognized restaurants have developed and are in operation: Baker's Burgers opened August 30, 2005; Mimi's Café opened February 10, 2006; Applebee's Restaurants opened May 14, 2007; and Panda Express, an express Chinese food restaurant with drive-thru, opened on July 16, 2007. Scheduled to begin construction during late 2007 is Johnny Carino's and On the Border. Famous Dave's BBQ has submitted plans to the City to develop a restaurant within this area and City staff has been informed by representatives of the property owner, Gateway, that Red Lobster has an executed Letter of Intent. Northwest of Costco, a 141,000 square foot retail area is proposed, which will accommodate future retail and additional restaurant sites: Chipotle, Corner Bakery Café, Go Roma, Beverages & More, Party City, and Orchard Supply Hardware (OSH), each of which, City staff has been advised by representatives of the property owner, Gateway, has signed a Letter of Intent to develop in this area. Two hotel sites, Ayers Suites, a 127-room, four story European boutique style hotel with meeting room and restaurant, and Hampton Inn and Suites, a four story hotel consisting of 115 rooms with meeting room facilities, is approved to begin construction by the end of calendar year 2007.

TownGate Square (formerly TownGate South) is a 28.57-acre site located at the southeast corner of Day Street and Gateway Drive. Proposed development on the 12 lots consists of a 306,000 square foot mixed-use complex, which will include 136,000 square feet of restaurant/retail space and 170,000 square feet of office space. The first anchor tenant, Winco Foods, Inc., completed construction of a 96,000 square foot grocery store and opened in the fall of 2006. Approval has been given to begin construction on Portillo's restaurant, a 7,500 square foot Chicago style sit down restaurant and drive-thru. City staff has been informed by representatives of the property owner, Gateway, that Starbucks Coffee as well as several restaurants are also looking to come to TownGate Square in 2008.

## **Assessed Valuation**

The Riverside County Assessor's Office has reported the Assessed Valuation of the parcels subject to Special Tax under the Rate and Method within the Improvement Area to be \$143,889,809 as of January 1, 2007. The assessed valuation of each of the parcels in the Improvement Area upon which the Special Tax is to be applied varies substantially. The assessed valuation of real property within the Improvement Area is not necessarily reflective of its market value. The City and the District have not retained an independent appraiser to opine with respect to the market value of real property in the Improvement Area.

The following Table 1 sets forth the taxpayers within the Improvement Area.

**TABLE 1**  
**SPECIAL TAXPAYERS IN IMPROVEMENT AREA NO. 1**  
**2007**

<i>Owner/Land Use</i>	<i>No. of Acres</i>	<i>Secured Assessed Value<sup>(1)</sup></i>	<i>Unsecured Assessed Value</i>	<i>Combined Assessed Value</i>	<i>Percent of Assessed Value from Tax Rate Area</i>	<i>Percent of Combined Assessed Value (Both Tax Rate Areas)</i>
<b>Tax Rate Area 1:</b>						
Homart Newco Two, Inc.	31.09	\$ 40,000,000	\$ -	\$ 40,000,000	36.11%	27.80%
GGP Moreno Valley, Inc.	7.43	19,170,457	-	19,170,457	17.31	13.32
El Corte Ingles	9.58	13,679,000	-	13,679,000	12.35	9.51
Sears Roebuck & Co.	10.51	11,964,598	1,031,755	12,996,353	11.73	9.03
J.C. Penney Property, Inc.	10.13	11,914,364	-	11,914,364	10.76	8.28
Macy's California, Inc.	<u>11.41</u>	<u>13,005,000</u>	<u>-</u>	<u>13,005,000</u>	<u>11.74</u>	<u>9.04</u>
TOTAL (Tax Rate Area 1)	80.15	\$109,733,419	\$ 1,031,755	\$ 110,765,174	100.00%	76.98%
<b>Tax Rate Area 2</b>						
Costco Wholesale Corp.	12.69	\$ 12,913,096	\$ 2,035,696	\$ 14,948,792	45.13%	10.39%
Neal T. Baker Enterprises	0.79	1,325,999	-	1,325,999	4.00	0.92
Andrew & Peggy Cherng	0.79	823,476	-	823,476	2.49	0.57
Campus Partners Inc.	1.13	1,212,710	-	1,212,710	3.66	0.84
Gateway Company (Applebee's)	1.15	110,481	-	110,481	0.33	0.08
Gateway Company (Mimi's Restaurant)	1.23	2,817,061	-	2,817,061	8.50	1.96
Winco Foods	10.94	7,499,704	2,431,071	9,930,775	29.98	6.90
Gateway Company	<u>34.62</u>	<u>1,955,341</u>	<u>-</u>	<u>1,955,341</u>	<u>5.90</u>	<u>1.36</u>
TOTAL (Tax Rate Area 2)	63.34 <sup>(1)</sup>	\$ 28,657,868	\$ 4,466,767	<u>\$ 33,124,635</u>	100.00%	23.02%
				\$ 143,889,809		

<sup>(1)</sup> Acreage subject to special taxes. A city fire station is located on a 1.5 acre parcel which is exempt from the payment of special taxes.  
Source: City of Moreno Valley.



## **Special Tax Revenue Capacity**

Table 2 below provides the following information: (i) summarizes the Taxable Property in the Improvement Area by Tax Rate Area for the 2007-08 Fiscal Year, (ii) provides the Fiscal Year 2007-08 Special Tax rates for Taxable Property, and (iii) provides the total Fiscal Year 2007-08 Special Tax capacity, i.e., revenues which would be generated if the District levied under the Rate and Method on all existing Taxable Property within the Improvement Area at Maximum Special Tax rates. The District Administrator has determined that, even if no further development were to occur in the Improvement Area, the amount of Special Taxes which are authorized to be levied on currently Taxable Property in each fiscal year during the term of the Bonds would generate an amount sufficient to pay Administrative Expenses in each fiscal year, plus not less than 110% of the debt service on the Bonds in such fiscal year. The District has covenanted that the District will levy special taxes under the Rate and Method while the Bonds are outstanding at such amounts, up to the amounts provided by application of the Maximum Rates, that will generate moneys, together with such amounts as held by the Trustee in the Special Tax Fund, sufficient to defray Administrative Expenses and debt service on all outstanding Bonds.

**TABLE 2  
CITY OF MORENO VALLEY  
COMMUNITY FACILITIES DISTRICT NO. 87-1 (TOWNGATE)  
IMPROVEMENT AREA NO. 1**

**FISCAL YEAR 2007-08 MAXIMUM SPECIAL TAXES  
FROM TAXABLE PROPERTY BY TAX RATE AREA**

<i>Owners</i>	<i>Maximum Tax Rate (per Taxable Area)</i>	<i>Taxable Acres</i>	<i>Maximum Special Taxes<sup>(1)</sup></i>
<b>Tax Rate Area 1:</b>			
Homart Newco Two, Inc.	\$4,450	31.09	\$ 138,350.50
GGP Moreno Valley, Inc.	4,450	7.43	33,063.50
El Corte Ingles	4,450	9.58	42,631.00
Sears Roebuck & Co.	4,450	10.51	46,769.50
J.C. Penney Property, Inc.	4,450	10.13	45,078.50
May Dept Stores Co.	4,450	<u>11.41</u>	<u>50,774.50</u>
TOTAL (Tax Rate Area 1)		80.15	\$ 356,667.50
<b>Tax Rate Area 2</b>			
Costco Wholesale Foods	\$3,850	12.69	\$ 48,856.50
Neal T. Baker Ent.	3,850	0.79	3,041.50
Cherng, Andrew & Peggy	3,850	0.79	3,041.50
Gateway Co.	3,850	1.50	5,775.00
Winco Foods	3,850	10.94	42,119.00
Gateway Co.	3,850	0.94	3,619.00
Gateway Co.	3,850	1.96	7,546.00
Gateway Co.	3,850	1.95	7,507.50
Gateway Co.	3,850	1.90	7,315.00
Gateway Co.	3,850	1.56	6,006.00
Gateway Co.	3,850	1.98	7,623.00
Gateway Co.	3,850	2.07	7,969.50
Gateway Co.	3,850	1.38	5,313.00
Gateway Co.	3,850	1.07	4,119.50
Gateway Co.	3,850	1.33	5,120.50
Gateway Co. (Applebee's)	3,850	1.15	4,427.50
Gateway Co. (Mimi's Restaurant)	3,850	1.23	4,735.50
Campus Partners Inc.	3,850	1.13	4,350.50
Gateway Co.	3,850	1.13	4,350.50
Gateway Co.	3,850	1.4	5,390.00
Gateway Co.	3,850	1.19	4,581.50
Gateway Co.	3,850	2.03	7,815.50
Gateway Co.	3,850	1.15	4,427.50
Gateway Co.	3,850	0.84	3,234.00
Gateway Co.	3,850	2.52	9,702.00
Gateway Co.	3,850	3.02	11,627.00
Gateway Co.	3,850	0.91	3,503.50
Gateway Co.	3,850	1.79	6,891.50
Gateway Co.	3,850	<u>1.00</u>	<u>3,850.00</u>
TOTAL (Tax Rate Area 2)		63.34	\$ 243,859.00

<sup>(1)</sup> Based on existing development as of July 1, 2007.  
Source: City of Moreno Valley.

Table 3, below depicts how special taxes were allocated and imposed in connection with the Fiscal Year 2007-08 Special Tax levy.

**TABLE 3  
CITY OF MORENO VALLEY  
COMMUNITY FACILITIES DISTRICT NO. 87-1 (TOWNGATE)  
IMPROVEMENT AREA NO. 1  
  
FISCAL YEAR 2007-08  
SPECIAL TAXPAYERS**

<i>Owners</i>	<i>Number of Parcels Taxed</i>	<i>Number of Taxable Acres Taxed</i>	<i>Fiscal Year 2007-08 Special Tax Levy</i>	<i>Percentage of Levy for the Tax Rate Area</i>	<i>Percentage of Total Levy (Both Tax Rate Areas)</i>
<b>Tax Rate Area 1:</b>					
Homart Newco Two, Inc.	1	31.09	\$ 98,407.00	38.79%	22.89%
GGP Moreno Valley, Inc.	1	7.43	23,518.00	9.27	5.46
El Corte Ingles	1	9.58	30,323.00	11.95	7.05
Sears Roebuck & Co.	1	10.51	33,267.00	13.11	7.74
J.C. Penney Property, Inc.	1	10.13	32,064.00	12.64	7.46
Macy Dept Stores Co.	<u>1</u>	<u>11.41</u>	<u>36,115.00</u>	<u>14.24</u>	<u>8.40</u>
TOTAL (Tax Rate Area 1)	6	80.15	\$ 253,694.00	100.00%	59.00%
<b>Tax Rate Area 2</b>					
Costco Wholesale Foods	1	12.69	\$ 35,320.00	20.03%	8.21%
Neal T. Baker Ent.	1	0.79	2,200.00	1.25	0.51
Cherng, Andrew & Peggy	1	0.79	2,200.00	1.25	0.51
Campus Partners Inc.	1	1.13	3,145.00	1.78	0.73
Gateway Co.	22	34.62	96,357.00	54.66	22.41
Gateway Co. (Applebee's)	1	1.15	3,201.00	1.82	0.74
Gateway Co. (Mimi's Restaurant)	1	1.23	3,423.00	1.94	0.80
Winco Foods	<u>1</u>	<u>10.94</u>	<u>30,450.00</u>	<u>17.27</u>	<u>7.09</u>
TOTAL (Tax Rate Area 2)	29	63.34	\$ 176,296.00	100.00%	41.00%
TOTAL (Both Tax Rate Areas)	<u>35</u>		<u>\$ 429,990.00</u>		

Source: City of Moreno Valley.

No assurances can be given that these or any other Special Tax payers within the Improvement Area will pay the Special Taxes levied by the District in the future.

**Estimated Debt Service Coverage**

Table 4 below sets forth the estimated debt service coverage from Maximum Special Taxes under the Rate and Method, based on the development status in the Improvement Area as of July 1, 2007 and the annual debt service of the Bonds. It is possible that the Maximum Special Taxes could be reduced, but the District has covenanted to oppose any reduction in Maximum Special Taxes. See "SPECIAL RISK FACTORS—Proceedings to Reduce or Terminate the Special Tax." Under the Rate and Method, Net Taxes from Tax Rate Area 1 are not available to pay Net Taxes of Tax Rate Area 2, and Net Taxes from Tax Rate Area 2 are not available to pay Net Taxes of Tax Rate Area 1.

**TABLE 4  
CITY OF MORENO VALLEY  
COMMUNITY FACILITIES DISTRICT NO. 87-1 (TOWNGATE)  
IMPROVEMENT AREA NO. 1**

**ESTIMATED DEBT SERVICE COVERAGE**

<i>Bond Year Ending October 1</i>	<i>Tax Rate Area 1 Maximum Special Taxes<sup>(1)</sup></i>	<i>Tax Rate Area 2 Maximum Special Taxes<sup>(1)</sup></i>	<i>Debt Service Allocable to Tax Rate Area 1<sup>(2)</sup></i>	<i>Debt Service Allocable to Tax Rate Area 2<sup>(2)</sup></i>	<i>Debt Service Coverage as Percentage, Tax Rate Area 1<sup>(3), (5)</sup></i>	<i>Debt Service Coverage as Percentage, Tax Rate Area 2<sup>(4), (5)</sup></i>
2008	\$356,667.50	\$243,859	\$218,882	\$152,104	163%	160%
2009	356,667.50	243,859	213,423	148,311	167	164
2010	356,667.50	243,859	212,001	147,323	168	166
2011	356,667.50	243,859	213,241	148,185	167	165
2012	356,667.50	243,859	211,172	146,747	169	166
2013	356,667.50	243,859	212,116	147,403	168	165
2014	356,667.50	243,859	212,694	147,804	168	165
2015	356,667.50	243,859	212,895	147,944	168	165
2016	356,667.50	243,859	212,777	147,862	168	165
2017	356,667.50	243,859	212,224	147,478	168	165
2018	356,667.50	243,859	214,171	148,831	167	164
2019	356,667.50	243,859	215,557	149,794	165	163
2020	356,667.50	243,859	213,416	148,306	167	164
2021	356,667.50	243,859	213,947	148,675	167	164
2022	356,667.50	243,859	213,969	148,690	167	164
2023	356,667.50	243,859	213,473	148,346	167	164

<sup>(1)</sup> Based on development status as of July 1, 2007. Maximum Tax Rate for Tax Rate Area 1 under the Rate and Method is \$4,450 per year per parcel; for Tax Rate Area 2, Maximum Tax Rate under the Rate and Method is \$3,850 per year per parcel.

<sup>(2)</sup> Based upon projected interest rates which the City believes to reflect market conditions; actual rates may vary.

<sup>(3)</sup> Calculated by dividing Tax Rate Area 1 Maximum Special Taxes by Debt Service Allocable to Tax Rate Area 1.

<sup>(4)</sup> Calculated by dividing Tax Rate Area 2 Maximum Special Taxes by Debt Service Allocable to Tax Rate Area 2.

<sup>(5)</sup> Does not include Administrative Expenses of the District.

Source: City of Moreno Valley.

**Delinquency History**

There has been one delinquency in the payment of special taxes of the Improvement Area. In this one instance, which occurred in 1998-1999, the owner paid special taxes for 1998-1999 and 1999-2000 during 1999-2000.

## Historic Values Within District

Table 5 shows the assessed valuation of Taxable Property in the Improvement Area for the 2003-04 through 2007-08 fiscal years.

**TABLE 5**  
**CITY OF MORENO VALLEY**  
**COMMUNITY FACILITIES DISTRICT NO. 87-1 (TOWNGATE)**  
**IMPROVEMENT AREA NO. 1**

### HISTORICAL ASSESSED VALUES

<i>Fiscal Year</i>	<i>Assessed Value<sup>(1)</sup></i>	<i>Percentage Increase</i>
2003-04	\$ 111,846,290	N/A
2004-05	106,142,457	-5.10%
2005-06	109,538,881	3.20
2006-07	134,330,557	22.63
2007-08	143,889,809	7.12

<sup>(1)</sup> Assessed values provided by the Riverside County as of January 1 of each calendar year. Includes only real property values. Source: Riverside County Assessor's Office, as compiled by the City.

## No Teeter Plan for Special Taxes

The County has not elected to include special taxes levied within community facilities districts within its Teeter Plan method of apportionment and distribution of taxes collected by the County for local government agencies. Pursuant to the Teeter Plan the County apportions to the local agencies 100% of the amount of the taxes which are levied regardless of the amount collected from property owners. The County retains all penalties and interest which are collected with delinquent taxes. Given that the Special Taxes levied on Taxable Property within the District are not subject to the Teeter Plan, the District will receive only the actual collections of the Special Taxes which are levied in each fiscal year.

## Direct and Overlapping Debt

Within the Improvement Area's boundaries are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on the parcels within the Improvement Area and others have authorized but unissued bonds which, if issued, will be secured by taxes and assessments levied on parcels within the Improvement Area. The approximate amount of the outstanding direct and overlapping debt secured by taxes and assessment on the parcels within the Improvement Area as of January 1, 2007 is shown in Table 6 below (the "Debt Report"), prepared by California Municipal Statistics Inc. The District does not guarantee the accuracy of this information.

**TABLE 6  
CITY OF MORENO VALLEY  
COMMUNITY FACILITIES DISTRICT NO. 87-1 (TOWNGATE)  
IMPROVEMENT AREA NO. 1**

**DIRECT AND OVERLAPPING DEBT OF IMPROVEMENT AREA NO. 1  
As of October 1, 2007<sup>(2)</sup>**

2007-08 Assessed Valuation: \$143,889,809<sup>(1)</sup>

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable<sup>(2)</sup></u>	<u>Debt 10/1/07</u>
Metropolitan Water District	0.00005%	\$ 179
Riverside City Community College District	0.203	301,650
Moreno Valley Unified School District	1.423	700,308
Eastern Municipal Water District, I.D. No. U13	3.824	19,808
<b>City of Moreno Valley Community Facilities District No. 87-1, I.A. No. 1</b>	<b>100.</b>	<b>3,810,000<sup>(3)</sup></b>
City of Moreno Valley Community Facilities District No. 87-1	45.389	5,678,164 <sup>(3)</sup>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$ 10,510,109</b>
Less: City of Moreno Valley Community Facilities District No. 87-1 self-supporting bonds		5,678,164
<b>TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$ 4,831,945</b>
<u>OVERLAPPING GENERAL FUND DEBT:</u>	<u>% Applicable<sup>(4)</sup></u>	<u>Debt 10/1/07</u>
Riverside County General Fund Obligations	0.0006%	\$ 4,377
Riverside County Pension Obligations	0.0006	2,357
Riverside County Board of Education Certificates of Participation	0.0006	62
Moreno Valley Unified School District Certificates of Participation	0.011	2,823
City of Moreno Valley General Fund Obligations	0.009	7,777
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>		<b>\$ 17,396</b>
Less: Riverside County self-supporting obligations		111
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>		<b>\$ 17,285</b>
<b>GROSS COMBINED TOTAL DEBT</b>		<b>\$ 10,527,505<sup>(5)</sup></b>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$ 4,849,230</b>

<sup>(1)</sup> Excludes personal property and fixtures.

<sup>(2)</sup> Based on 2006-07 ratios.

<sup>(3)</sup> Excludes issue to be sold.

<sup>(4)</sup> Based on redevelopment adjusted all property assessed valuation of \$886,248.

<sup>(5)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2007-08 Assessed Valuation:

<b>Direct Debt (\$3,810,000)</b> .....	<b>2.65%</b>
Total Gross Direct and Overlapping Tax and Assessment Debt .....	7.30%
Total Net Direct and Overlapping Tax and Assessment Debt .....	3.38%
Gross Combined Total Debt.....	7.32%
Net Combined Total Debt .....	3.37%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

Source: California Municipal Statistics, Inc.

**Estimated Assessed Value-to-Lien Ratios**

The value of individual parcels and the direct and overlapping land secured bonded indebtedness on individual parcels vary substantially among parcels within the Improvement Area. See Table 7 below. The value of each individual parcel is significant because in the event of a delinquency in the payment of Special Taxes levied on a parcel, the District may foreclose only against such delinquent parcel. The secured and unsecured assessed value of real property in the Improvement Area for Fiscal Year 2007-08, as of the January 1, 2007 lien date, was \$143,889,809.

Table 7 below sets forth the estimated assessed value-to-lien ratios for parcels within Tax Rate Area 1 and Tax Rate Area 2 within the Improvement Area subject to Special Taxes, based on development status as of July 1, 2007, and the January 1, 2007 assessed value of the Improvement Area and the principal amount of the Bonds. Under a levy of Special Tax as spread in the manner described in Table 7, approximately 13.6% of the projected \$3,875,000 principal amount of the Bonds (and approximately 33% of the portion of said principal amount of the Bonds allocable to Tax Rate Area 2) would be allocable to Parcels having an assessed value-to-lien ratio of less than 3 to 1.

As shown in Table 7, Gateway Co. (“Gateway”) owns 24 parcels in Tax Rate Area 2 (the “Gateway Parcels”) aggregating approximately 37 acres and \$4,882,883 in assessed value, or 14.74% of the overall assessed value in Tax Rate Area 2. The City believes that Gateway is a successor entity of the original master developer of the Mall and original owner of the parcels in Tax Rate Area 2 and that the only increases reflected in assessed value for such undeveloped Gateway Parcels since 1976 consist of increases due to inflation of up to two percent annually. The City has not retained an independent appraiser to estimate a market value of the Gateway Parcels or the remainder of the Improvement Area. However, based on certain recent sales of parcels in Tax Rate Area 2, the City believes that the market value of the undeveloped Gateway Parcels is significantly higher than the assessed values shown for undeveloped parcels in Table 7 for which ownership is shown as Gateway (and not including those Parcels for which Mimi’s Restaurant and Applebee’s are designated). The City has determined that, by way of example, one unimproved parcel consisting of approximately .79 acres (APN 291-110-040) was sold from Gateway to Baker’s Drive-thru during July 2004. In connection with the sale of such parcel, the assessed value for the parcel involved changed from \$3,724 to \$737,116 as to land, exclusive of improvements that were added upon purchase of that parcel. Similarly, a second unimproved parcel (APN 291-110-041) also consisting of approximately .79 acres was sold from Gateway to Panda Express during June 2005. In connection with that sale, assessed value rose from \$3,724 to \$807,330, exclusive of any improvements. The City cannot represent that the market value of the Gateway Parcels will reflect a similar increase in value as evidenced with the above referenced prior sales.

The assessed value-to-lien data below is based only on Special Taxes in connection with the Rate and Method for the Improvement Area and do not include special taxes otherwise payable, with respect to Community Facilities District No. 87-1, with respect to which community facilities district bonds, the 1994A Bonds and the 1994B Bonds, are outstanding in the amounts of \$10,170,000 and \$2,340,000 (for a total of \$12,510,000). The Agency has agreed to pay all debt service payments for the Towngate Refunding Bonds and bonds which refund the Towngate Refunding Bonds. The City expects to issue the Towngate Refunding Bonds at or about the time the Bonds are issued.

**TABLE 7**  
**CITY OF MORENO VALLEY**  
**COMMUNITY FACILITIES DISTRICT NO. 87-1 (TOWNGATE)**  
**IMPROVEMENT AREA NO. 1 ESTIMATED VALUE-TO-LIEN RATIOS**  
**(Assessed Value)**

<i>Owner</i>	<i>Base Year Assessed Value</i>	<i>Taxable Acres by Parcel</i>	<i>Fiscal Year 2007-08 Assessed Value</i>	<i>Proportionate Amount of Bonds, Corresponding Tax Rate Area<sup>(1)</sup></i>	<i>Estimated Value-to-Lien Ratio, Tax Rate Area<sup>(1)</sup></i>	<i>Allocated Amount of Towngate Refunding Bonds<sup>(2)</sup></i>	<i>Estimated Combined Value-to-Lien Ratio<sup>(3)</sup></i>
<b>Tax Rate Area 1</b>							
Homart Newco Two, Inc.	\$ 139,984	31.09	\$ 40,000,000	\$ 932,603	42.89:1	\$ 1,638,701	15.55:1
Harkins Theaters	33,454	7.43	19,170,457	222,877	86.01:1	391,623	31.19:1
Harris	43,134	9.58	13,679,000	287,370	47.60:1	504,946	17.26:1
Sears	47,322	10.51	12,996,353	315,267	41.22:1	553,964	14.95:1
Penny's	45,611	10.13	11,914,364	303,868	39.20:1	533,935	14.22:1
Macy's California Inc.	<u>51,374</u>	<u>11.41</u>	<u>13,005,000</u>	<u>342,264</u>	<u>37.99:1</u>	<u>601,402</u>	<u>13.78:1</u>
	\$ 360,879	80.15	\$ 110,765,174	\$ 2,404,249	46.07:1	\$ 4,224,571	16.70:1
<b>Tax Rate Area 2</b>							
Costco	\$ 57,137	12.69	\$ 14,948,792	\$ 334,730	44.65:1	\$ 668,868	14.89:1
Baker's Drive-thru	3,557	0.79	1,325,999	20,838	63.63:1	41,640	21.22:1
Winco Foods	463,797	10.94	9,930,775	288,570	34.41:1	576,629	11.47:1
Gateway Co. (Applebee's) <sup>(5)</sup>	5,178	1.15	110,481	30,334	3.64:1	60,615	1.21:1
Gateway Co. (Mimi's Restaurant Andrew & Peggy Chermg (Panda Express))	5,538	1.23	2,817,061	32,444	86.82:1	64,831	28.95:1
	3,557	0.79	823,476	20,838	39.51:1	41,640	13.18:1
Gateway Co.*	63,592	1.50	172,973	39,566	4.37:1		4.37:1
Gateway Co.*	39,427	0.94	77,261	24,795	3.11:1		3.11:1
Gateway Co.*	83,093	1.96	82,215	51,700	1.59:1		1.59:1
Gateway Co.*	82,670	1.95	113,369	51,436	2.20:1		2.20:1
Gateway Co.*	80,550	1.90	130,384	50,117	2.60:1		2.60:1
Gateway Co.*	66,136	1.56	188,136	41,149	4.57:1		4.57:1
Gateway Co.*	83,941	1.98	104,393	52,227	1.99:1		1.99:1
Gateway Co.*	87,757	2.07	164,609	54,601	3.01:1		3.01:1
Gateway Co.*	58,505	1.38	153,901	36,401	4.22:1		4.22:1
Gateway Co.*	45,362	1.07	112,676	28,224	3.99:1		3.99:1
Gateway Co.*	56,385	1.33	132,780	35,082	3.78:1		3.78:1
Campus Partners Inc.	5,088	1.13	1,212,710	29,810	40.68:1		40.68:1
Gateway Co.*	5,088	1.13	110,510	29,807	3.70:1		3.70:1
Gateway Co.*	6,304	1.40	171,660	36,928	4.64:1		4.64:1
Gateway Co.*	5,358	1.19	97,536	31,389	3.10:1		3.10:1
Gateway Co.*	9,140	2.03	58,779	53,546	1.09:1		1.09:1
Gateway Co.*	5,178	1.15	33,518	30,334	1.10:1		1.10:1
Gateway Co.*	3,782	0.84	4,220	22,157	0.19:1		0.19:1
Gateway Co.*	11,345	2.52	12,660	66,471	0.19:1		0.19:1
Gateway Co.*	13,598	3.02	15,172	79,660	0.19:1		0.19:1
Gateway Co.*	4,097	0.91	4,572	24,004	0.19:1		0.19:1
Gateway Co.*	8,060	1.79	8,993	47,216	0.19:1		0.19:1
Gateway Co.*	<u>4,503</u>	<u>1.00</u>	<u>5,024</u>	<u>26,377</u>	<u>0.19:1</u>		<u>0.19:1</u>
	<u>\$1,367,723</u>	<u>63.34</u>	<u>\$ 33,124,635</u>	<u>\$ 1,670,751<sup>(4)</sup></u>	<u>19.82:1</u>	<u>\$ 1,454,223</u>	<u>10.59:1</u>
	<u>\$1,728,602</u>		<u>\$143,889,809</u>	<u>\$ 4,075,000</u>		<u>\$ 5,678,794</u>	

<sup>(1)</sup> Proportionate allocation of the Bonds, based on that portion of the 2007-08 Special Tax attributable to the corresponding Tax Rate Area, of the total principal amount of the Bonds outstanding.

<sup>(2)</sup> Figures as shown are set forth as if no payments are made by Agency (see discussion under the heading "THE COMMUNITY FACILITY DISTRICT AND THE IMPROVEMENT AREA—Other Bonds of the District)." No special taxes are assumed to be paid from Undeveloped Property in the Improvement Area in connection with the Towngate Refunding Bonds. It is anticipated that all debt service payments in connection with the Towngate Refunding Bonds (or bonds that refund the Towngate Refunding Bonds) will be paid by the Agency. In the event special taxes are required to be levied in connection with the Towngate Refunding Bonds, Special Taxes are required to be first levied as to Developed Property. The estimated value-to-lien ratio as to the Towngate Refunding Bonds based upon Developed Property is 22:1, with the lowest ratio for any Developed Property at 11:1.

<sup>(3)</sup> Does not reflect liens other than in connection with the Bonds and the Towngate Refunding Bonds.

<sup>(4)</sup> Calculations based upon principal amount of \$4,075,000.

<sup>(5)</sup> Does not reflect \$1,200,000 that will be added to the 2008-09 assessed value due to improvements completed in July 2007.

\* The City believes that Gateway is a successor entity of the original master developer of the Mall and original owner of the parcels in Tax Rate Area 2 and that the only increases reflected in assessed value for such undeveloped Gateway Parcels since 1976 consist of increases due to inflation of up to two percent annually. The City has not retained an independent appraiser to estimate a market value of the Gateway Parcels or the remainder of the Improvement Area. However, based on certain recent sales of parcels in Tax Rate Area 2, the City believes that the market value of the undeveloped Gateway Parcels is significantly higher than the assessed values shown for undeveloped parcels in Table 7 for which ownership is shown as Gateway (and not including those Parcels for which Mimi's Restaurant and Applebee's are designated). The City has determined that, by way of example, one unimproved parcel consisting of approximately .79 acres (APN 291-110-040) was sold from Gateway to Baker's Drive-thru during July 2004. In connection with the sale of such parcel, the assessed value for the parcel involved changed from \$3,724 to \$737,116 as to land, exclusive of improvements that were added upon purchase of that parcel. Similarly, a second unimproved parcel (APN 291-110-041) also consisting of approximately .79 acres was sold from Gateway to Panda Express during June 2005. In connection with that sale, assessed value rose from \$3,724 to \$807,330, exclusive of any improvements. The City cannot represent that the market value of the Gateway Parcels will reflect a similar increase in value as evidenced with the above referenced prior sales.

Source: City of Moreno Valley.



## **SPECIAL RISK FACTORS**

The purchase of the Bonds involves significant investment risks and, therefore, the Bonds are not suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of taxpayers in the Improvement Area to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Improvement Area. See “—Property Values” and “—Limited Secondary Market” below.

### **Risks of Real Estate Secured Investments Generally**

The 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 the vicinity of the Improvement Area, 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; and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses.

### **Limited Obligations**

The Bonds and interest thereon are not payable from the general funds of the Agency, the City or the District. Except with respect to the Special Taxes, neither the faith and credit nor the taxing power of the District, the City or the Agency is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Indenture, no Owner of the Bonds may compel the exercise of any taxing power by the District, the City or force the forfeiture of any District property. The principal of, premium, if any, and interest on the Bonds are not a debt or a legal or equitable pledge, charge, lien or encumbrance upon any of the District’s property or upon any of the District’s income, receipts or revenues, except the Special Taxes and other amounts pledged under the Indenture. Special Tax revenues could be insufficient to pay debt service on the Bonds as a result of delinquencies in the payment of Special Taxes or the insufficiency of proceeds derived from the sale of land within the District following a delinquency in the payment of the applicable Special Tax. The District has no obligation to pay debt service on the Bonds in the event of insufficient Special Tax revenues except to the extent that money is available for such purpose in the Reserve Account. The District’s only obligation with respect to delinquent Special Taxes is to pursue judicial foreclosure proceedings under the circumstances described in the Indenture. “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Covenant to Foreclose; Proceeds of Foreclosure Sales*” herein.

### **Insufficiency of Special Taxes**

Under the Rate and Method set forth in Appendix A hereto, the annual amount of Special Tax to be levied on each taxable parcel in the Improvement Area will generally be based on the land use class to which a parcel is assigned. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” and see discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Rate and Method of Apportionment of Special Tax.*”

Based on current development in the District, the Maximum Special Taxes that may be levied within the Improvement Area under the Rate and Method are in excess of the sum of Administrative Expense plus 110% of Maximum Annual Debt Service on the Bonds. Notwithstanding that the Maximum Special Taxes

that may be levied in the Improvement Area exceeds debt service due on the Bonds, 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 expressly exempts all property owned by a public agency except property leased by a public agency to a private entity. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” herein. The Act provides that, if any property within the Improvement Area 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 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 Act have not been tested in the courts. **If a substantial portion of land within the Improvement Area were to become owned by public agencies, collections of the Special Tax might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.**

### **Natural and Man-made Disasters**

The Improvement Area, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the event of unseasonable rainfall. The occurrence of seismic activity, fires or flooding in or around the Improvement Area could result in substantial damage to properties in the Improvement Area 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 when due.

The nearest known fault to Moreno Valley is the San Jacinto Fault, the most historically active fault zone in Southern California. The San Jacinto Fault crosses the southwest corner of the City. Since 1986, there have been eight notable earthquakes in Southern California, each having a magnitude of five or greater on the Richter Scale. None of these resulted in injury or damage in the City. The City is within Seismic Zone 4 of the 1997 Uniform Building Code. According to the Division of Mines and Geology, the San Jacinto Fault is the only active fault in the City.

The southerly half of the City is considered to be outside the 500-year floodplain, as shown on the Flood Insurance Rate Map (FIRM) dated March 18, 1996. The northerly portion of City is considered to be protected from the 100-year flood by a Federal flood protection system currently under construction. Upon certification of completion of this project by the U.S. Army Corps of Engineers, the City anticipates the revised FIRM will show the entire City to be free of flood risk.

### **Hazardous Substances**

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. 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.

The District has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within the Improvement Area has a current liability related to hazardous substances with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the taxable 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 and the willingness or ability of the owner of any affected parcel to pay the Special Tax installments when due.

### **Property Taxes and Special Assessments**

Property within the Improvement Area is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within the Improvement Area. See “THE COMMUNITY FACILITIES DISTRICT AND THE IMPROVEMENT AREA—Direct and Overlapping Debt.” All of the taxable property within the Improvement Area is subject to the levy of special taxes levied by the District.

The Special Taxes and any penalties thereon will constitute a lien against the assessor’s parcels on which they will be annually imposed until they are paid. Such lien is on parity with all special taxes and special assessments levied on the property and is co-equal to and independent of the lien for general 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 except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See “—Bankruptcy and Foreclosure” below.

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 parity with all special taxes and special assessments and is co-equal to and independent of the lien for general 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. The imposition of additional special taxes, special assessments and general property taxes will increase the amount of parity and co-equal liens which must be satisfied in foreclosure. Currently, there are bonds outstanding in the amount of \$11,605,000 (consisting of \$10,710,000 outstanding amount of 1994A Bonds and \$2,340,000 outstanding amount of 1994B Bonds), which are on a parity with the Bonds with respect to the lien of the Special Tax. Upon the refunding of the Improvement Area Bonds, which the City anticipates will occur prior to December 31, 2007, such refunding bonds will be on parity with the Bonds with respect to the lien of the Special Taxes.

**Neither the City nor the District 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 District. In addition, the owners of the assessed parcels within the District may, without the consent or knowledge of the City, 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 parity with the Special Taxes and could reduce the estimated value-to-lien ratios for the property within the District described herein. See discussion under the headings “SOURCES OF PAYMENT FOR THE BONDS” and “THE COMMUNITY FACILITIES DISTRICT AND THE IMPROVEMENT AREA—Direct and Overlapping Debt” and “—Estimated Assessed Value-To-Lien Ratios.”**

***Property Ownership.*** Ownership of property in the District is not diversified; see Table 2 and discussion under the heading “THE COMMUNITY FACILITIES DISTRICT AND THE IMPROVEMENT

AREA—Improvement Area Development; Additional TownGate Development.” Failure of the property owners to pay the annual Special Taxes when due could result in the rapid total depletion of the Reserve Accounts prior to reimbursement from the resales of property or delinquency redemptions. In addition, the only asset of each owner of property within the Improvement Area which constitutes security for the Bonds is his or her real property holdings located within the Improvement Area.

**Additional Debt.** The ability of any owner of land within the Improvement Area to pay the Special Taxes could be adversely affected if additional debt is issued which is payable by the owners of such land within the Improvement Area or otherwise within the District. The land could become subject to additional debt by the imposition of other taxes and assessments by the District or other public agencies.

**Maximum Tax.** A Maximum Tax has been established with respect to the property located within the Improvement Area. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” Even though it is unlikely that large areas will be exempted, under certain circumstances, the Maximum Tax may not be sufficient. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

### **Disclosures to Future Purchasers**

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value of the parcel is sufficient 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 City has caused a notice of the Special Tax lien to be recorded in the Office of the Recorder for the County against each parcel. 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 Improvement Area or lending of money thereon.

The 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.

### **Special Tax Delinquencies**

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within the District on the regular *ad valorem* property tax bills sent to owners of such properties by the County Tax Collector.

Delinquencies in the payment of Special Taxes have not been experienced within the District; however, no assurances can be given that such delinquencies may not occur in the future. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Covenant to Foreclose; Proceeds of Foreclosure Sales*,” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Indenture, 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 foreclosure on the lien of the Special Taxes in certain circumstances.

## **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 value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the District has no recourse against the owner.

## **Property Values**

The value of the property within the Improvement Area is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the District's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations or other events will adversely impact the security underlying the Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT AND THE IMPROVEMENT AREA—Estimated Assessed Value-to-Lien Ratios" herein.

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, adjusted annually by an amount determined by the Riverside County Assessor, generally not to exceed an increase of more than 2% per fiscal year. No assurance can be given that a parcel could actually be sold for its assessed value.

Prospective purchasers of the Bonds should not assume that the assessed parcels within the Improvement Area could be sold for its assessed value at a foreclosure sale for delinquent Special Taxes.

No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Covenant to Foreclose; Proceeds of Foreclosure Sales.*"

## **FDIC/Federal Government Interests in Properties**

The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the FDIC or other federal agencies have an interest. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition,

the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the Improvement Area 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 could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, a default in payment on the Bonds.

### **Bankruptcy and Foreclosure**

Bankruptcy, insolvency and other laws generally affecting creditors' rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners' taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Covenant to Foreclose; Proceeds of Foreclosure Sales.*" In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount and priority of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in procuring Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full.

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

### **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 on the Bonds or under the Indenture.

### **Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS" herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Indenture with respect to compliance with certain provisions of the Internal Revenue Code of 1986. Should such an event of

taxability occur, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

### **Limitations on Remedies**

Remedies available to the owners of the 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 Bonds or to preserve the tax-exempt status of any Bonds sold on a tax-exempt basis.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the exercise of judicial discretion. 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 Bonds.

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District has committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. See discussion under the heading "CONTINUING DISCLOSURE." The failure to provide the required annual financial 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, or because of 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.

### **Proceedings to Reduce or Terminate the Special Tax**

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 otherwise available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article XIII C 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 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 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 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 July 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 Bonds.

It may be possible, however, for voters or the Governing Board of the City acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. 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 Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted to not consent or conduct proceedings with respect to a reduction in the Maximum Special Taxes that may be levied in the Improvement Area.

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.”

### **Ballot Initiatives**

Article XIII A, Article XIII B, Article XIII C and Article XIII D were adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations.

Proposition 218, a constitutional initiative known as the Right to Vote on Taxes Act, was approved by California voters in November 1996. CFD 87-1 (Towngate) was established to finance the capital costs for roadway improvements, including grading, paving, sewers, sidewalks, landscaping, etc. Bonds were issued to provide funding for these improvements. Only properties benefiting from the improvements have annual special tax levies placed on the property tax roll to repay the bonded indebtedness. Due to these factors, CFD 87-1 (Towngate) Bonds are exempt from the provisions of Proposition 218. Subsequent increases, not addressed in the original Report, will be subject to a two-thirds voter approval.

### **CONTINUING DISCLOSURE**

The District has covenanted in a Continuing Disclosure Agreement for the benefit of the Owners of the Bonds to provide annually certain financial information and operating data, and to provide notices of the occurrence of certain enumerated events, if material. See APPENDIX C—“FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE DISTRICT.” The covenants of the District have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2 12(b)(5) (the “Rule”). The District has never failed to comply with any undertaking under the Rule.

### **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, 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. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest (and original issue discount) on the Bonds may be included as an adjustment in the



calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the 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. The amount of original issue discount that accrues to the owner of the Bond is excluded from 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 for federal income tax purposes of interest on the Bonds (and original issue discount) is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the 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 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

It is possible that subsequent to the issuance of the 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 Bonds or the market value of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes or interpretations will not occur. On May 21, 2007, the U.S. Supreme Court agreed to review a Kentucky state court decision, in the matter of *Kentucky v. Davis*, on the issue of whether the U.S. Constitution commerce clause precludes states from giving more favorable tax treatment to state and local government bonds issued within that state than the tax treatment given bonds issued outside that state. The outcome of this or any similar case cannot be predicted, but the ultimate result could be a change in the treatment for state tax purposes of interest on the Bonds. If the *Kentucky v. Davis* decision is affirmed by the United States Supreme Court, states such as California may be required to eliminate the disparity between the income tax treatment of out-of-state tax-exempt obligations and the income tax treatment of in-state tax-exempt obligations, such as the Bonds. The impact of such a United States Supreme Court decision may also affect the market price for, or the marketability of the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding this matter.

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 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. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 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 Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Indenture and the Tax Certificate relating to the 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 effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any Bond as to which 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 has rendered an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 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 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

### **LEGAL MATTERS**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. The form of Bond Counsel's opinion with respect to the Bonds is attached as Appendix D. Certain legal matters will be passed on for the Underwriter by its counsel, Best Best & Krieger LLP and for the Agency, the City and the District by Robert D. Herrick, City Attorney and General Counsel. Bond Counsel and Disclosure Counsel expresses no opinion to the owners of the Bonds as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Bonds, and expressly disclaims any duty to advise the owners of the Bonds as to matters related to the Official Statement.

### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Upon delivery of the Bonds, Grant Thornton, LLP, independent certified public accountants, will deliver a report stating that the firm has verified the mathematical accuracy of (a) certain computations relating to the adequacy of the Federal Securities (as defined in the Escrow Agreement) and the interest thereon to pay when due the redemption price, and interest due and to become due on the Prior Bonds on and prior to the redemption date thereof, and (b) the computations of the yields of the Bonds and of investments in the Escrow Fund.

### **LITIGATION**

No litigation is pending or threatened concerning the validity of the Bonds or the pledge of Special Taxes to repay the Bonds and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened which questions the existence of the District or the District or contests the authority of the District to levy and collect the Special Taxes or to issue and retire the Bonds.

### **NO RATING**

The District has not made and does not contemplate making application to any rating agency for the assignment of a rating of the Bonds.

## **UNDERWRITING**

The Bonds are being purchased by E. J. De La Rosa & Co., Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$3,956,720.95 (being \$4,075,000.00 aggregate principal amount thereof, less Underwriter's discount of \$57,154.05 and net original issue discount of \$61,125.00). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

## **FINANCIAL INTERESTS**

The fees being paid to the Bond Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

## **PENDING LEGISLATION**

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

## **ADDITIONAL INFORMATION**

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions.

The execution and delivery of this Official Statement by the Finance Director/City Treasurer of the City has been duly authorized by the City Council of the City acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 87-1  
(TOWNGATE), CITY OF MORENO VALLEY,  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

By: /s/ Steven M. Chapman  
Finance Director/City Treasurer

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## APPENDIX A

### RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

A Special Tax shall be applicable to each Parcel (defined below) located in the Improvement Area of the District. The amount of Special Tax to be collected from a Parcel in any Fiscal Year (defined below) shall be determined in accordance with the rates and method of apportionment described below. All of the property in the Improvement Area, unless exempted by law or Section D below, shall be taxed for the purposes, to the extent and in the manner provided herein. The Special Taxes for the Improvement Area shall be levied in addition to the other special taxes for the District.

#### A. DEFINITIONS

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

“**Construction and Funding Agreement**” means the Construction and Funding Agreement, dated November 3, 1987, between the District and RIR Associates, as amended, modified or supplemented from time to time including that certain Agreement Amending and Supplementing Construction and Funding Agreement (CFD No. 87-1).

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

“**Improvement Area**” means Improvement Area No. 1 of Community Facilities District No. 87-1 and shall include Lots Two, Four and Seven of Tract Map No. 22049 as recorded in Map Book 177, Pages 1 through 8, inclusive, Records of Riverside County, California.

“**Improvement Area Bonds**” means the bonds of the Improvement Area which are to be issued to finance the construction and acquisition of the Improvement Area Public Facilities.

“**Improvement Area Public Facilities**” means the improvements which are to be financed with the proceeds of the Improvement Area Bonds and which are identified in the Resolution establishing the Improvement Area.

“**Maximum Special Tax**” means the Maximum Special Tax, determined in accordance with Section B below, that can be levied in any Fiscal Year on a Parcel of Taxable Property.

“**Parcel**” means a lot or parcel shown on an Assessor’s Parcel Map with an assigned Assessor’s Parcel number as of the date of the levy of the Special Taxes for each Fiscal Year.

“**Property Tax Increment**” means the property tax increment attributable to Specific Plan No. 200 authorized pursuant to Section 33670(b) of the California Health and Safety Code, that may become available from time to time as set forth in Section 304.1 of the Owner Participation Agreement for the Towngate project, as approved by the City of Moreno Valley Redevelopment Agency on or about October 3, 1990, as the same may be modified, amended, or supplemented.

“**Reserve Fund**” means the reserve fund for the Improvement Area Bonds.

“**Special Tax(es)**” means the Special Taxes to be levied in each Fiscal Year on all Parcels of Taxable Property to fund the Tax Rate Area 1 Special Tax Requirement and the Tax Rate Area 2 Special Tax Requirement.

“**Taxable Acre**” means an acre or portion of an acre of a Parcel of Taxable Property as indicated by the latest Assessor’s Parcel Map for each Fiscal Year.

“**Taxable Property**” means all Parcels in the Improvement Area which are not exempt from the levy of Special Taxes pursuant to law or Section D below.

“**Tax Rate Area 1**” means all Parcels of Taxable Property located on Lot 2 of Tract Map No. 22049 as recorded in Map Book 117, Pages 1 through 8, Records of Riverside County, California.

“**Tax Rate Area 2**” means all Parcels of Taxable Property located on Lots 4 and 7 of Tract Map No. 22049 as recorded in Map Book 177, Pages 1 through 8, Records of Riverside County, California.

“**Tax Rate Area 1 Special Tax Requirement**” means that amount required in any Fiscal Year to pay (1) fifty-nine percent (59%) of (a) debt service on the Improvement Area Bonds, (b) costs incurred by the City and the District in the annual levy and collection of the Special Taxes, and (c) the administration costs of the City and the District with respect to the Improvement Area Bonds, and (2) any amounts required to replenish the Reserve Fund for withdrawals from the Reserve Fund resulting from the delinquency in the payment of Special Taxes on Parcels within Tax Rate Area 1. In determining the Tax Rate Area 1 Special Tax Requirement for a Fiscal Year, Items (1) and (2) shall be reduced by (3) fifty-nine percent (59%) of the following: (a) Property Tax Increment, (b) Reserve Fund earnings, and (c) other interest earnings described in the bond resolution for the Improvement Area Bonds reasonably expected to be available, except those earnings that may be required for arbitrage rebate purposes, and (4) any amount received by the District, which pursuant to the Construction and Funding Agreement should be applied to reduce Special Taxes levied in Tax Rate Area 1.

“**Tax Rate Area 2 Special Tax Requirement**” means that amount required in any Fiscal Year to pay (1) forty-one (41%) of (a) debt service on the Improvement Area Bonds, (b) costs incurred by the City and the District in the annual levy and collection of the Special Taxes, and (c) the administration costs of the City and the District with respect to the Improvement Area Bonds, and (2) any amounts required to replenish the Reserve Fund for withdrawals from the Reserve Fund resulting from the delinquency in the payment of Special Taxes on Parcels within Tax Rate Area 2. In determining the Tax Rate Area 2 Special Tax Requirement for a Fiscal Year, Items (1) and (2) shall be reduced by (3) forty-one (41%) of the following: (a) Property Tax Increment, (b) Reserve Fund earnings, and (c) other interest earnings described in the bond resolution for the Improvement Area Bonds reasonably expected to be available, except those earnings that may be required for arbitrage rebate purposes, and (4) any amount received by the District, which pursuant to the Construction and Funding Agreement should be applied to reduce Special Taxes levied in Tax Rate Area 2.

**B. MAXIMUM SPECIAL TAX RATES**

The Maximum Special Tax per Taxable Acre for Parcels within each Tax Rate Area for each Fiscal Year shall be the amounts set forth in Table 1 below.

**TABLE 1  
MAXIMUM SPECIAL TAX**

<i>Tax Rate Area</i>	<i>Maximum Tax Rate</i>
1	\$4,450 per Taxable Acre
2	\$3,850 per Taxable Acre

**C. METHOD OF APPORTIONMENT OF THE SPECIAL TAXES**

**1. Tax Rate Area 1.**

On or prior to August 1 of each year the Tax Rate Area 1 Special Tax Requirement shall be determined and the applicable Special Taxes within Tax Rate Area 1 shall be levied as follows:

The Special Taxes shall be levied at a uniform rate per Taxable Acre on all Parcels of Taxable Property within Tax Rate Area 1, up to the Maximum Special Tax therefor, to generate Special Tax revenues equal to the Tax Rate Area 1 Special Tax Requirement.

**2. Tax Rate Area 2.**

On or prior to August 1 of each year the Tax Rate Area 2 Special Tax Requirement shall be determined and the applicable Special Taxes within Tax Rate Area 2 shall be levied as follows:

The Special Taxes shall be levied at a uniform rate per Taxable Acre on all Parcels of Taxable Property within Tax Rate Area 2, up to the Maximum Special Tax therefor, to generate Special Tax revenues equal to the Tax Rate Area 2 Special Tax Requirement.

**D. EXEMPTIONS**

The Council shall not levy a Special Tax on:

- Properties owned by state, federal, or other local governments, except as otherwise provided in Sections 53317.3, 53317.5 or 53340.1 of the California Government Code.
- Lots A, B, C, D, and E as shown on Tract Map No. 22049 as recorded in Map Book 117, Pages 1 through 8, Records of Riverside County, California.

Parcels or portions of Parcels conveyed or irrevocably offered for dedication to a public agency after formulation of the Improvement Area, and not otherwise exempt pursuant to this Section D, shall be subject to the levy of the Special Taxes pursuant to Sections 53317.3, 53317.5 or 53340.1 of the California Government Code.

**E. MANNER OF COLLECTION**

The Special Taxes shall be collected in the same manner and at the same time as *ad valorem* property taxes, except that (i) the City Council may authorize direct billing of Special Taxes, (ii) the Special Taxes may be prepaid as provided for herein, and (iii) the City Council may authorize the collection of delinquent Special Taxes by judicial foreclosure proceedings pursuant to Section 53356.1 of the California Government Code. Additionally, the Special Taxes shall be subject to the same penalties and the same procedure, sale, and lien priority in the case of delinquency as provided for *ad valorem* taxes.

**F. APPEALS AND INTERPRETATION PROCEDURE**

Any landowner or resident who feels that the amount or formula of the Special Tax as applied to a specific Parcel is in error may file a notice with the City Council as the Legislative Body of the District appealing the levy of the Special Tax. An appeals panel of three (3) members (the "Appeals Board"), as appointed by the City Council, will then meet and promptly review the appeal, and if necessary, meet with the applicant. If the findings of the Appeals Board verify that the tax should be modified or changed, a recommendation at that time will be made to the City Council as the

Legislative Body of the District and, as appropriate, the Special Tax levy shall be corrected. If applicable in any case, a refund shall be granted.

Interpretations may be made by the City Council as the Legislative Body of the District by resolution for purposes of clarifying any vagueness or ambiguity as it relates to any area, rate or definition applicable to these proceedings.

**G. PREPAYMENT AND SATISFACTION OF SPECIAL TAX OBLIGATION**

**1. Prepayment of Special Taxes for Tax Rate Area 1.**

The Special Tax obligation for a Parcel in Tax Rate Area 1 may be prepaid and permanently satisfied by the owner thereof by making a one-time payment calculated as follows:

- (a) Multiply the original principal of the Improvement Area Bonds by 59% to determine the original bond amount allocable to Tax Rate Area 1.
- (b) Subtract from (a) above:
  - The principal amount of any prepayments that have been received from Parcels within Tax Rate Area 1, and
  - The principal portion of any Special Taxes levied on Parcels in Tax Rate Area 1 for previous Fiscal Years.

This amount is the Outstanding Principal for Tax Rate Area 1.

- (c) Divide the Taxable Acres of the Parcel to be prepaid by the total of all Taxable Acres of all Taxable Parcels in Tax Rate Area 1.
- (d) Multiply the Outstanding Principal amount calculated in (b) by the percentage determined in (c). This amount is the principal amount to be prepaid.
- (e) Add the following amounts to the principal amount to be prepaid:
  - Call premium as required in the bond resolution,
  - Interest on the principal amount to be prepaid at the applicable bond rate for each year from the date of prepayment to the earliest available bond call date,
  - Unpaid Special Taxes on the Parcel to be prepaid which may have been enrolled on the Assessor's Tax roll,
  - Interest and penalties, if applicable, which may be associated with unpaid Special Taxes on the Parcel to be prepaid, and
  - An administrative fee to cover the costs incurred by the District associated with calculating the prepayment amount, redeeming bonds, and preparing amended tax bills.
- (f) Subtract the following from the amount determined in (e) above:
  - The applicable portion of the Parcel's Reserve Fund, and



- Interest earnings to be generated at a reinvestment rate as determined by the District from the date of prepayment to the earliest available bond date.
- (g) The amount determined in (f) above shall be rounded up to the next highest amount which is equally divisible by \$5,000. This amount shall be the Prepayment Amount.

**2. Prepayment of Special Taxes for Tax Rate Area 2.**

This Special Tax obligation for a Parcel in Tax Rate Area 2 may be prepaid and permanently satisfied by the owner thereof by making a one-time payment calculated as follows:

- (a) Multiply the original principal of the Improvement Area Bonds by 41% to determine the original bond amount allocable to Tax Rate Area 2.
- (b) Subtract from (a) above:
- The principal amount of any prepayments that have been received from Parcels within Tax Rate Area 2, and
  - The principal portion of any Special Taxes levied on Parcels in Tax Rate Area 2 for previous Fiscal Years.

This amount is the Outstanding Principal for Tax Rate Area 2.

- (c) Divide the Taxable Acres of the Parcel to be prepaid by the total of all Taxable Acres of all Taxable Parcels in Tax Rate Area 2.
- (d) Multiply the Outstanding Principal amount calculated in (b) by the percentage determined in (c). This amount is the principal amount to be prepaid.
- (e) Add the following amounts to the principal amount to be prepaid:
- Call premium as required in the bond resolution,
  - Interest on the principal amount to be prepaid at the applicable bond rate for each year from the date of prepayment to the earliest available bond call date,
  - Unpaid Special Taxes on the Parcel be prepaid which may have been enrolled on the Assessor's Tax roll,
  - Interest and Penalties, if applicable, which may be associated with unpaid Special Taxes on the Parcel to be prepaid, and
  - An administrative fee to cover the costs incurred by the District associated with calculating the prepayment amount, redeeming bonds, and preparing amended tax bills.
- (f) Subtract the following from the amount determined in (e) above:
- The applicable portion of the Parcel's share of the Reserve Fund, and
  - Interest earnings to be generated at a reinvestment rate as determined by the District from the date of prepayment to the earliest available bond call date.

- (g) The amount determined in (f) above shall be rounded up to the next highest amount which is equally divisible by \$5,000. This amount shall be the Prepayment Amount.

## APPENDIX B

### SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Bond Indenture which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Bond Indenture for a full and complete statement of their provisions. All capitalized terms not defined in the body of the Official Statement have the meaning set forth in the Bond Indenture.

### 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 Expense Account” means the account by such name in the Special Tax Fund created and established pursuant to the Indenture.

“Administrative Expense Cap” means the amount of \$30,000 for the 2007-08 Fiscal Year, with projected increases of two percent (2%) of the amount of the administrative expenses for the preceding year.

“Administrative Expenses” means the administrative costs incurred by the City staff on behalf of the District with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Trustee, any fees for credit enhancement for the Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District’s compliance with State and federal laws requiring continuing disclosure of information concerning the Bonds and the District and arbitrage rebate, costs incurred by the District in pursuit of State funding, the premium for a reserve fund policy and any other costs otherwise incurred by the Agency staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District under the Indenture.

“ADP Amounts” means such amounts, if any, as are received by the Trustee from the City as ADP Payments.

“ADP Payments” means payments, if any, made by the City to the Trustee which are designated in writing by the City as ADP Payments.

“Agency” means the Community Redevelopment Agency of the City of Moreno Valley.

“Agency Improvement Area Agreement” means an agreement dated as of October 1, 2007 by and between the Agency and the District, entitled “Agency Improvement Area Agreement.”

“Agency Improvement Area Agreement Amounts” means such amounts as are paid by the Agency to the District under the Agency Improvement Area Agreement.

“Alternative Penalty Account” means the account by such name created and established in the Rebate Fund pursuant to the Indenture.

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

“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) For all purposes including defeasance investments in refunding escrow accounts (the Trustee is entitled to rely upon investment direction of the District as a certification that such investment is an Authorized Investment):

(a) cash; or

(b) obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are based by the full faith and credit of the U.S., including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

(2) For all purposes other than defeasance investments in refunding escrow accounts:

(a) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank, Rural Economic Community Development Administration, U.S. Maritime Administration, Small Business Administration, U.S. Department of Housing & Urban Development (PHA’s), Federal Housing Administration and Federal Financing Bank;

(b) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated “Aaa” by Moody’s or “AAA” by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation (REFCORP), senior debt obligations of the Federal Home Loan Bank System and senior debt obligations of the Student Loan Marketing Association (SLMA);

(c) U.S. dollar denominated deposit accounts and bankers’ acceptances with domestic commercial banks (including those of the Trustee and its affiliates) which have rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(d) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P and “P-1” by Moody’s and which matures not more than 270 days after the date of purchase;

(e) investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(f) pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations or any state of the United States of America of any agency, instrumentality or local governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(i) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of S&P or Moody’s or any successors thereto; or

(ii) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1)(b) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (2) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(g) municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of at least “A2/A” or higher by both Moody’s and S&P;

(h) investment agreements (supported by appropriate opinions of counsel);

(i) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name;

(j) the City of Moreno Valley Investment Fund; and

(k) other forms of investments (including repurchase agreements).

The value of the above investments shall be determined as follows:

(a) for the purpose of determining the amount of 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, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.

(b) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest.

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

To the extent that any of the requirements concerning Authorized Investments embodies a legal conclusion, the Trustee shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, that such requirement has been met.

“Authorized Representative of the District” means the City Manager, Assistant City Manager, Deputy City Manager or Finance Director of the City or any other person or persons designated by the City Council and authorized to act on behalf of the District by a written certificate signed on behalf of the City by the Finance Director of the City 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 Trustee shall keep or cause to be kept on which the registration and transfer of the Bonds shall be recorded.

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

“Bond Year” means the twelve month period commencing on October 2 of each year and ending on October 1 of the following year, except that the first Bond Year for the Bonds shall begin on the Delivery Date and end on the first October 1 which is not more than 12 months after the Delivery Date.

“Bonds” means the City of Moreno Valley Community Facilities District No. 87-1 (Towngate) Improvement Area No. 1 Special Tax Refunding Bonds.

“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 Trustee is located, are not required or authorized to remain closed.

“Certificate of the Finance Director of the City” means a written certificate or warrant request executed by the Finance Director of the City, or his or her written designee, on behalf of the District.

“Certificate of the Special Tax Administrator” means a certificate of Special Tax Administrator in its capacity as the consultant engaged by the City to administer the calculation and collection of the Special Taxes, or any successor entity acting in such capacity.

“City” means the City of Moreno Valley, California.

“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.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement between the District and Wells Fargo Bank, National Association, as dissemination agent, together with any amendments thereto.

“Costs of Issuance” means the costs and expenses incurred in connection with the issuance and sale of the Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and the preliminary and final official statements for the Bonds, fees of financial consultants, reserve fund policy premiums, the amounts necessary to create and replenish any necessary reserve accounts, remarketing, credit enhancement and related administration costs and all other related fees and expenses, as set forth in a Certificate of the Finance Director of the City.

“Delivery Date” means, for each series of Bonds, the date on which such series of Bonds were issued and delivered to the initial purchasers thereof.

“District” means Community Facilities District No. 87 1 (Towngate) of the City of Moreno Valley established pursuant to the Act and the Resolution of Formation.

“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.

“Escrow Agreement” means the Escrow Agreement (1993), dated as of October 1, 2007, by and between the District and the Escrow Bank.

“Escrow Bank” means Wells Fargo Bank, National Association, and its successors and assigns, as escrow bank under the Escrow Agreement.

“Federal Securities” means any of the investments listed in (1)(a) or (1)(b) of the definition of Authorized Investments.

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

“Gross Taxes” means the amount of all Special Taxes received by the District from Improvement Area No. 1, together with the proceeds collected from the sale of property in Improvement Area No. 1 pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions, including, but not limited to, all legal fees and expenses, court costs, consultant and title insurance fees and expenses.

“Improvement Area No. 1” means Improvement Area No. 1 of the District established pursuant to the Act and Resolution of Formation.

“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 or the City;
- (2) does not have any substantial interest, direct or indirect, in the District or the City; and
- (3) is not connected with the District or the City as a member, officer or employee of the District or the City, but who may be regularly retained to make annual or other reports to the District or the City.

“Indenture” means the Bond Indenture, together with any Supplemental Indenture entered into pursuant to the Indenture.

“Interest Account” means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“Interest Payment Date” means April 1 and October 1 commencing April 1, 2008.

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

- (1) the principal amount of all Outstanding 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 Outstanding in such Bond Year if the Bonds are retired as scheduled.

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

“National Repositories” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository  
P. O. Box 840  
Princeton, New Jersey 08542-0840  
Phone: (609) 279-3200  
Fax: (609) 279-5962

Kenny Information Systems, Inc.  
Attention: Kenny Repository Service  
65 Broadway, 16th Floor  
New York, New York 10006  
Phone: (212) 770-4595  
Fax: (212) 797-7994

Thompson NRMSIR  
Attention: Municipal Disclosure  
395 Hudson Street, 3rd Floor  
New York, New York 10014  
Phone: (212) 807-3814  
Fax: (212) 989-9282

DPC Data Inc.  
One Executive Drive  
Fort Lee, NJ 07024  
Phone: 201-346-0701  
Fax: 201-947-0107  
E-mail: nrmsir@dpcdata.com

“Net Taxes” means Gross Taxes minus amounts set aside to pay Administrative Expenses.

“Ordinance” means Ordinance No. 392 passed and adopted by the City acting as the Legislative Body of the District on March 23, 1993.

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

- (1) Bonds theretofore cancelled or surrendered for cancellation in accordance with the Indenture;
- (2) Bonds for payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds ), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture; and
- (3) Bonds which have been surrendered to the Trustee for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture.



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

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

“Prepayments” means any amounts paid by the District to the Trustee and designated by the District as a prepayment of Special Taxes for one or more parcels in the District made in accordance with the RMA.

“Principal Account” means the Account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“Principal Office of the Trustee” means the office of the Trustee located in Los Angeles, California or such other office or offices as the Trustee may designate from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued (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).

“Prior Bonds” means the City of Moreno Valley Towngate Community Facilities District No. 87 1 Improvement Area No. 1 Special Tax Bonds originally issued in the aggregate principal amount of \$5,000,000.

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

“Rebate Account” means the account by such name created and established in the Rebate Fund pursuant to the Indenture.

“Rebate Fund” means the fund by such name created and established pursuant to the Indenture.

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

“Record Date” means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

“Redemption Account” means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“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.

“Representation Letter” means the representation letter or letters from the District to DTC.

“Reserve Account” means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“Reserve Credit Facility” means a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in the Reserve Account, if any, provide an aggregate amount equal to the Reserve Requirement, so long as the provider of any such policy of insurance, surety bond, letter of credit or other comparable credit facility is rated in the highest rating category by A. M. Best & Company, Standard & Poor’s Corporation or Moody’s Investors Service.

“Reserve Requirement” means, as of any date of calculation by the District, an amount equal to the least of (1) 10% of the original proceeds of the Bonds, less original issue discount, if any, plus original issue premium, if any, or (2) Maximum Annual Debt Service, or (3) 125% of the average Annual Debt Service of the Outstanding Bonds. The Reserve Requirement will be initially satisfied with in cash.

“Resolution of Formation” means Resolution No. 92-119 adopted by the City acting as the Legislative Body of the District on November 17, 1992, pursuant to which the City acting as the Legislative Body of the District formed Improvement Area No. 1 of the District.

“RMA” means the revised Rate and Method of Apportionment of Special Tax for Improvement Area No. 1 approved by the qualified electors of the District at the February 16, 1993 election, as further amended from time to time.

“Sinking Fund Payment” means the annual payment in those years indicated in the Indenture to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Indenture to retire the Term Bonds.

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

“Special Taxes” means the taxes authorized to be levied by Improvement Area No. 1 of the District on property within Improvement Area No. 1 in accordance with the Resolution of Formation, the RMA, the Ordinance, the Act and the voter approval obtained at the February 16, 1993 election in the District and any additional special taxes authorized to be levied by the District from time to time which are pledged by Improvement Area No. 1 of the District to the repayment of the Bonds.

“Special Tax Fund” means the fund by such name created and established pursuant to the Indenture.

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

“Supplemental Indenture” means any supplemental indenture entered into in accordance with the provisions of the Indenture amending or supplementing the Indenture.

“Surplus Fund” means the Fund by such name created and established pursuant to the Indenture.

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

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

“Underwriter” means the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of a series of the Bonds.

## GENERAL AUTHORIZATION AND BOND TERMS

**Equality of Bonds and Pledge of Net Taxes and Other Amounts in the Special Fund.** Pursuant to the Act and the Indenture, the Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of (including Sinking Fund Payments) the Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are set aside for the payment of the Bonds. The Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) are pledged to the payment of the principal of, premium, if any, and interest on the Bonds. Such pledge shall constitute a first lien on such amounts. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the Indenture to the contrary, Net Taxes deposited in the Rebate Fund shall no longer be considered to be pledged to the Bonds, and none of the Rebate Fund, the Administrative Expense Account of the Special Tax Fund nor the Costs of Issuance Fund shall be construed as a trust fund held for the benefit of the Owners.

Nothing in the Indenture or any Supplemental Indenture shall preclude, subject to the limitations contained under the Indenture, the redemption prior to maturity of any Bonds subject to call and redemption and payment of said Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as amended, or under any other law of the State of California.

**Interest Rates.** Interest on each Bond of each maturity shall be payable at the respective per annum rates set forth in the Indenture or in the applicable Supplemental Indenture and shall be payable on each Interest Payment Date until maturity or earlier redemption, computed using a year of 360 days comprised of twelve 30 day months. Interest on each Bond shall accrue from the Interest Payment Date for the Bonds next preceding the date of authentication and delivery thereof, unless (i) it is authenticated after a Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest thereon shall be payable from such Interest Payment Date; or (ii) it is authenticated prior to the close of business on the first Record Date, in which event interest thereon shall be payable from the applicable Delivery Date for such series of Bonds; provided, however, that if at the time of authentication of any Bond interest thereon is in default, interest thereon shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or, if no interest has been paid or made available for payment, from the Delivery Date for such series of Bonds.

**Place and Form of Payment.** Principal of, premium, if any, and interest on the Bonds shall be payable in lawful money of the United States of America. The principal of the Bonds and any premiums due upon the redemption thereof shall be payable by check of the Trustee upon presentation and surrender thereof at the Principal Office of the Trustee, or at the designated office of any successor Trustee. Interest on any Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Trustee mailed on the applicable Interest Payment Date by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the Bond Register. In addition, upon a request in writing received by the Trustee on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of a series of the Bonds, payment shall be made on the Interest Payment Date by wire transfer in immediately available funds to an account within the United States designated by such Owner.

**Form of Bonds.** The definitive Bonds may be printed from steel engraved or lithographic plates or may be typewritten. The Bonds and the certificate of authentication shall be substantially in the form attached

to the Indenture, which form is approved and adopted as the form of such Bonds and of the certificate of authentication.

Until definitive Bonds, as applicable, shall be prepared, the District may cause to be executed and delivered in lieu of such definitive Bonds temporary bonds in typed, printed, lithographed or engraved form and in fully registered form, subject to the same provisions, limitations and conditions as are applicable in the case of definitive Bonds, except that they may be in any denominations authorized by the District. Until exchanged for definitive Bonds, as applicable, any temporary bond shall be entitled and subject to the same benefits and provisions of the Indenture as definitive Bonds. If the District issues temporary Bonds, it shall execute and furnish definitive Bonds, as applicable, without unnecessary delay and thereupon any temporary Bond may be surrendered to the Trustee at its office, without expense to the Owner, in exchange for a definitive Bond of the same issue, maturity, interest rate and principal amount in any authorized denomination. All temporary Bonds so surrendered shall be cancelled by the Trustee and shall not be reissued.

**Execution and Authentication.** The Bonds shall be signed on behalf of the District by the manual or facsimile signature of the Finance Director of the City and by the manual or facsimile signature of the City Clerk, or any duly appointed deputy City Clerk, in their capacity as officers of the District, and the seal of the District (or a facsimile thereof) may be impressed, imprinted, engraved or otherwise reproduced thereon, and attested by the signature of the City Clerk. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer before the Bonds so signed and sealed have been authenticated and delivered by the Trustee (including new Bonds delivered pursuant to the provisions of the Indenture with reference to the transfer and exchange of Bonds or to lost, stolen, destroyed or mutilated Bonds), such Bonds shall nevertheless be valid and may be authenticated and delivered as provided in the Indenture, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office.

Only the Bonds as shall bear thereon such certificate of authentication in the form set forth in the Indenture or, if applicable, a Supplemental Indenture shall be entitled to any right or benefit under the Indenture, and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee.

**Bond Register.** The Trustee will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the Bonds which shall upon reasonable prior notice be open to inspection by the District during all regular business hours, and, subject to the limitations set forth in the Indenture, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds as provided in the Indenture.

The District and the Trustee may treat the Owner of any Bond whose name appears on the Bond Register as the absolute Owner of that Bond for any and all purposes, and the District and the Trustee shall not be affected by any notice to the contrary. The District and the Trustee may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Bondowner to give written notice to the Trustee of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

**Registration of Exchange or Transfer.** Subject to the limitations set forth in the following paragraph, the registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office of the Trustee, accompanied by delivery of written instrument of transfer in a form approved by the Trustee and duly executed by the Bondowner or his or her duly authorized attorney.

Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds for other authorized denominations of the same maturity and series. The Trustee shall not collect

from the Owner any charge for any new Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer or exchange shall be paid by the District. Whenever any Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, as applicable, of the same series and maturity, for a like aggregate principal amount; provided that the Trustee shall not be required to register transfers or make exchanges of (i) Bonds from the Record Date next preceding any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

**Mutilated, Lost, Destroyed or Stolen Bonds.** If any Bond shall become mutilated, the District shall execute, and the Trustee shall authenticate and deliver, a new Bond of like tenor, date, series and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by the Trustee pursuant to the Indenture. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and, if any indemnity satisfactory to the District and the Trustee shall be given, the District shall execute and the Trustee shall authenticate and deliver, a new Bond of like tenor, maturity and series, numbered and dated as the Trustee shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued in lieu of any Bond alleged to be mutilated, lost, destroyed or stolen, shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds issued under the Indenture. The Trustee shall not treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed, authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of the Indenture, in lieu of delivering a new Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Bonds.

**Validity of Bonds.** The validity of the authorization and issuance of the Bonds shall not be affected in any way by any defect in any proceedings taken by the District, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and the recital contained in the Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

## **CREATION OF FUNDS AND APPLICATION OF REVENUES AND GROSS TAXES**

**Creation of Funds; Application of Proceeds.** The Indenture creates and establishes the following funds and accounts to be maintained by the Trustee: (a) the Improvement Area No. 1 Community Facilities District No. 87 1 (Towngate) 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); (b) the Improvement Area No. 1 Community Facilities District No. 87 1 (Towngate) Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account); (c) the Improvement Area No. 1 Community Facilities District No. 87 1 (Towngate) Surplus Fund (the "Surplus Fund"); and (e) the Improvement Area No. 1 Community Facilities District No. 87 1 (Towngate) Costs of Issuance Fund (the "Costs of Issuance Fund")

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Trustee and the Trustee shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Indenture and shall disburse investment earnings thereon in accordance with the provisions of the Indenture.

In connection with the issuance of any series of the Bonds, the Trustee, at the written direction of an Authorized Representative of the District, 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.

**Deposits to and Disbursements from Special Tax Fund.** The Trustee shall, on each date on which the Special Taxes are received from the District and on each date the Trustee receives from the Agency a payment for the benefit of the District, deposit the Special Taxes, amounts received from the Agency for the benefit of the District and any ADP Amounts in the Special Tax Fund to be applied in accordance with the terms of the Indenture. The Trustee shall transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to: (a) The Administrative Expense Account of the Special Tax Fund; (b) the Interest Account of the Special Tax Fund; (c) the Principal Account of the Special Tax Fund; (e) the Redemption Account of the Special Tax Fund; (f) the Reserve Account of the Special Tax Fund; (g) the Rebate Fund; and (h) the Surplus Fund.

At the maturity of all of the Bonds and, after all principal and interest then due on the Bonds then Outstanding has been paid or provided for and any amounts owed to the Trustee have been paid in full, moneys in any Fund and any accounts therein may be used by the District for any lawful purpose.

**Administrative Expense Account of the Special Tax Fund.** The Trustee shall not less often than annually transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses upon the written direction of an Authorized Representative of the District; provided, however, that the total deposit made to the Administrative Expense Account in any Bond Year shall not exceed the Administrative Expense 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 due in such Bond Year or unless such amounts are transferred to pay expenses directly related to the collection of delinquent Special Taxes. In the event that the Trustee has not received written direction from the District prior to March 1 of a year as to the amount to be deposited to the Administrative Expense Account of the Special Tax Fund, the Trustee shall transfer an amount equal to one-half of the Administrative Expense Cap to the Administrative Expense Account of the Special Tax Fund and notify the District, in writing, of such transfer. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by an Authorized Representative of the District. An Authorized Representative of the District may direct the Trustee, in writing, to transfer all or a portion of the balance in the Administrative Expense Account of the Special Tax Fund to another Fund or Account or to the Agency or a third party.

**Interest Account and Principal Account of the Special Tax Fund.** The principal of and interest due on the Bonds until maturity, other than principal due upon redemption, shall be paid by the Trustee 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 will be made when due, after making the transfer required by the Indenture, at least five Business Days prior to each April 1 and October 1, the Trustee shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; 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, 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:

(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 on said Interest Payment Date and any installment of interest on the Bonds 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 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 October 1 of each year, commencing October 1, 2008, shall equal the principal payment due on the Bonds maturing on such October 1, any Sinking Fund Payment due on October 1 and any principal payment or Sinking Fund Payment on the Bonds due on a previous October 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds as the same become due at maturity and by Sinking Fund Payment.

**Redemption Account of the Special Tax Fund.**

(a) After making the deposits to the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Indenture, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Indenture or in any Supplemental Indenture, upon the written direction of an Authorized Representative of the District, the Trustee shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the interest, the principal and the premiums, if any, payable on the Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(b) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and shall be applied on or after the redemption date to the payment of the principal of and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds and to pay the interest thereon; 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 in the manner provided in the future. Purchases of Outstanding 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 Indenture or in the applicable Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the Bonds on the next following Interest Payment Date.

**Reserve Account of the Special Tax Fund.** There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. Notwithstanding any provision of the Indenture to the contrary, the amounts in the Reserve Account shall be applied as follows:

(a) 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 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 and for the purpose of making any required transfer to the Rebate Fund pursuant to the Indenture upon written direction from the District. If the amounts in the Interest Account or the Principal Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Trustee shall withdraw from the Reserve Account for deposit in the Interest Account and the Principal Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to in the Indenture, the Trustee 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 Trustee determines that such amounts will not be needed to make the deposits required to be made to the

Interest Account or the Principal 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 fully 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.

(c) In connection with an optional redemption of the Bonds under the Indenture or in accordance with any Supplemental Indenture, or a partial defeasance of the Bonds in accordance with the Indenture, 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 a series of the Bonds, amounts in the Reserve Account may be applied, upon direction of the District, to pay the principal of and interest due on such series of the Bonds in such final Bond Year. 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 April 1 and October 1 and transferred to the Interest Account of the Special Tax Fund.

(d) The District may at any time elect to maintain the Reserve Requirement in whole or in part by obtaining a Reserve Credit Facility. In the case of such an election, the District will direct the Trustee to acquire such Reserve Credit Facility and to pay from money in the Reserve Account the costs associated with the acquisition of the Reserve Credit Facility. Any money in the Reserve Account after the acquisition of such Reserve Credit Facility and payment of the appropriate costs shall be transferred to or at the direction of the District for its lawful purposes. In the event any such Reserve Credit Facility is so acquired, the Trustee shall draw on it in accordance with its terms (i) when and if moneys are needed pursuant to the provisions of the Indenture; provided, however, that the Trustee must make demand at least five (5) days prior to the date that such funds are needed; and (ii) prior to the stated maturity of such Reserve Credit Facility. In the event the Reserve Requirement is satisfied by a combination of cash and a Reserve Credit Facility, the Trustee shall draw down completely on the cash on deposit for such purpose in the Reserve Account before any demand is made on the Reserve Credit Facility.

(e) The Reserve Account will initially be funded by the deposit of cash in an amount equal to the Reserve Requirement. The Indenture may be amended without the consent of the Owners to provide for the delivery of a Reserve Credit Facility; provided, however, the payment of amounts drawn by the Trustee on the Reserve Credit Facility and any related fees or expenses shall be subordinate to the payment of the principal of and interest on the Bonds.

#### **Rebate Fund.**

(a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternative Penalty Account shall be established for each series of Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with respect to a series of the Bonds shall be governed by the Indenture and the Tax Certificate for such series, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on the Bonds will not be adversely affected if such requirements are not satisfied.

(i) **Rebate Account.** The following requirements shall be satisfied with respect to each subaccount of the Rebate Account:



(A) **Computation.** Within 55 days of the end of the fifth Bond Year for each series of Bonds and each fifth Bond Year thereafter, the District shall calculate or cause to be calculated the amount of rebatable arbitrage for each series of Bonds to which the Indenture is applicable, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage described in the Tax Certificate for each issue (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Rebate Regulations (the “Rebatable Arbitrage”). The District shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

(B) **Annual Transfer.** Within 55 days of the end of each Bond Year for which Rebatable Arbitrage must be calculated as required by the Tax Certificate for each series of the Bonds, upon the written direction of an Authorized Representative of the District, an amount shall be deposited to each subaccount of the Rebate Account by the Trustee from any funds so designated by the District if and to the extent required, so that the balance in the Rebate Account shall equal the amount of Rebatable Arbitrage so calculated by or on behalf of the District in accordance with the Indenture with respect to each series of Bonds to which the Indenture is applicable. In the event that immediately following any transfer required by the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit to the credit of the applicable subaccount of the Rebate Account exceeds the amount required to be on deposit therein, upon written instructions from an Authorized Representative of the District, the Trustee shall withdraw the excess from the appropriate subaccount of the Rebate Account and then credit the excess to the Special Tax Fund.

(C) **Payment to the Treasury.** The Trustee shall pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in each subaccount of the Rebate Account,

(X) Not later than 60 days after the end of (A) the fifth Bond Year for each series of Bonds to which the Indenture is applicable, and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year for each series of Bonds, as applicable; and

(Y) Not later than 60 days after the payment or redemption of all of a series of Bonds, as applicable, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, the District shall calculate or cause to be calculated the amount of such deficiency and deposit with the Trustee an amount received from any legally available source equal to such deficiency or direct the Trustee, in writing, to transfer to the Rebate Account amounts held by the Trustee under the Indenture which are permitted to be transferred prior to the time such payment is due. Each payment required to be made pursuant to the Indenture shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T prepared by the District, or shall be made in such other manner as provided under the Code.

(ii) **Alternative Penalty Account.**

(A) **Six-Month Computation.** If the 1½% Penalty has been elected for a series of Bonds, within 85 days of each particular Six-Month Period, the District shall determine or cause to

be determined whether the 1½% Penalty is payable (and the amount of such penalty) as of the close of the applicable Six-Month Period. The District shall obtain expert advice in making such determinations.

(B) **Six-Month Transfer.** Within 85 days of the close of each Six-Month Period, the Trustee, at the written direction of an Authorized Representative of the District, shall deposit an amount in the appropriate subaccounts of the Alternative Penalty Account from any source of funds held by the Trustee pursuant to the Indenture and designated by the District in such written directions or provided to it by the District, if and to the extent required, so that the balance in each subaccount of the Alternative Penalty Account equals the amount of 1½% Penalty due and payable to the United States Treasury determined as provided in the Indenture. In the event that immediately following any transfer provided for in the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit in a subaccount of the Alternative Penalty Account exceeds the amount required to be on deposit therein to make the payments required by the Indenture, the Trustee, at the written direction of an Authorized Representative of the District, shall withdraw the excess from the applicable subaccount of the Alternative Penalty Account and credit the excess to the Special Tax Fund.

(C) **Payment to the Treasury.** The Trustee shall pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in a subaccount of the Alternative Penalty Account, specified by the District in writing not later than 90 days after the close of each Six-Month Period the 1½% Penalty, if applicable and payable, computed with respect to any series of Bonds in accordance with Section 148(f)(4) of the Code. In the event that, prior to the time of any payment required to be made from a subaccount of the Alternative Penalty Account, the amount in such subaccount is not sufficient to make such payment when such payment is due, the District shall calculate the amount of such deficiency and deposit with the Trustee an amount equal to such deficiency into such subaccount of the Alternative Penalty Account or direct the Trustee, in writing, to transfer to the Alternative Penalty Account amounts held by the Trustee under the Indenture which are permitted to be transferred prior to the time such payment is due. Each payment required to be made pursuant to the Indenture shall be made to the Internal Revenue Service, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T prepared by the District or shall be made in such other manner as provided under the Code.

(b) **Disposition of Unexpended Funds.** Any funds remaining in the Accounts of the Rebate Fund with respect to a series of Bonds after redemption and payment of such issue and after making the payments described in Subsection the Indenture, shall be withdrawn by the Trustee at the written direction of the District and utilized in any lawful manner pursuant to the Act.

(c) **Survival of Defeasance and Final Payment.** Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture shall survive the defeasance and final payment of any Bonds with respect to which an Account has been created in the Rebate Fund.

(d) **Amendment Without Consent of Owners.** The Indenture may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any series of Bonds issued on a tax exempt basis.

(e) **Trustee Responsibility.** The Trustee shall be deemed conclusively to have complied with its obligations with respect to the Rebate Fund and any amounts required to be rebated to the United States Treasury under the Indenture by following the directions given by the District pursuant to the Indenture, and no other obligations of the Trustee shall be implied under the Indenture.

**Surplus Fund.** After making the transfers required by the Indenture, as soon as practicable after each October 1, and in any event prior to each January 1, the Trustee shall transfer all remaining amounts in the Special Tax Fund, if any, to the Surplus Fund, unless directed, in writing, by an Authorized Representative of the District to return a specified amount in the Special Tax Fund. Moneys deposited in the Surplus Fund shall be transferred by the Trustee, at the written direction of the District, (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 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, and (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. In the event unexpended amounts remain on deposit in the Surplus Fund after the foregoing transfers, if any, the District shall apply such unexpended amounts, in its sole discretion, either (i) to pay Costs of Issuance, (ii) to reduce the next fiscal year's Special Tax levy by depositing such amount in the Special Tax Fund, or (iii) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds and may be used by the District for any lawful purpose in the manner described in the Indenture. 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, upon the written direction of the District, the Trustee 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 series of 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 Bonds which were issued on a tax-exempt basis for federal income tax purposes.

**Costs of Issuance Fund.**

(a) The moneys in the Costs of Issuance Fund shall be applied exclusively to pay the Costs of Issuance. Amounts for Costs of Issuance shall be disbursed by the Trustee from the Costs of Issuance Fund pursuant to a Certificate of the Finance Director of the City, substantially in the form attached to the Indenture, which must be submitted in connection with each requested disbursement. Each such Certificate of the Finance Director of the City shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

(b) Upon receipt of a Certificate of the Finance Director of the City that all or a specified portion of the amount remaining in the Costs of Issuance Fund is no longer needed to pay Costs of Issuance, the Trustee shall transfer all or such specified portion of the moneys remaining on deposit in the Costs of Issuance Fund to the Surplus Fund. Once there is no amount remaining in the Costs of Issuance Fund, it shall be closed.

**Investments.** Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the written direction of an Authorized Representative of the District 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 Costs of Issuance Fund, Surplus Fund, and the Rebate Fund and each Account therein shall be deposited in those respective Funds and Accounts, (ii) investment earnings on all amounts deposited in the Reserve Account shall be deposited therein to be applied as set forth in the Indenture, and (iii)

all other investment earnings shall be deposited in the Costs of Issuance Fund until the balance therein equals zero and thereafter shall be deposited in the Interest Account of the Special Tax Fund. Moneys in the Funds, Accounts and Subaccounts held under the Indenture may be invested by the Trustee on the written direction of the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or are available for withdrawal from the Authorized Investment without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds as the same become due.

(b) Moneys in the Costs of Issuance 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 Costs of Issuance Fund. Notwithstanding anything in the Indenture to the contrary, amounts in the Costs of Issuance Fund on the Delivery Date for the Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.

(c) One half of the amount in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which mature not later than two years from their date of purchase by the Trustee, and one half of the amount in the Reserve Account may be invested only in Authorized Investments which mature not more than three years from the date of purchase by the Trustee; provided that such amounts may be invested in an Authorized Investment to the final maturity of Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to a series of the Bonds shall mature later than the respective final maturity date of the Bonds of such series. Notwithstanding anything in the Indenture to the contrary, amounts in the Reserve Account on each Delivery Date for a series of the Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clauses (1) and (2)(e) 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 Indenture. The Trustee shall be deemed conclusively to have complied with any yield restrictions set forth in the Indenture if it follows the directions of the District.

(e) In the absence of written investment directions from the District, the Trustee shall invest solely in Authorized Investments specified in clause (2)(e) of the definition thereof.

The Trustee shall sell, 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, except that amounts in the Reserve Account shall be valued at the market value thereof and marked to market at least annually. In making any valuations of investments under the Indenture, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon. Notwithstanding anything in the Indenture to the contrary, the Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture. The Trustee may act as principal or agent in connection with the acquisition or disposition of any Authorized Investments. Any Authorized Investments that are registrable securities shall be registered in the name of the Trustee.

For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture (other than the Rebate Fund) but shall account for each separately.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

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

## **COVENANTS AND WARRANTY**

**Warranty.** The District shall preserve and protect the security pledged under the Indenture to the Bonds against all claims and demands of all persons.

**Covenants.** So long as any of the Bonds issued under the Indenture are Outstanding and unpaid, the District makes the following covenants under the Indenture with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the 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 under the Indenture that it will receive all Special Taxes in trust and will immediately deposit such amounts with the Trustee, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District covenants under the Indenture that so long as the Bonds are outstanding, the District will not issue bonds senior to the Bonds or on a parity with the Bonds (other than Parity Bonds issued under the Indenture) secured by amounts paid under the Agency Improvement Area Agreement.

The District covenants under the Indenture that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and in accordance with the Indenture to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created under the Indenture will be made, all in strict conformity with the terms of the Bonds and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and of the Bonds issued under the Indenture.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, except bonds refunding the Bonds as set forth in the Indenture. Nothing in the Indenture shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds.

(b) **Levy of Special Tax.** The District covenants under the Indenture to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and deemed available by the District for such purpose, to pay (1) the principal (including Sinking Fund Payments) of and interest on the Bonds when due, (2) to the extent permitted by law, the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement.

(c) **Commence Foreclosure Proceedings.** The District covenants under the Indenture for the benefit of the Owners of the Bonds that it (i) will commence judicial foreclosure proceedings against all parcels owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$1,000 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 90% of the total Special Taxes levied for such Fiscal Year, and (iii) will diligently pursue such foreclosure proceedings in accordance with the provisions of the Act and applicable law until the delinquent Special Taxes are paid.

The District covenants under the Indenture that it will deposit the proceeds of any foreclosure which constitute Net Taxes in the Special Tax Fund.

(a) **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 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 then Outstanding; provided that nothing contained in the Indenture 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.

(b) **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, with reasonable prior notice, be subject to the inspection of the Owners of not less than 10% of the principal amount of the Bonds then Outstanding or their representatives authorized in writing.

(c) **Federal Tax Covenants.** Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on any Bonds will not be adversely affected for federal income tax purposes, the District covenants under the Indenture 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:

(i) **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 of any other monies or property which would cause any 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;

(ii) **Arbitrage.** The District will make no use of the proceeds of the 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 any 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;

(iii) **Federal Guaranty.** The District will make no use of the proceeds of the Bonds or take or omit to take any action that would cause any 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;

(iv) **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;

(v) **Hedge Bonds.** The District will make no use of the proceeds of the Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause any 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 any Bonds issued on a tax-exempt basis; and

(vi) **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 for each series of the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture, including payment of amounts required to pay any rebate amounts owing to the United States on the Bonds.

(viii) **Other Tax Exempt Issues.** The District will not use proceeds of other tax exempt securities to redeem any Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on any Bonds issued on a tax-exempt basis.

(ix) **Subsequent Opinions.** If the District obtains a subsequent opinion of Bond Counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation (“SYCR”), where such opinion is required in connection with a change or amendment to the Indenture or the procedures set forth in a Tax Certificate, it will obtain an opinion substantially to the effect originally delivered by SYCR that interest on the Bonds is excluded from gross income for federal income tax purposes.

(d) **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 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 Improvement Area No. 1 below the levels provided in the Indenture would interfere with the timely retirement of the Bonds. The District determines it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District covenants under the Indenture, that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District’s authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates for Improvement Area No. 1.

(e) **Covenants to Defend.** The District covenants under the Indenture that in the event that any initiative is adopted by the qualified electors in Improvement Area No. 1 which purports to reduce the maximum Special Tax below the levels specified in the Indenture or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Indenture, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(f) **Limitation on Right to Tender Bonds.** The District covenants under the Indenture that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds in full payment or partial payment of any Special Taxes unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds when due.

**Continuing Disclosure and Reporting Requirements.** The District covenants under the Indenture to comply with the terms of the Continuing Disclosure Agreement executed by it on the Delivery Date for the Bonds with respect to compliance with Rule 15c2-12.

**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 Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

#### AMENDMENTS TO INDENTURE

**Supplemental Indentures or Orders Not Requiring Bondowner Consent.** The District and Trustee may from time to time, and at any time, without notice to or consent of any of the Bondowners enter into Supplemental Indentures for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture 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 Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect or which further secure Bond payments;

(c) to provide for the issuance of any bonds issued to refund the Bonds, and to provide the terms and conditions under which such refunding bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(d) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect in the future, 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 then Outstanding; or

(e) to modify, alter or amend the rate and method of apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under the Indenture; or

(f) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners.

**Supplemental Indentures or Orders Requiring Bondowner Consent.** Exclusive of the Supplemental Indentures described in the Indenture, the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding shall have the right to consent to and approve the execution and delivery by the District of such Supplemental Indentures 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 Indenture; provided, however, that nothing in the Indenture 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, (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, (c) a preference or priority of any Bond over any other Bond, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of the Indenture shall require the consent of the Bondowners, the District shall so notify the Trustee and shall deliver to the Trustee a copy of the proposed Supplemental Indenture. The Trustee shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the



nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding as required by the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the Trustee shall receive an instrument or instruments purporting to be executed by the Owners of a majority in aggregate principal amount of the Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Trustee, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds have consented to the adoption of any Supplemental Indenture, Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

**Notation of Bonds; Delivery of Amended Bonds.** After the effective date of any action taken as provided in the Indenture, the District may determine that the Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds. If the District shall so determine, new Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond at such effective date such new Bonds shall be exchanged at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, without cost to each Owner of Outstanding Bonds, upon surrender of such Outstanding Bonds.

**Notice to Rating Agencies.** If the District has requested and obtained a rating on a series of the Bonds from Standard and Poor's or Moody's, copies of any amendments pursuant to the Indenture shall be sent to the Rating Agency then rating the Bonds.

## **TRUSTEE**

**Trustee.** Wells Fargo Bank, National Association shall be the Trustee for the Bonds unless and until another Trustee is appointed by the District under the Indenture. The District may, at any time, appoint a successor Trustee satisfying the requirements of the Indenture for the purpose of receiving all money which the District is required to deposit with the Trustee under the Indenture and to allocate, use and apply the same as provided in the Indenture.

The Trustee is authorized to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with the Indenture, interest payments to the Bondowners, to select Bonds for redemption, and to maintain the Bond Register. The Trustee is authorized to pay the principal of and premium, if any, on the 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 presented to it for such purposes, to provide for the cancellation of Bonds all as provided in the Indenture, and to provide for the authentication of Bonds, and shall perform all other duties assigned to or imposed on it as provided in the Indenture; provided, however, that no duties of the Trustee shall be implied under the Indenture. The Trustee shall keep accurate records of all funds administered by it and all Bonds paid, discharged and cancelled by it.

The Trustee is authorized to redeem the Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Trustee shall cancel all Bonds upon payment thereof in accordance with the provisions of the Indenture.

The District shall from time to time, subject to any agreement between the District and the Trustee then in force, pay to the Trustee compensation for its services, reimburse the Trustee for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties under the Indenture, and indemnify and save the Trustee and its officers, directors and employees harmless against costs, claims expenses (including legal fees and expenses) and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties under the Indenture. The foregoing obligation of the District to indemnify the Trustee shall survive the removal or resignation of the Trustee or the discharge of the Bonds.

Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor shall be appointed.

**Removal of Trustee.** The District may at any time at its sole discretion remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a written notice of its decision to remove the Trustee and may appoint a successor or successors thereto; provided that any such successor, other than the Trustee, shall be a bank, a national banking association or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Trustee. If any bank, national banking association 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 Indenture the combined capital and surplus of such bank, national banking association 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. Any removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee and notice being sent by the successor Trustee to the Bondowners of the successor Trustee's identity and address.

Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor shall be appointed.

**Resignation of Trustee.** The Trustee 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 Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee satisfying the criteria in the Indenture by an instrument in writing. 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.

Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor shall be appointed.

If no successor Trustee shall have been appointed and have accepted appointment within forty five (45) days of giving notice of removal pursuant to the Indenture or notice of resignation as set forth in the Indenture, the resigning Trustee or any Owner (on behalf of itself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee.

**Liability of Trustee.** The recitals of fact and all promises, covenants and agreements contained in the Indenture and in the Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Trustee assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of the Indenture and the Bonds, and shall incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth in the Indenture, in the Bonds, or in the certificate of authentication assigned to or imposed upon the Trustee. The Trustee shall be under no responsibility or duty with respect to the issuance of the Bonds for value. 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.

The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond, certificate of an Independent Financial Consultant 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 Trustee 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 Indenture in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee shall have no duty or obligation whatsoever to enforce the collection of Special Taxes or other funds to be deposited with it under the Indenture, or as to the correctness of any amounts received, but its liability shall be limited to the proper accounting for such funds as it shall actually receive. No provision in the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of its rights or powers.

The Trustee shall not be deemed to have knowledge of any default or event of default until an officer at the Trustee's corporate trust office responsible for the administration of its duties under the Indenture shall have actual knowledge thereof or the Trustee shall have received written notice thereof at its corporate trust office.

The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

Before taking any action under the Indenture the Trustee may require indemnity satisfactory to the Trustee be furnished from any expenses and to protect it against any liability it may incur under the Indenture.

The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of the Owners of 25% (or other percentage provided for in the Indenture) in aggregate principal amount of Bonds Outstanding relating to the exercise of any right, power or remedy available to the Trustee.

The permissive right of the Trustee to do things enumerated in the Indenture shall not be construed as a duty.

The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties through attorneys, agents and receivers.

The Trustee may become the Owner or pledgee of the Bonds with the same rights it would have if it were not Trustee.

The Trustee shall perform such duties and only such duties as are specifically set forth in the Indenture and no implied duties or obligations shall be read into the Indenture against the Trustee.

The Trustee agrees under the Indenture 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 instructions and/or directions 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.

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 suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs.

**Merger or Consolidation.** Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Indenture to the contrary notwithstanding.

## 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 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 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 Indenture, the 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 Owners of 25% in aggregate principal amount of the Outstanding Bonds.

The District agrees under the Indenture to give notice to the 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.** Upon the occurrence of an 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 Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture, including:

- (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 Indenture;
- (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.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty five percent (25%) in aggregate principal amount of Outstanding Bonds and if indemnified to its satisfaction, 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 Owners of the Bonds.

No remedy conferred upon or reserved to the Trustee or to the Owners in the Indenture 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 under the Indenture or now or existing in the future, 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.

**Application of Revenues and Other Funds After Default.** All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the Bonds shall be applied by the Trustee in the following order upon presentation of the several Bonds:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel, 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 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 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 Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing,

(b) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing, and

(c) third, to the payment of interest on overdue installments of principal and interest on the Bonds on a pro rata basis based on the total amount then due and owing.

**Power of Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an 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 twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the 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 an 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 Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of 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 Bonds similarly situated and the Trustee is appointed (and the successive respective Owners of the 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 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 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 an 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 Owners of the Bonds under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Taxes 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 Bonds, shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes 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 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 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 the Owners by the Act 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 Owners, as the case may be.

**Limitations on Rights and Remedies of Owners.** No Owner of any 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 an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers 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 Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of 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 provided in the Indenture, 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 provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium (if any) on such 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 of the Indenture 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 District, the Trustee and the 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.

## **DEFEASANCE**

**Defeasance.** If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to the Indenture, the Trustee shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District's general fund all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds.

Any Outstanding Bond shall be deemed to have been paid within the meaning expressed in the first paragraph of the Indenture if such 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, as and when the same become due and payable;

(b) by depositing with the Trustee, 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, as and when the same shall become due and payable; or

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, noncallable Federal 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, as and when the same shall become due and payable; then, at the election of the District, and notwithstanding that any Outstanding Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owner of any such Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in the Indenture or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee. In connection with a defeasance, 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 Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds to be defeased in accordance with the Indenture, 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) to the effect that the Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture. If a forward supply contract is employed in connection with an advance refunding to be effected under (c) above, (i) such verification report shall expressly state that the adequacy of the amounts deposited with the bank under (c) above to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement executed to effect an advance refunding in accordance with (c) above shall provide that, in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

Upon a defeasance, the Trustee, upon request of the District, shall release the rights of the Owners of such Bonds which have been defeased under the Indenture and any Supplemental Indenture 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 Indenture of all Outstanding Bonds, the Trustee shall pay over or deliver to the District any funds held by the Trustee 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 when due. The Trustee shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

**Conditions for the Issuance of Parity Bonds.** The District may at any time after the issuance and delivery of the Bonds under the Indenture issue Parity Bonds payable from the Net 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 Indenture or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or Parity Bonds then Outstanding. Parity Bonds may only be issued subject to the following additional specific conditions, which are made conditions precedent to the issuance of any such Parity Bonds:



(a) The District shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Trustee; 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 Indenture duly adopted by the District which shall specify the following:

(i) The 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 a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding;

(ii) The authorized principal amount of such Parity Bonds;

(iii) The date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on an October 1, (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;

(iv) The description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(v) The denominations and method of numbering of such Parity Bonds;

(vi) The amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(vii) The amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;

(viii) The form of such Parity Bonds; and

(ix) Such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(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 Trustee (unless the Trustee shall be directed by the District to accept any of such documents bearing a prior date):

(i) A certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(ii) A written request of the District as to the delivery of such Parity Bonds;

(iii) An opinion of Bond Counsel and/or general counsel to the District to the effect that (a) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures 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 Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; 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 Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; 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 any Bonds theretofore issued on a tax exempt basis, or the exemption from State of California personal income taxation of interest on any Bonds theretofore issued;

(iv) A certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(v) A certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds Outstanding prior to the issuance of such Parity Bonds; and

(vi) Such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

## MISCELLANEOUS

**Cancellation of Bonds.** All Bonds surrendered to the Trustee for payment upon maturity or for redemption shall be upon payment therefor, and any Bond purchased by the District as authorized in the Indenture and delivered to the Trustee for such purpose shall be, cancelled forthwith and shall not be reissued. The Trustee shall destroy such Bonds, and, upon request of the District, furnish to the District a certificate of such destruction.

**Execution of Documents and Proof of Ownership.** Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds shall be sufficient for the purposes of the Indenture (except as otherwise provided in the Indenture), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his authority.

(b) As to any Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments shall be valid and effectual

to satisfy and discharge the liability upon such Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Trustee shall be affected by any notice to the contrary.

Nothing contained in the Indenture shall be construed as limiting the Trustee or the District to such proof, it being intended that the Trustee or the District may accept any other evidence of the matters stated in the Indenture which the Trustee or the District may deem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in respect of anything done or suffered to be done by the Trustee or the District in pursuance of such request or consent.

**Unclaimed Moneys.** Anything in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds which remain unclaimed for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date when such Outstanding Bonds have become due and payable, if such money was held by the Trustee at such date, or for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds become due and payable, shall be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee at the written request of the District or the Trustee shall, at the expense of the District, cause to be mailed by first class mail, postage prepaid, to the registered Owners of such Outstanding Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

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## APPENDIX C

### FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE DISTRICT

This Continuing Disclosure Agreement-Issuer (the “Disclosure Agreement”) is executed and delivered by the Community Facilities District No. 87-1 (Towngate), City of Moreno Valley, City of Moreno Valley, County of Riverside, State of California (the “District”) and Wells Fargo Bank, National Association, in its capacity as Dissemination Agent hereunder (the “Dissemination Agent”), in connection with the issuance of \$\_\_\_\_\_ City of Moreno Valley Community Facilities District No. 87-1 (Towngate) Improvement Area No. 1 Special Tax Refunding Bonds (the “Bonds”). The Bonds are being issued pursuant to a Bond Indenture dated as of October 1, 2007 (the “Indenture”), between the District and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The District and the Dissemination Agent covenant and agree as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the District and the Dissemination Agent for the benefit of the holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

**SECTION 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement 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 District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*Beneficial Owner*” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“*Central Post Office*” means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Agreement.

“*Disclosure Representative*” shall mean the Redevelopment Manager or his designee, or such other officer or employee as the District shall designate in writing to Dissemination Agent from time to time.

“*Dissemination Agent*” shall mean Wells Fargo Bank, National Association., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District.

“*Listed Events*” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“*National Repository*” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“*Participating Underwriter*” shall mean E. J. De La Rosa & Co., Inc. & Co., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Repository*” shall mean each National Repository and each State Repository.

“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 Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

### **SECTION 3. Provision of Annual Reports.**

(a) The District shall, or upon written request shall cause the Dissemination Agent to, not later than March 31 of each year, commencing with the report for March 31, 2008, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement, with a copy to the Trustee and the Participating Underwriter. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent. The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Participating Underwriter to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the District, and shall have no duty or obligation to review such Annual Report. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and not later than the date required above for the filing of the Annual Report if not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the District shall provide the Annual Report to the Dissemination Agent and Trustee. If by such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the District and the Dissemination Agent to determine if the District is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) to the extent the Annual Report has been provided to the Dissemination Agent or to the extent of that information is known to it, file a report with the District (if the Dissemination Agent is other than the District) and the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(e) Notwithstanding any other provision of this Disclosure Agreement, any of the required filings hereunder may be made through a Central Post Office.

**SECTION 4. Content of Annual Reports.** The Annual Report due by March 31, 2008 shall consist of the Official Statement and the audited financial statements of the District. Thereafter, the District’s Annual Report shall contain or incorporate by reference the following:

(a) The District's audited financial statements 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, and as further modified according to applicable State law. If the District's 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 in a format similar to the usual format utilized by the District, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The following additional items:

- (1) Principal amount of Bonds outstanding.
- (2) Balances of the funds and each of the accounts therein created under the Indenture, including:
  - Special Tax Fund
  - Acquisition and Construction Fund
  - Rebate Fund
- (3) Total assessed value of all parcels subject to the Special Taxes and the current fiscal year's assessed value for the District.
- (4) Special Tax and property tax delinquency rate for parcels in the District for the most recent fiscal year.
- (5) As to delinquent parcels:
  - the assessor's parcel number,
  - the aggregate amount of delinquent property taxes, assessments (both fixed lien and annual) and Special Taxes and the accrued penalties and interest on such aggregate amount,
  - total number of parcels delinquent in payment of Special Tax,
  - amount of total delinquency and as a percentage of total Special Tax levy, and
  - status of the District's actions on covenants to pursue foreclosure proceedings upon delinquent properties.
- (6) As to any parcel for which the annual Special Tax levy represents more than 10% of the aggregate Special Tax levy within the District:
  - names of the owners of each such parcel as shown on the Assessor's Roll or County delinquency report received by the District, whichever is more current,
  - percentage of the Special tax levy allocated to each such parcel,
  - Developed Property or Undeveloped Property status (as such terms are defined in the RMA) of each such parcel,
  - assessed value of applicable properties, and
  - summary of results of foreclosure sales, if available.
- (7) Significant amendments to land use entitlements for property in the District known to the City's Chief Financial Officer.

- (8) Status of any significant legislative, administrative, and judicial challenges to the construction of the development in the District or to the use or continuing use of any parcel known to the City's Chief Financial Officer, without independent inquiry, for any year in which construction activity has occurred in the District.
- (9) For the most recent year for which the following information is available, any building permit issued for the construction of a building on a parcel subject to the Special Taxes and any certificate of occupancy for any building on a parcel subject to the Special Taxes.
- (10) To the extent not otherwise provided pursuant to the preceding items 1-9, annual information required to be filed by the District with the California Debt and Investment Advisory Commission pursuant to Sections 50075.1, 50075.3, 53359.5(b), 53410(d) or 53411 of the California Government Code.

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 District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District 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 District 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) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) The Dissemination Agent shall, immediately upon obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the individual at the Dissemination Agent with regular responsibility for the administration of matters related to the Indenture. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the District shall as soon as possible, but in no event later than ten (10) business days after the occurrence thereof, determine if such event would be material under applicable federal securities law.



(d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable federal securities laws, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and the Repositories with a copy to the District. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected Bonds pursuant to the Indenture.

**SECTION 6. Termination of Reporting Obligation.** The District's and Dissemination Agent's obligations under this Disclosure Agreement 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 District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

**SECTION 7. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to act as such under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement.

The Dissemination Agent may at any time resign by providing thirty days written notice to the District, such resignation to become effective upon acceptance of appointment by a successor Dissemination Agent. Upon receiving notice of such resignation, the District shall promptly appoint a successor Dissemination Agent. If no appointment of a successor Dissemination Agent shall be made pursuant to the forgoing provisions of this Section within forty-five (45) days after the Dissemination Agent shall have given to the District written notice of its resignation, the Dissemination Agent may apply to any court of competent jurisdiction to appoint a successor Dissemination Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Dissemination Agent. The District shall provide the Dissemination Agent with written notice of the identity of any successor Dissemination Agent appointed or engaged by the District.

**SECTION 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the District and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the District) which does not impose any greater duties, nor risk of liability, on the Dissemination Agent) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) the amendment or waiver, if it relates to annual or event information to be provided, is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identify, nature, or status of the District, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by owners of the Bonds in the manner 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.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or type (or, in the case of a change of accounting principles, on the presentation) of financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(f).

**SECTION 9. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. If the District 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 Agreement, the District shall have no obligation under this Disclosure 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 District or the Dissemination Agent to comply with any provision of this Disclosure Agreement any Participating Underwriter or any holder 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 District or Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed a default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

**SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and, if the Dissemination Agent is other than the District, the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its 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 Dissemination Agent shall be paid compensation by the District for its services provided hereunder and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent, if the Dissemination Agent is other than the District, shall have no duty or obligation to review any information provided to it by the District and shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders or any other party. The obligations of the District 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 Agreement may be given as follows:

To the District: City of Moreno Valley Community Facilities District No. 87-1  
14177 Frederick Street, P.O. Box 88005  
Moreno Valley, California 92552-0805  
Attention: Redevelopment Manager  
Telephone: (951) 413-3489  
Fax: (951) 413-3498

To the Dissemination Agent: Wells Fargo Bank, National Association  
Corporate Trust Services  
MAC E2818-176  
707 Wilshire Blvd., 17th Floor  
Los Angeles, California 90017  
Attention: \_\_\_\_\_  
Telephone: \_\_\_\_\_  
Fax: \_\_\_\_\_

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

**SECTION 13. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriter and the owner and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

**SECTION 14. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: November \_\_, 2007

**DISTRICT:**

COMMUNITY FACILITIES DISTRICT  
NO. 87-1 (TOWNGATE), CITY OF MORENO  
VALLEY, COUNTY OF RIVERSIDE, STATE  
OF CALIFORNIA

By: \_\_\_\_\_  
Authorized Officer

**DISSEMINATION AGENT:**

WELLS FARGO BANK, NATIONAL  
ASSOCIATION

By: \_\_\_\_\_  
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES  
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Moreno Valley Community Facilities District No. 87-1 (Towngate)  
Name of Bond Issue: City of Moreno Valley Community Facilities District No. 87-1 (Towngate),  
Special Tax Refunding Bonds  
Date of Issuance: November \_\_, 2007

NOTICE IS HEREBY GIVEN that the Community Facilities District No. 87-1 (Towngate), City of Moreno Valley, County of Riverside, State of California (the "District") has not provided a Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated November \_\_, 2007 executed by the District for the benefit of the owners and beneficial owners of the above-referenced bonds. **[The District anticipates that the Annual Report will be filed by \_\_\_\_\_.]**

Dated: \_\_\_\_\_

WELLS FARGO BANK, NATIONAL  
ASSOCIATION

By: \_\_\_\_\_  
Authorized Officer

cc: City of Moreno Valley  
Community Facilities District No. 87-1  
(Towngate)  
14177 Frederick Street, P.O. Box 88005  
Moreno Valley, California 92552-0805  
Attention: Enterprise Services Administration

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**APPENDIX D**

**FORM OF OPINION OF BOND COUNSEL**

[Date of Delivery]

Community Facilities District No. 87-1  
of the City of Moreno Valley (Towngate)  
Moreno Valley, California

**Re:     \$ \_\_\_\_\_ *City of Moreno Valley Community Facilities District No. 87-1 (Towngate),  
Improvement Area No. 1 Special Tax Refunding 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 City of Moreno Valley (the "City") taken in connection with the formation of Community Facilities District No. 87-1 (Towngate), City of Moreno Valley, County of Riverside, State of California (the "District") the establishment of Improvement Area No. 1 therein, and the authorization and issuance of the Special Tax Refunding Bonds issued by the District in the aggregate principal amount of \$ \_\_\_\_\_ (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have assumed the genuineness of all documents and signatures presented to us and we have relied upon certain representations of fact and certifications made by the Community Redevelopment Agency of the City of Moreno Valley (the "Agency"), the City, the District, the initial purchasers 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 Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), and a Bond Indenture dated as of October 1, 2007 (the "Indenture"), by and between the District and Wells Fargo Bank, National Association, as trustee (the "Trustee"). All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

The Bonds mature on the dates and in the amounts set forth in the Indenture. The Bonds are dated their date of delivery and bear interest payable semi-annually on each April 1 and October 1, commencing April 1, 2008, at the rates per annum described in the Indenture. The Bonds are registered Bonds in the form 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 District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and 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 the limitations on legal remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the City, the Agency, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the State of California, or any of its political subdivisions is pledged for the payment thereof. The Agency has no taxing power.

(2) The execution and delivery of the Indenture has been duly authorized by the District, and the Indenture is valid and binding upon the District and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and 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 the limitations on legal remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses or as to any indemnification, contribution, choice of law, choice of forum, penalty or waiver provisions contained therein.

(3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that enforceability of the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and 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 the limitations on legal remedies against public agencies in the State of California.

(4) 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) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(5) Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

(6) 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 for 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 or corporations (as described in paragraph (4) above) and is exempt from State of California personal income tax.

(7) 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 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 (4) and (6) 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 District complies with all requirements of the Internal Revenue Code of 1986, as amended (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 District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5) (6) and (7) 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 and the Tax Certificate for the Bonds 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 effect on the exclusion of interest 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.

We are admitted to the practice of law only in the State of California and 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 are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to the matters contained in the Official Statement.

Respectfully submitted,

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## APPENDIX E

### 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 District believes to be reliable, but the District 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. Reference made to [www.dtcc.com](http://www.dtcc.com) is presented as a link for additional information regarding DTC and is not a part of this Official Statement.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Bonds"). The Bonds 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 Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 2.2 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Standard & Poor's highest rating: AAA. 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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.

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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the Bonds 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.

DTC may discontinue providing its services as depository with respect to the Bonds 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, Bond certificates are required to be printed and delivered in accordance with the Indenture. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered. See APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS."

#### **Discontinuance of DTC Services**

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds or (b) the District determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Bonds and use of the book-entry system will be discontinued. If the District fails to select a

qualified securities depository to replace DTC, the District will cause the Trustee to execute and deliver new Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are required in a written request of the District. The Trustee shall not be required to deliver such new Bonds within a period of less than 60 days from the date of receipt of such written request of the District. Upon such registration, such persons in whose names the Bonds are registered will become the registered owners of the Bonds for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) Bonds may be exchanged for a like aggregate principal amount of such Bonds of the same maturity of other authorized denominations; (b) the transfer of any Bond may be registered on the books maintained by the Trustee under the Indenture for such purpose only upon the surrender thereof to the Trustee accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee; (c) for every exchange or transfer of Bonds, the Trustee shall require the payment by any Owner requesting such transfer or exchange of any tax or other governmental charge that may be imposed with respect to such exchange or registration of transfer; (d) the Trustee will not be required to transfer or exchange any Bond which has been selected for redemption in whole or in part from and after the day of mailing of a notice of redemption of such Bond selected for redemption or during the period established by the Trustee for selection of Bonds for redemption; (e) all interest payments on the Bonds will be made by check mailed by the Trustee to the Owners thereof to such Owner's address as it appears on the registration books maintained by the Trustee on the applicable Record Date next preceding such interest payment date; provided, that upon request of a Bondowner of \$1,000,000 or more in aggregate principal amount of the Bonds received by the Trustee prior to the first day of the month next preceding an interest payment date, interest shall be paid by wire transfer in immediately available funds to an account in the United States; and (f) all payments of principal, and any premium on the Bonds, will be made upon surrender thereof at the corporate trust office of the Trustee in Los Angeles, California.

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## APPENDIX F

### GENERAL INFORMATION CONCERNING THE CITY AND REGION

*The following information is presented as general background data. Payments for the Bonds are payable from Special Taxes as described in this Official Statement.*

#### Location

The City of Moreno Valley (the “City”) is centrally located in Southern California, 66 miles east of Los Angeles and 100 miles north of San Diego. The City encompasses approximately 51 square miles of land area in western Riverside County. Geographically, the City is bordered by three low-lying mountain ranges, March Air Reserve Force Base and Lake Perris State Park. The City is situated at the junction of two major highways, California State Highway 60 (the Moreno Valley Freeway) and Interstate 215.

#### Population

The City is the second largest city in Riverside County with an estimated population of 180,466 as of January 1, 2007. Table F-1 sets forth total population for the City, the County of Riverside (the “County”) and the State of California (the “State”).

**Table F-1**  
**City of Moreno Valley, County of Riverside and State of California**  
**Population**

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Moreno Valley	151,847	157,842	166,385	175,269	180,466
Riverside County	1,726,321	1,807,624	1,888,311	1,966,607	2,031,625
California	35,691,472	36,245,016	36,728,196	37,172,015	37,662,518

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and the State, 2001–2007, with 2000 DRU Benchmark*. Sacramento, California May 2007.

## Employment

Table F-2 summarizes the labor force, employment and unemployment figures over the period 2002 through 2006 for the City, the County, the State and United States.

**Table F-2**  
**City of Moreno Valley, County of Riverside, State of California and United States**  
**Labor Force, Employment an Unemployment Yearly Average**

<i>Year and Area</i>	<i>Labor Force</i>	<i>Employment<sup>(1)</sup></i>	<i>Unemployment<sup>(2)</sup></i>	<i>Unemployment Rate (%)<sup>(3)</sup></i>
2002				
Moreno Valley	70,700	65,600	5,100	7.2%
Riverside County	748,700	701,100	47,600	6.4
California	17,330,700	16,168,200	1,162,500	6.7
United States	144,863,000	136,485,000	8,378,000	5.8
2003				
Moreno Valley	73,700	68,400	5,300	7.2%
Riverside County	780,500	731,000	49,500	6.3
California	17,403,900	16,212,600	1,191,300	6.8
United States <sup>(4)</sup>	146,510,000	137,736,000	8,774,000	6.0
2004				
Moreno Valley	77,400	72,400	5,000	6.5%
Riverside County	820,800	773,700	47,100	5.7
California	17,499,600	16,407,900	1,091,700	6.2
United States <sup>(4)</sup>	147,401,000	139,252,000	8,149,000	5.0
2005				
Moreno Valley	81,800	76,600	5,200	6.3%
Riverside County	862,400	816,500	46,400	5.4
California	17,740,400	16,782,300	958,100	5.4
United States <sup>(4)</sup>	149,320,000	141,730,000	7,591,000	5.1
2006				
Moreno Valley	83,400	79,000	4,900	6.3%
Riverside County	886,400	842,000	44,400	5.0
California	17,901,900	17,029,300	872,600	5.4
United States <sup>(4)</sup>	151,413,000	144,419,000	6,910,000	4.6

(1) Includes persons involved in labor-management trade disputes.

(2) Includes all persons without jobs who are actively seeking work.

(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

(4) Not strictly comparable with data for prior years.

Source: California Employment Development Department, based on March 2005 Benchmark and U.S. Department of Labor, Bureau of Labor Statistics

## Utilities

The City receives water service from the Eastern Municipal Water District, Sunnymead Mutual Water Company, Moreno Valley Mutual Valley Mutual Water Company and Edgemont Gardens Mutual Company. The City is also serviced by the following utilities: Verizon and Southern California Gas Company. Electrical



service for most of the City's developed areas is provided by Southern California Edison. The City has established an electric utility that is providing service for the remainder of the City.

### **Transportation**

The City is centrally located within the Inland Empire. Highways passing through the City include California State Highway 60 and Interstate 215. California State Highway 60 connects in Riverside to California State Highway 91, which connects to Orange County and Long Beach. California State Highway 60 and Interstate 215 provide access Interstate 10 within 15 miles of the City. Rail service in the City includes the Burlington Northern Santa Fe branch line. There is one local freight daily, which services the Edgemont area of Moreno Valley and areas on the west side of Interstate 215. The main line service in Riverside has stop locations at the Union Pacific, Southern Pacific and Burlington Northern Santa Fe stations. Metrolink commuter rail service in Riverside to Los Angeles and Orange County.

Ontario International Airport (owned and operated by Los Angeles World Airports), 31 miles northwest of the City, is served by AeroMexico, Alaska Airlines, American Airlines, ATA Airlines, Continental Airlines, Delta Air Lines, ExpressJet Airlines, JetBlue Airways, Lineas Aereas Azteca, Southwest Airlines, United Airlines and US Airways. Allegiant Air provides charter services at Ontario International Airport and various airlines provide freight services at Ontario International Airport. Riverside Municipal Airport has general aviation facilities with 5,400 feet and 1,600 feet runways.

### **Education**

The City is served by two public school districts: Moreno Valley Unified School District and Val Verde Unified School District. Moreno Valley Unified School District has 23 elementary schools, six middle schools, five comprehensive high schools, one charter school, one adult school, one continuation school, a community day school, one pre-school and one academic center. Val Verde Unified School District serves the communities of Perris, Mead Valley and Moreno Valley. Val Verde Unified District has one pre-school, 13 elementary schools, five middle schools and four high schools.

The City is also home to Moreno Valley Community College.

### **Recreation and Culture**

Lake Perris State Park offers boating, swimming, water-skiing, fishing and camping within its 8,300 acres. Box Springs Mountain Park provides trails for hiking and horseback riding. The City centralized location allows residents to visit nearby mountain resorts, Palm Springs and the beach cities with relative ease. Three golf courses are available, including the 27 hole Moreno Valley Rancho Golf Club, ranks among the top 75 public courses in the U.S. The City's park system consists of 29 parks with 328 acres. The City offers a variety of recreational activities for adults and youth. The City is served by the City's library system.

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