

STAFF REPORT



ITEM NO. 12 CITY OF OCEANSIDE

DATE: May 1, 2013

TO: Honorable Mayor and City Councilmembers

FROM: City Treasurer's Office

SUBJECT: **ADOPTION OF A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OCEANSIDE ACTING AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF THE CITY OF OCEANSIDE (MORRO HILLS DEVELOPMENT) AUTHORIZING THE ISSUANCE OF SPECIAL TAX REFUNDING BONDS SERIES 2013A IN A PRINCIPAL AMOUNT NOT TO EXCEED \$22,000,000 AND APPROVING CERTAIN DOCUMENTS, AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH**

SYNOPSIS

Staff recommends that the City Council, acting as the legislative body of Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development), adopt a resolution authorizing the issuance of Special Tax Refunding Bonds Series 2013A in a principal amount not to exceed \$22,000,000, and approving certain documents, and taking certain other actions in connection therewith.

The following documents pertaining to the sale of the bonds, in substantially the same form as attached, will be approved as part of the resolutions: Preliminary Official Statement, Continuing Disclosure Agreement, Bond Purchase Agreement, Escrow Agreement, and Indenture of Trust. The bonds' proceeds will be used to refund the existing Community Facilities District (CFD) 2001-1 (Morro Hills Development) Special Tax Bonds Series 2002A), and if market conditions permit, advance refund the existing CFD 2001-1 (Morro Hills Development) Special Tax Bonds Series 2004A.

BACKGROUND

The City has three Community Facilities Districts, also known as Mello-Roos Districts, within its city limits. A Community Facilities District is an area where a special property tax, in addition to the normal property tax, is levied on property owners within a Community Facilities District. The districts finance certain public improvements and services through the sale of bonds. These services may include streets, water, sewage and drainage, electricity, infrastructure, schools, parks and police protection to newly developing areas. The taxes collected from the property owners are used to make the payments of principal and interest on the bonds. The City is under no obligation to make payments on the bonds.

One of the three districts within the City is the Morro Hills Development, CFD 2001-1 (the District). The District is a master-planned community of approximately 588 acres located in northeastern Oceanside's San Luis Rey Valley, just south of the intersection of Vandegrift Road and Douglas Drive. The master plan included one thousand and seven (1,007) residential units to be developed in this CFD around an 18-hole championship public golf course. The master plan also included a public park, elementary school, village center, a country store, church and day-care center.

On February 6, 2002, the landowners within Community Facilities District No. 2001-1 (Morro Hills Development) voted to incur debt and issue bonds in the maximum amount of \$26,000,000, and for the levying of a special tax to finance public infrastructure improvements in the master planned residential community of Morro Hills.

On October 9, 2002, the Council approved a bond issue for Community Facilities District No. 2001-1 (Morro Hills Development) in an amount not to exceed \$10,000,000. On November 14, 2002, the Morro Hills CFD issued bonds in the amount of \$9,915,000. The Series 2002A Bonds were issued to finance the construction of a neighborhood park, various street improvements, flood control improvements, and various water and sewer capacity improvements required for the development of the property in the district. The Series 2002A Bonds have a maturity date of September 1, 2032, and are eligible to be called on September 1, 2013. The interest rate on the bonds ranges from 5.00 to 6.20 percent. The outstanding principal on the bonds is \$6,835,000 as of March 1, 2013. Remaining debt service payments average \$600,000 per year.

On October 6, 2004, the Council approved the issuance of the Special Tax Bonds Series 2004A, which were issued December 22, 2004, in the amount of \$16,085,000 to finance various public improvements needed to complete the infrastructure in order to develop the property located within the District. The Series 2004A Bonds have a maturity date of September 1, 2034, and are eligible to be called on September 1, 2014. The interest rate on the bonds ranges from 4.25 to 5.50 percent. The outstanding principal on the bonds is \$11,655,000 as of March 1, 2013. Remaining debt service payments average \$925,000 per year.

The following public infrastructure components for the District were completed in 2007: public park, major thoroughfare improvements, water line relocation and installation, flood control detention basin improvements and utilities under-grounding. Water and sewer connections for the residential units were also funded; however, development of the final two subdivisions in the District is currently in progress.

ANALYSIS

Staff formed a financing team in late 2012 to explore the possibility of refinancing the CFD 2001-1 (Morro Hills Development) Bonds (Series 2002A and Series 2004A) to achieve debt service savings for the property owners within the District. The team is comprised of the financial advisement firm CSG Advisors, underwriting firm Piper Jaffray & Co., bond counsel Stradling, Yocca, Carlson & Rauth, and special tax consultants David Taussig and Associates. The financing team determined that there were sufficient savings due to the current low interest rate environment to warrant pursuing a bond refinancing.

Staff is recommending refinancing the Series 2002A Bonds which are eligible to be called on September 1, 2013. Based on a pricing analysis dated April 9, 2013, the new bonds (Special Tax Refunding Bonds Series 2013A) would have an estimated par amount of \$6.8 million with a September 1, 2032 maturity date. The estimated all-in interest rate (includes issuance costs estimated at \$270,000) on the bonds is 4.17 percent. Average annual debt service payments would be approximately \$500,000. The estimated net present value savings over the life of the refunded debt is \$1.1 million, or 16 percent. The estimated annual debt service savings ranges from \$90,000 to \$95,000 per year. The anticipated annual savings per residential unit is approximately \$124. This amount will vary since the rate and method of the special tax is dependent on the square footage of the residential unit. The final savings will be determined at bond pricing. The interest rate also assumes that the bonds would receive a BBB rating from Standard and Poor's (a nationally recognized statistical rating organization). The Series 2002A and 2004A bonds are not rated (typical of most land-secured bonds); since the District is nearly 100 percent developed and has strong value-to-lien ratios, it is anticipated that the bonds will be assigned the BBB rating.

The Series 2004A Bonds are not eligible to be called until September 1, 2014; however the bonds can be refunded in advance of their established call date. Staff is considering advance refunding the Series 2004A to take advantage of economies of scale by combining the Series 2002A and the Series 2004A issues. In order for the advanced refunding to make sense, a minimum net present value (NPV) savings threshold of 5 percent has been set (the standard NPV savings threshold is 3 percent) before the Series 2004A bonds will be refinanced. If the 5 percent savings level is met during preliminary pricing, the bonds will be refinanced. According to the April 9, 2013 pricing analysis, the NPV savings on the Series 2004A bonds (\$12 million par value) is approximately 6 percent (\$715,000 NPV savings over the remaining life of the bonds). If the Series 2004 Bonds were refinanced with the Series 2002A bonds, the estimated annual savings per residential unit would increase by approximately \$100 to \$224 per unit.

The bonds will be sold on a public offering basis (sale of bonds on the open market), by Piper Jaffray & Co. (Underwriter), pursuant to a purchase contract among the Underwriter, the City and the OPFA. The sale of the bonds will be conducted in mid-May, with an anticipated bond closing the first week in June.

City Council is being asked to adopt a resolution that authorizes the issuance of the bonds, in a par amount not to exceed \$22 million. The approval of the \$22 million in par value enables the refinancing both the Series 2002A and Series 2004A Bonds if the NPV savings threshold of 5 percent is met on the Series 2004A Bonds. The resolutions also authorize the execution and delivery of bond documents related to the sale of the bonds (such as the Preliminary Official Statement, Continuing Disclosure Agreement, Bond Purchase Agreement, Escrow Agreement, and Indenture of Trust). The documents approved by Council will be finalized and executed at bond closing in June 2013, with the exception of the Bond Counsel Agreement that will be executed upon approval by City Council.

FISCAL IMPACT

The debt service on the Special Tax Refunding Bonds Series 2013A is paid through special taxes levied by the District on individual property owners through the County property tax rolls. At no time is the City responsible for the payment of the bonds.

The net present value savings over the life of the refunded Series 2002A Bonds, is estimated at \$1.1 million, or 16 percent. The average annual debt service savings is estimated to be \$90,000 to \$95,000 per year. The estimates are based on current market conditions. The final savings will be determined at the time of bond pricing.

If the Series 2004A Bonds meet the 5 percent NPV savings threshold, they will be refinanced in conjunction with the Series 2002A Bonds. Based on current market conditions, approximately \$715,000 in additional NPV savings over the life of the bonds would be achieved.

The bond issuance costs are paid using bond proceeds and have been factored into the estimated savings from the refunding.

Debt Service on the Bonds is payable from special tax revenues levied annually against property owners within the District. The debt service payments on the Special Tax Refunding Bonds Series 2013A will be budgeted in Fund 455 – Morro Hills CFD Fund.

COMMISSION OR COMMITTEE REPORT

Does not apply.

CITY ATTORNEY'S ANALYSIS

The referenced documents have been reviewed by the City Attorney and approved as to form.

RECOMMENDATION

Staff recommends that the City Council, acting as the legislative body of Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development), adopt a resolution authorizing the issuance of Special Tax Refunding Bonds Series 2013A in a principal amount not to exceed \$22,000,000, and approving certain documents and taking certain other actions in connection therewith.

PREPARED BY:

SUBMITTED BY:



Michele C. Lund, CCMT
Treasury Manager



Peter A. Weiss
City Manager\Executive Director

REVIEWED BY:

Michelle Skaggs Lawrence, Deputy City Manager
Gary Ernst, City Treasurer
Teri Ferro, Director of Financial Services



Attachments

1. Resolution of the City Council of the City of Oceanside acting as the legislative body of Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) authorizing the issuance of its Special Tax Refunding Bonds Series 2013A in a principal amount not to exceed \$22,000,000 and approving certain documents and taking certain other actions in connection therewith
2. Preliminary Official Statement
3. Continuing Disclosure Agreement between the City of Oceanside and David Taussig and Associates, Inc., as Dissemination Agent (Attached as Appendix D to the Preliminary Official Statement)
4. Second Supplemental Bond Indenture between the Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) and The Bank of New York Mellon Trust Company, N.A., as Trustee
5. Purchase Contract between the Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) and Piper Jaffray & Co. as Underwriter

6. 2002 Escrow Agreement between the City of Oceanside and The Bank of New York Mellon Trust Company, N.A., as Escrow Agent
7. Bond Counsel Agreement between the City of Oceanside and Stradling, Yocca, Carlson & Rauth

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OCEANSIDE ACTING AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF THE CITY OF OCEANSIDE (MORRO HILLS DEVELOPMENT) AUTHORIZING THE ISSUANCE OF ITS SPECIAL TAX REFUNDING BONDS SERIES 2013A IN A PRINCIPAL AMOUNT NOT TO EXCEED \$22,000,000 AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, the City Council of the City of Oceanside, located in San Diego County, California (hereinafter sometimes referred to as the "legislative body of the District"), has heretofore undertaken proceedings and declared the necessity of Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) (the "District") to issue bonds pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California (the "Act") up to the amount of \$26,000,000; and

WHEREAS, pursuant to Resolution Nos. 02-R185-1 and 02-R186-1 adopted by the legislative body of the District on March 26, 2002, certain bond propositions were submitted to the qualified electors within the District, and were approved by more than two-thirds of the votes cast at the elections held within the District on March 26, 2002; and

WHEREAS, pursuant to the Act, the District previously issued its \$9,915,000 Special Tax Bonds, Series A of 2002 (the "2002 Bonds") on November 14, 2002, and its \$16,085,000 Special Tax Bonds, Series A of 2004 (the "2004 Bonds") on December 22, 2004; and

WHEREAS, the District desires to refund the 2002 Bonds if such refunding results in net present value savings to the District of at least five percent; and

1 WHEREAS, the District desires to refund the 2004 Bonds if such refunding results in net
2 present value savings to the District of at least five percent; and

3 WHEREAS, to accomplish the refunding of the 2002 Bonds and the 2004 Bonds, the
4 District desires to issue bonds in an aggregate principal amount not to exceed \$22,000,000
5 designated as the “Community Facilities District No. 2001 1 of the City of Oceanside (Morro
6 Hills Development) Special Tax Refunding Bonds, Series 2013A” (the “Bonds”); and

7
8 WHEREAS, in order to effect the issuance of the Bonds, the legislative body of the
9 District desires to approve the form of a Preliminary Official Statement for the Bonds and to
10 approve the forms of and authorize the execution and delivery of a Second Supplemental Bond
11 Indenture, a Bond Purchase Agreement, a 2002 Escrow Agreement and a Continuing Disclosure
12 Agreement for the Bonds, the forms of which are on file with the City Clerk; and

13
14 WHEREAS, to assist in issuing the Bonds, the legislative body of the District desires to
15 retain Stradling Yocca Carlson & Rauth, a Professional Corporation, to act as Bond Counsel to
16 the District, and CSG Advisors Incorporated to act as financial advisor; and

17
18 WHEREAS, the legislative body of the District has determined in accordance with
19 Government Code Section 53360.4 that a negotiated sale of the Bonds to Piper Jaffray & Co.
20 (the “Underwriter”) in accordance with the terms of the Bond Purchase Agreement for the Bonds
21 to be entered into by the District and the Underwriter (the “Bond Purchase Agreement”) will
22 result in a lower overall cost to the District than a public sale; and

23
24 WHEREAS, the legislative body of the District has determined that it is prudent in the
25 management of its fiscal affairs to issue the Bonds; and

26
27 WHEREAS, the value of the real property in the District subject to the special tax to pay
28 debt service on the Bonds is not less than three times the principal amount of the Bonds and the
principal amount of all other bonds outstanding that are secured by a special tax levied pursuant

1 to the Act or a special assessment levied on property within the District, which fact is required as
2 a precondition to the issuance of the Bonds; and

3 WHEREAS, the District previously entered into a Funding, Construction and Acquisition
4 Agreement, dated as of November 1, 2002 (the "Funding Agreement"), with Richland Calabasas
5 Ltd., Richland Ventures, Inc, and Florida Southchase Ltd. (and, together with their successors
6 and assigns, collectively, the "Landowners") in connection with the issuance of the 2002 Bonds;
7

8 WHEREAS, pursuant to the Funding Agreement, the Landowners were required to
9 deliver to the District letters of credit on an ongoing basis for the purpose of providing security
10 should any or all of the Landowners fail to pay their portion of special taxes due on properties in
11 the District; and

12 WHEREAS, based on the development status within the District, the District no longer
13 believes that the letters of credit are required to secure the payment of special taxes by the
14 Landowners and desires to waive the obligation that the Landowners continue to deliver letters
15 of credit;
16

17 NOW, THEREFORE, the City Council of the City of Oceanside acting as the legislative
18 body of Community Facilities District No. 2001-1 (Morro Hills Development) does resolve as
19 follows:
20

21 SECTION 1. Each of the above recitals is true and correct and is adopted by the
22 legislative body of the District.

23 SECTION 2. If the District is able to realize at least five percent net present value
24 savings by refunding the 2002 Bonds, the issuance of the Bonds pursuant to the Act in a
25 principal amount not to exceed \$8,000,000 is hereby authorized with the exact principal amount
26 of the Bonds to be determined by the official signing the Bond Purchase Agreement in
27 accordance with Section 5 below (subject to increase for the refunding of the 2004 Bonds in
28

1 accordance with Section 14 below). The legislative body of the District hereby determines that it
2 is prudent in the management of its fiscal affairs to issue the Bonds. In satisfaction of the
3 requirements contained in Section 53363.2 of the Act, the legislative body of the District hereby
4 determines that: (1) it is anticipated that the purchase of the Bonds will occur on or about May
5 14, 2013 (subject to change at the discretion of any of the Authorized Officers (described
6 below)), (2) the Bonds shall be dated their date of issuance, and be in the denominations, have
7 the maturity dates (which do not exceed the latest maturity date of the 2002 Bonds (and 2004
8 Bonds, if applicable) being refunded), and be payable at the place and be in the form specified in
9 the Bond Purchase Agreement to be executed on behalf of the District in accordance with
10 Section 5 hereof, (3) the aggregate principal amount of Bonds shall not exceed \$22,000,000, (4)
11 the Bonds shall not have a final maturity date later than September 1, 2032 (or September 1,
12 2034 if the 2004 Bonds are refunded), (5) the Bonds will bear interest at the minimum rate of
13 0.5% per annum, (6) the Underwriter's discount for the Bonds shall not exceed 1.25% of the
14 aggregate principal amount thereof, and (7) the designated cost of issuing the Bonds being used
15 to refund the 2002 Bonds (and 2004 Bonds, if applicable), as defined by Section 53363.8 of the
16 Act, shall include all of the costs specified in Section 53363.8(a), (b)(2) and (c)

17
18
19 The Bonds shall be governed by the terms and conditions of the Bond Indenture dated as
20 of November 1, 2002, (the "Bond Indenture") as supplemented by the First Supplemental Bond
21 Indenture, dated as of December 1, 2004 (the "First Supplement") and by the Second
22 Supplemental Bond Indenture, presented at this meeting (the "Second Supplement, and together
23 with the Bond Indenture and the First Supplement, the "Indenture"). The Second Supplement
24 shall be prepared by Bond Counsel to the District and executed by any one of the Mayor, City
25 Manager, Deputy City Manager or the Director of Financial Services of the City of Oceanside or
26 the written designee of one of the foregoing (collectively the "Authorized Officers")
27
28

1 substantially in the form presented at this meeting, with such additions thereto and changes
2 therein as the officer or officers executing the same deem necessary to cure any ambiguity or
3 defect therein if such addition or change does not materially alter the substance or content
4 thereof, to insert the offering price(s), interest rate(s), selling compensation, principal amount per
5 maturity, redemption dates and prices and such other related terms and provisions as limited by
6 Section 5 hereof, or to conform any provisions therein to the Bond Purchase Agreement and the
7 Official Statement delivered to the purchasers of the Bonds. Approval of such changes shall be
8 conclusively evidenced by the execution and delivery of the Indenture by any one of the
9 Authorized Officers. Capitalized terms used in this Resolution which are not defined herein
10 have the meanings ascribed to them in the Indenture.
11

12 SECTION 3. The Bonds shall be executed on behalf of the District by the manual or
13 facsimile signature of an Authorized Officer and the seal of the District or the City, or a facsimile
14 thereof, shall be impressed or imprinted thereon and attested with the manual or facsimile
15 signature of the City Clerk. The Bank of New York Mellon Trust Company, N.A., is hereby
16 appointed to act as trustee for the Bonds.
17

18 SECTION 4. The covenants set forth in the Indenture are hereby approved, shall be
19 deemed to be covenants of the legislative body of the District, and shall be complied with by the
20 District and its officers.
21

22 SECTION 5. The form of the Bond Purchase Agreement presented at this meeting is
23 hereby approved and any one of the Authorized Officers is hereby authorized to execute the
24 Bond Purchase Agreement, with such additions thereto and changes therein relating to dates and
25 numbers as are necessary to conform the Bond Purchase Agreement to the dates, amounts and
26 interest rates applicable to the Bonds as of the sale date. Approval of such additions and changes
27 shall be conclusively evidenced by the execution and delivery of the Bond Purchase Agreement;
28

1 provided, however, that the Bond Purchase Agreement shall be signed only if the Bonds are
2 purchased by the Underwriter at a true interest cost that does not exceed 5.00% per annum, the
3 refunding of the 2002 Bonds results in net present value savings to the District of at least 5.00%,
4 the interest rate on the Bonds is such that the principal and total interest cost to maturity on the
5 Bonds is less than the principal and total interest cost to maturity on the 2002 Bonds (and the
6 2004 Bonds, if applicable), the last maturity date of the Bonds is not later than the last maturity
7 date of the 2002 Bonds (or the 2004 Bonds, if applicable), and the discount paid to the
8 Underwriter (exclusive of original issue discount) does not exceed 1.25% of the principal amount
9 of the Bonds. Each of the Authorized Officers is authorized to determine the day on which the
10 Bonds are to be priced in order to attempt to produce the lowest borrowing cost for the District
11 and may reject any terms presented by the Underwriter if determined not to be in the best interest
12 of the District.
13
14

15 SECTION 6. The form of the Continuing Disclosure Agreement presented at this
16 meeting is hereby approved and any one of the Authorized Officers is hereby authorized and
17 directed to execute the Continuing Disclosure Agreement in the form hereby approved, with such
18 additions therein and changes thereto as the Authorized Officer or Authorized Officers executing
19 the same deem necessary to cure any defect or ambiguity therein if such change does not
20 materially alter the substance or content thereof, with such approval to be conclusively evidenced
21 by the execution and delivery of the Continuing Disclosure Agreement.
22

23 SECTION 7. The form of the 2002 Escrow Agreement presented at this meeting is
24 hereby approved and any one of the Authorized Officers is hereby authorized and directed to
25 execute the 2002 Escrow Agreement in the form hereby approved, with such additions therein
26 and changes thereto as the Authorized Officer or Authorized Officers executing the same deem
27 necessary to cure any defect or ambiguity therein if such change does not materially alter the
28

1 substance or content thereof, with such approval to be conclusively evidenced by the execution
2 and delivery of the 2002 Escrow Agreement. The Bank of New York Mellon Trust Company,
3 N.A., is hereby appointed to act as escrow agent under the 2002 Escrow Agreement.

4 SECTION 8. The form of the Preliminary Official Statement presented at this meeting
5 is hereby approved, and the Underwriter is hereby authorized to distribute the Preliminary
6 Official Statement to prospective purchasers of the Bonds in the form hereby approved, together
7 with such additions thereto and changes therein as are determined necessary by any one of the
8 Authorized Officers to make the Preliminary Official Statement final as of its date. The
9 Authorized Officers are hereby authorized and directed to execute and deliver a certificate
10 deeming the Preliminary Official Statement final as of its date in accordance with Rule 15c2-12
11 promulgated under Securities Exchange Act of 1934. Each of the Authorized Officers is hereby
12 authorized to execute a final Official Statement in the form of the Preliminary Official
13 Statement, together with such changes as are determined necessary by the Authorized Officer
14 executing the Official Statement to make such Official Statement complete and accurate as of its
15 date. The Underwriter is further authorized to distribute the final Official Statement for the
16 Bonds and any supplement thereto to the purchasers thereof upon its execution on behalf of the
17 District as described above.

18 SECTION 9. The Authorized Officers are hereby authorized to amend the Funding
19 Agreement to remove the requirement therein that the Landowners provide Letters of Credit to
20 the District, and the Authorized Officers are hereby further authorized to enter into any
21 agreements with the Landowners to effect such removal.

22 SECTION 10. In the event that the Authorized Officers decide not to proceed with
23 amending the Funding Agreement, the District is hereby authorized to waive the requirement that
24 the Landowners continue to deliver letters of credit.

1 SECTION 11. In accordance with the requirements of Section 53345.8 of the Act, the
2 legislative body of the District hereby determines that the value of the real property in the
3 District subject to the special tax to pay debt service on the Bonds is not less than three times the
4 principal amount of the Bonds and the principal amount of all other bonds outstanding that are
5 secured by a special tax levied pursuant to the Act or a special assessment levied on property
6 within the District. This determination is based on the assessed value of the real property within
7 the District as set forth in the fiscal year 2012-13 County Assessor's roll.

9 SECTION 12. Each of the Authorized Officers is authorized to provide for all services
10 necessary to effect the issuance of the Bonds. Such services shall include, but not be limited to,
11 obtaining legal services, trustee services and any other services deemed appropriate by an
12 Authorized Officer. Any one of the Authorized Officers is authorized to pay for the cost of such
13 services, together with other Costs of Issuance from Bond proceeds. Without further approval of
14 the legislative body of the District, the total amount disbursed by the Authorized Officers for
15 Costs of Issuance, exclusive of Underwriter's discount, shall not exceed 5.00% of the principal
16 amount of the Bonds.
17

18 SECTION 13. The Authorized Officers are authorized to execute contracts with Stradling
19 Yocca Carlson & Rauth, a Professional Corporation, to act as Bond Counsel to the District
20 ("Bond Counsel"), and CSG Advisors Incorporated to act as financial advisor, which contracts
21 shall be in substantially the form on file with the City Clerk, together with such changes as may
22 be approved by the Authorized Officers, which changes shall be deemed approved by the
23 execution and delivery of such contracts by any one of such officers.
24

25 SECTION 14. Each of the Authorized Officers is hereby authorized to pursue the
26 refunding of the 2004 Bonds in addition to the 2002 Bonds. The District is hereby authorized to
27 issue the Bonds to refund the 2004 Bonds in addition to the 2002 Bonds so long as the net
28

1 present value savings from the refunding of the 2004 Bonds is at least 5% of the 2004 Bonds to
2 be refunded. Each of the Authorized Officers and Bond Counsel are hereby authorized to make
3 any and all amendments, modifications and changes to the Indenture, the Bond Purchase
4 Agreement, the Continuing Disclosure Agreement, the 2002 Escrow Agreement and the
5 Preliminary Official Statement they deem necessary and appropriate to provide for the refunding
6 of the 2004 Bonds. An escrow agreement for the 2004 Bonds is also hereby approved and
7 authorized substantially in the form of the 2002 Escrow Agreement. In the event the Authorized
8 Officers pursue the refunding of the 2004 Bonds, the total principal amount of the Bonds shall be
9 increased so as not to exceed \$22,000,000.
10

11 SECTION 15. Each of the Authorized Officers and the other officers and staff of the City
12 of Oceanside and the District responsible for the fiscal affairs of the District are hereby
13 authorized and directed to take any actions and execute and deliver any and all documents as are
14 necessary to accomplish the issuance, sale and delivery of the Bonds in accordance with the
15 provisions of this Resolution, including the refunding of the 2002 Bonds and the 2004 Bonds
16 subject to the limitations set forth herein, and the fulfillment of the purposes of the Bonds as
17 described in the Indenture, including, but not limited to, providing certificates as to the accuracy
18 of any information relating to the District which is included in the Official Statement and
19 amendments to the Indenture, executing agreements with the Landowners to effect the removal
20 of the requirement in the Funding Agreement that the Landowners post letters of credit with the
21 District or waiving said requirement, and the delivery and execution of an escrow agreement to
22 accomplish the refunding of the 2004 Bonds. Any document authorized herein to be signed by
23 the City Clerk may be signed by a duly appointed deputy clerk.
24
25
26
27
28

1 PASSED AND ADOPTED by the City Council of the City of Oceanside, California, this

2 _____ day of _____, 2013, by the following vote:

3 AYES:

4 NAYS:

5 ABSENT:

6 ABSTAIN:

7
8
9 _____
10 MAYOR OF THE CITY OF OCEANSIDE

11 ATTEST:

12 APPROVED AS TO FORM:

13 _____
14 City Clerk

15
16
17
18
19
20
21
22
23
24
25
26
27
28

City Attorney

ATTACHMENT 2
PRELIMINARY OFFICIAL STATEMENT DATED _____, 2013

NEW ISSUE - BOOK-ENTRY ONLY

RATING: S&P: “ _____ ”

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 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. See “TAX EXEMPTION” herein.

County of San Diego

State of California

\$6,885,000*

**COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE
(MORRO HILLS DEVELOPMENT)
SPECIAL TAX REFUNDING BONDS SERIES 2013A**

Dated: Date of Delivery

Due: September 1, as shown on the inside cover page

The Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) Special Tax Refunding Bonds, Series 2013A are being issued and delivered to refund all of the Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) Special Tax Bonds, Series A of 2002, currently outstanding in the aggregate principal amount of \$6,835,000, to fund the 2013 Subaccount of the Reserve Account, and to pay the costs of 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), and pursuant to a Bond Indenture, dated as of November 1, 2002, by and between the District and The Bank of New York Mellon Trust Company, N.A. as trustee as amended and supplemented by the First Supplemental Bond Indenture dated as of December 1, 2004, and by the Second Supplemental Bond Indenture dated as of May 1, 2013. The Bonds are special obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of certain taxable land 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 City Council of the City and the qualified electors within the District. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes.” The City Council of the City is the legislative body of the District.

The Bonds are payable on a parity with the District’s Special Tax Bonds, Series A of 2004, currently outstanding in the aggregate amount of \$11,655,000. See “SOURCES OF PAYMENT FOR THE BONDS—Limited Obligations.”

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. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable on March 1, 2014 and semiannually thereafter on each March 1 and September 1. Principal of 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—General Provisions” and “—Book-Entry Only System” herein.

Neither the faith and credit nor the taxing power of the City of Oceanside, the County of San Diego, 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 tax obligations of the District payable solely from Special 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 set forth 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 intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the City with respect to the Bonds. Certain legal matters will be passed on for the City and the District by the City Attorney and for the Underwriter by Nossaman LLP, Irvine, California. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about _____, 2013.

PIPER JAFFRAY

Dated: _____, 2013

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

\$6,885,000*
COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE
(MORRO HILLS DEVELOPMENT)
SPECIAL TAX REFUNDING BONDS SERIES 2013A

MATURITY SCHEDULE
Base CUSIP[†]: _____

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Price</i>	<i>CUSIP[†]</i>	<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Price</i>	<i>CUSIP[†]</i>
--	-----------------------------	--------------------------	--------------	--------------------------	--	-----------------------------	--------------------------	--------------	--------------------------

\$ _____ % Term Bonds due September 1, _____, Yield: _____%, CUSIP[†] _____

* Preliminary, subject to change.

† Copyright 2013, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the City nor the Underwriter guarantees the accuracy of the CUSIP data.

CITY OF OCEANSIDE, CALIFORNIA

CITY COUNCIL

Jim Wood, *Mayor and Chair*
Jack Feller, *Deputy Mayor and Vice Chair*
Esther C. Sanchez, *Council Member and Authority Member*
Gary Felien, *Council Member and Authority Member*
Jerome M. Kern, *Council Member and Authority Member*

CITY STAFF

Peter A. Weiss, *City Manager*
Teri Ferro, *Director of Financial Services*
John P. Mullen, *City Attorney*
Zack Beck, *City Clerk*
Gary Ernst, *City Treasurer*
Michele Lund, *Treasury Manager*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

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

Financial Advisor

CSG Advisors, Incorporated
San Francisco, California

Special Tax Consultant

David Taussig & Associates, Inc.
Newport Beach, California

Trustee and Escrow Bank

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

Verification Agent

Grant Thornton, LLP
Minneapolis, Minnesota

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 ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFER OR SALE OF THE BONDS, OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE AUTHORITY, THE CITY OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE DESCRIBED ON THE COVER PAGE OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BY ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE. THE OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE BONDS.

The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. 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 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 this 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. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "THE DISTRICT."

This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or be used, as a whole or in part, for any other purpose.

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.

In connection with the offering of the Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and dealer banks and banks acting as agent and others at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and the Underwriter may change those public offering prices from time to time.

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

The City maintains a website. However, the information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

[DISTRICT LOCATION MAP]

TABLE OF CONTENTS

	Page
INTRODUCTION.....	1
General	1
Forward Looking Statements	1
The District.....	2
Sources of Payment for the Bonds	3
Description of the Bonds	4
Tax Matters.....	4
Professionals Involved in the Offering.....	5
Continuing Disclosure.....	5
Bond Owners' Risks.....	5
Other Information	5
THE REFUNDING PLAN.....	5
ESTIMATED SOURCES AND USES OF FUNDS	6
THE BONDS	6
General Provisions.....	6
Book-Entry Only System	7
Authority for Issuance	7
Debt Service Schedule.....	8
Redemption	9
Registration, Transfer and Exchange.....	10
SOURCES OF PAYMENT FOR THE BONDS.....	10
Limited Obligations.....	10
Special Taxes.....	11
Reserve Account of the Special Tax Fund	15
No Issuance of Parity Bonds Except for Refunding.....	16
Release of Letters of Credit.....	16
THE DISTRICT	16
General Description of the District.....	16
Estimated Direct and Overlapping Indebtedness.....	17
Expected Tax Burden	18
Estimated Assessed Value-to-Lien Ratio	20
Property Ownership.....	25
Delinquency History.....	27
SPECIAL RISK FACTORS.....	27
Concentration of Ownership.....	28
Limited Obligations.....	28
Insufficiency of Special Taxes	28
Failure to Develop Properties	29
Future Land Use Regulations and Growth Control Initiatives	29
Endangered Species.....	30
Natural Disasters	30
Hazardous Substances	31
Parity Taxes, Special Assessments and Land Development Costs.....	31
Disclosures to Future Purchasers.....	32
Special Tax Delinquencies	32
Non-Cash Payments of Special Taxes.....	32
Payment of the Special Tax is not a Personal Obligation of the Owners	33

Land Values.....	33
FDIC/Federal Government Interests in Properties	33
Bankruptcy and Foreclosure.....	34
No Acceleration Provision	36
Loss of Tax Exemption	36
Limitations on Remedies.....	36
Extraordinary Redemption of Bonds.....	36
Limited Secondary Market.....	36
Proposition 218.....	37
Ballot Initiatives	38
CONTINUING DISCLOSURE	38
TAX EXEMPTION.....	38
LITIGATION.....	40
LEGAL OPINION	40
RATING.....	40
UNDERWRITING.....	40
FINANCIAL ADVISOR.....	41
FINANCIAL INTERESTS	41
PENDING LEGISLATION	41
ADDITIONAL INFORMATION	41
APPENDIX A	RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES A-1
APPENDIX B	SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF OCEANSIDE B-1
APPENDIX C	SUMMARY OF INDENTURE C-1
APPENDIX D	FORM OF CONTINUING DISCLOSURE AGREEMENT D-1
APPENDIX E	FORM OF OPINION OF BOND COUNSEL E-1
APPENDIX F	BOOK-ENTRY ONLY SYSTEM..... F-1

\$6,885,000*
COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE
(MORRO HILLS DEVELOPMENT)
SPECIAL TAX REFUNDING BONDS, SERIES 2013A

INTRODUCTION

General

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of 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 shall have the meaning set forth in APPENDIX C—“SUMMARY OF INDENTURE—Definitions” herein.

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance of the \$6,885,000* Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) Special Tax Refunding Bonds, Series 2013A (the “Bonds”). The Bonds are issued on a parity with the Community Facilities District No. 2001-1 of the City of Oceanside Special Tax Bonds, Series A of 2004 (the “2004 Bonds”), currently outstanding in the aggregate principal amount of \$11,655,000. The proceeds of the Bonds will be used to refund the Community Facilities District No. 2001-01 of the City of Oceanside Special Tax Bonds, Series A of 2002, currently outstanding in the aggregate principal amount of \$6,835,000, to fund the 2013A Subaccount of the Reserve Account securing the Bonds and to pay costs of administration and 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 a Bond Indenture dated as of November 1, 2002 (the “Original Indenture”) by and between the District and The Bank of New York Trust Company, N.A. (the “Trustee”) as amended and supplemented by the First Supplemental Bond Indenture dated as of December 1, 2004 (the “First Supplement”) and the Second Supplemental Bond Indenture, dated as of May 1, 2013 (the “Second Supplement,” and together with the Original Indenture and the First Supplement, the “Indenture”). The Bonds are secured under the Indenture by a pledge of and lien upon certain Net Taxes (as defined herein) and all moneys in the Special Tax Fund (other than the Administrative Expenses Account therein).

Forward Looking Statements

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. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “THE DISTRICT.”

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS,

* Preliminary, subject to change.

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.

The District

Formation Proceedings. Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) (the “District”) has been formed by the City of Oceanside (the “City”) pursuant to the Act.

The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a district and may levy and collect a special tax within such district to repay such indebtedness.

Pursuant to the Act, the City Council adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of Special Taxes on taxable property within the boundaries of the District, and to have the District incur bonded indebtedness. Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District, designating Improvement Area No. 1 of the District (“Improvement Area No. 1”) and calling special elections to submit the authorization of the levy of the Special Taxes and special taxes of Improvement Area No. 1 and the incurring of bonded indebtedness to the qualified voters of the District and Improvement Area No. 1, respectively. On March 26, 2002, at elections held pursuant to the Act, the landowners who comprised the qualified voters of the District, authorized the District to incur bonded indebtedness in an aggregate principal amount not to exceed \$26,000,000 and approved the rate and method of apportionment of the Special Taxes for the District to pay the principal of and interest on the bonds of the District which is set forth in Appendix A hereto (the “Rate and Method”). On March 26, 2002, at elections held pursuant to the Act, the landowners who comprised the qualifying electors within Improvement Area No. 1 authorized the District to incur bonded indebtedness on behalf of Improvement Area No. 1 in an aggregate principal amount not to exceed \$11,000,000 and approved the rate and method of apportionment of special taxes for Improvement Area No. 1 to pay the principal of and interest on the bonds of the District issued on behalf of Improvement Area No. 1 (the “Improvement Area No. 1 Rate and Method”). See “THE BONDS—Authority for Issuance” herein. The City Council of the City acts as the legislative body of the District.

Property Ownership and Development Status. The District consists of approximately 538 gross acres. The District is located in the City in the north coastal area of San Diego County, east of Interstate 5, north of State Route 76 immediately south of the Camp Pendleton Marine Corps Base and approximately 35 miles north of downtown San Diego.

The District is largely built out and, as of March 1, 2013, consists of 825 completed single family homes owned by individual owners (of which 154 homes have prepaid their Special Taxes and are no longer subject to the Special Tax levy), an additional 70 single family lots owned by various homebuilders in various states of development (ranging from completed model homes and standing inventory to finished lots with building permits) (and on 7 of which the Home Builder has prepaid the Special Taxes) and 111 single family lots for which no building permits have been issued. The District also includes the following completed and operating amenities: (i) the Arrowood Golf Course, which is a 6,721-yard 18-hole public golf course (including a clubhouse, driving range and habitat area) designed by Ted Robinson Jr. and owned and operated by IAB, LLC (the Special Taxes for the Arrowood Golf Course are levied on three parcels); (ii) a community

park and a community center; (iii) a 10-acre community park; (iv) an elementary school; and (v) a pedestrian walkway and trail system. Additionally, an undeveloped 1.36 acre commercial site, consisting of 2 parcels, owned by SM Pacific Investments LLC is planned for a future village store/day care center and a church.

The District has been developed into eleven (11) separate residential neighborhoods or “Villages.” Several of the Villages have a golf course orientation, with homes either constructed along the golf course or with views of the golf course. A few of the homes have distant ocean views. All of the backbone infrastructure for the development of the remaining residential lots within the District has been completed and the remaining 111 single family lots for which no building permits have been issued are in a finished lot condition.

There are currently three homebuilders who own taxable land within the District: (i) Hearthstone Multi-Asset Entity B LP, (ii) Toll Land X X Ltd. Partnership, and (iii) D R Horton Los Angeles Holding (collectively, the “Home Builders”). The remaining taxable property within the District is owned by individual homeowners, the golf course owner and SM Pacific Investments LLC. See “THE DISTRICT—Property Ownership” herein.

Sources of Payment for the Bonds

Special Taxes. 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 certain land within the District pursuant to the Act and in accordance with the Rate and Method. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes” and APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” Under the Indenture, the District has pledged to repay the Bonds and the 2004 Bonds from the 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 (other than the Administrative Expenses Account therein) established under the Indenture.

The Special Taxes are the primary security for the repayment of the Bonds and the 2004 Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds and the 2004 Bonds are amounts held by the Trustee in the Special Tax Fund, including amounts held in the Reserve Account therein. See “SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund.”

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 of common ownership with delinquent Special Taxes in excess of \$10,000 by the October 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 October 1 following the close of any fiscal year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Account is less than the Reserve Requirement. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Proceeds of Foreclosure Sales*” herein. There is no assurance that the property within the District 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 District. See “SPECIAL RISK FACTORS—Land Values” herein.

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM SPECIAL TAXES AND AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

No Issuance of Parity Bonds Except for Refunding. The District may, without the consent of the Owners of the Bonds and the 2004 Bonds, issue additional indebtedness secured by the Net Taxes on a parity with the Bonds and the 2004 Bonds (“Parity Bonds”); but only for the purpose of refunding all or a portion of the Bonds, the 2004 Bonds or any Parity Bonds then Outstanding. All of the \$26,000,000 of debt originally authorized by the voters in the District has been issued. Accordingly, the District expects that any future Parity Bonds will be issued only for refunding purposes. See “SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds.”

Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes have been levied and may also be levied in the future on the property within the District which could adversely affect the willingness of the landowners to pay the Special Taxes when due. A portion of the land within the District is also included within Improvement Area No. 1. The District has previously issued \$11,000,000 of Improvement Area No. 1 Bonds on behalf of Improvement Area No. 1 secured by special taxes levied solely on property within the boundaries of the District pursuant to the Improvement Area No. 1 Rate and Method (the “Improvement Area No. 1 Special Taxes”). The Improvement Area No. 1 Special Taxes are not pledged to or available to pay debt service on the Bonds or the 2004 Bonds and are not payable from the Special Tax securing the Bonds, but they do constitute a lien on the taxable property in the District on a parity with the lien for Special Taxes. See “SPECIAL RISK FACTORS—Parity Taxes, Special Assessments and Land Development Costs.”

Description of the Bonds

The Bonds will be issued and delivered as fully registered Bonds, 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 of \$5,000 or any integral multiple thereof, under the book-entry 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. In the event that the book-entry only system described herein is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Indenture. See APPENDIX F—“BOOK-ENTRY ONLY SYSTEM” herein.

Principal of, premium, if any, and interest on the Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Trustee, all as described herein. See APPENDIX F—“BOOK-ENTRY ONLY SYSTEM” herein.

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 C—“SUMMARY OF INDENTURE” herein.

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants and requirements described 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. It is the further opinion of Bond Counsel that interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See “TAX EXEMPTION” herein.

Professionals Involved in the Offering

The Bank of New York Mellon Trust Company, N.A. will act as Trustee under the Indenture. Piper Jaffray & Co. is the Underwriter of the Bonds. Certain 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, as Bond Counsel and as Disclosure Counsel. CSG Advisors, Incorporated is serving as Financial Advisor to the City in connection with the Bonds. Certain legal matters will be passed on for the City and the District by the City Attorney, and for the Underwriter by Nossaman LLP, Irvine, California, as Underwriter's Counsel. Other professional services have been performed by David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant and as the initial Dissemination Agent under the Continuing Disclosure Agreement.

For information concerning the 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 "FINANCIAL INTERESTS" herein.

Continuing Disclosure

The District has agreed to provide, or cause the Municipal Securities Rulemaking Board certain annual financial information and operating data. The District has further agreed to provide 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 "CONTINUING DISCLOSURE" herein and APPENDIX D hereto for a description of the specific nature of the annual reports and notices of material events to be filed by the District.

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. The Bonds are not rated by any nationally recognized bond rating agency. *The purchase of the Bonds involves significant investment risks, and the Bonds are not suitable investments for many investors.* See "SPECIAL RISK FACTORS" herein.

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 City Council, 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.

Copies of the Indenture, the Continuing Disclosure Agreement and other documents and information referred to herein are available for inspection and (upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the City at the Office of the City Clerk at 300 North Coast Highway, Oceanside, California 92054, Attention: City Clerk.

THE REFUNDING PLAN

A portion of the proceeds from the sale of the Bonds, together with other funds on hand, will be deposited into an escrow fund (the "Escrow Fund") to redeem the 2002 Bonds. The Escrow Fund is to be

created and maintained by The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”), under the 2002 Escrow Agreement dated as of May 1, 2013 (the “Escrow Agreement”), by and between the District and the Escrow Agent for the redemption of the 2002 Bonds.

Moneys in the Escrow Fund will be invested in cash and/or non-callable direct obligations of the United States Treasury or other non-callable obligations, the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America. Grant Thornton, LLP, independent certified public accountants, acting as verification agent (the “Verification Agent”) with respect to the Escrow Fund, will certify in writing that the proceeds of the Bonds deposited into the Escrow Fund, along with the interest earnings thereon, will be sufficient to pay on September 1, 2013 all principal and interest then due on the 2002 Bonds and to redeem on September 1, 2013 the principal amount of all 2002 Bonds maturing after September 1, 2013. Moneys in the Escrow Fund are not available to pay debt service on the Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount of Bonds	\$
Prior Funds on Hand ⁽¹⁾	
Plus/Less Net Original Issue Premium/Discount	
TOTAL SOURCES	\$

Uses of Funds

Escrow Fund	\$
Cost of Issuance Account ⁽²⁾	
2013A Subaccount of the Reserve Account	
TOTAL USES	\$

⁽¹⁾ Consists of prior share of Reserve Account relating to the 2002 Bonds, Special Tax collections and Special Tax prepayments.

⁽²⁾ Includes fees for Trustee, legal fees, financial advisor, printing costs, Underwriter’s discount, and other costs of delivery.

THE BONDS

General Provisions

The Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing on March 1, 2014 (each, an “Interest Payment Date”), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default, interest on that Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available

for payment. In the Indenture, "Record Date" is defined to mean the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

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 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.

Book-Entry Only System

The Bonds are issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 and any integral multiple thereof. The Trustee will make payments due with respect to the Bonds to DTC but assumes no responsibility for DTC's disbursement of funds to its principals. See APPENDIX F—"BOOK-ENTRY-ONLY SYSTEM."

Authority for Issuance

The Bonds are issued pursuant to the Act and the Indenture. As required by the Act, the City Council of the City has taken the following actions with respect to establishing the District and the Bonds:

Resolutions of Intention: On February 6, 2002, the City Council of the City adopted a resolution stating its intention to establish the District and to authorize the levy of a special tax, and a resolution declaring its intention to incur bonded indebtedness in an amount not to exceed \$26,000,000 within the District.

Resolutions of Formation: Immediately following a noticed public hearing opened on March 13, 2002, the City Council of the City, adopted resolutions which established the District, authorized the levy of a special tax within the District, and declared the necessity to incur bonded indebtedness within the District.

Resolution Calling Election: The resolutions adopted by the City Council of the City on March 13, 2002 also called for an election by the landowners in the District for March 26, 2002 on the issues of the levy of the Special Tax, the incurring of bonded indebtedness, and the establishment of an appropriations limit.

Landowner Election and Declaration of Results: On March 26, 2002, an election was held at which the landowners within the District approved a ballot proposition authorizing the issuance of up to \$26,000,000 of bonds to finance the acquisition and construction of various public facilities, the levy of the Special Tax and the establishment of an appropriations limit for the District. On April 17, 2002, the City Council adopted a resolution approving the canvass of the votes and declaring the District to be fully formed with the authority to levy the Special Taxes, to incur the bonded indebtedness, and to have the established appropriations limit.

Special Tax Lien and Levy: A Notice of Special Tax Lien for the District was recorded in the real property records of the County on April 26, 2002, as a continuing lien against the property in the District.

Ordinance Levying Special Taxes: On May 1, 2002, the City Council adopted an ordinance levying the Special Tax within the District.

Resolution Authorizing Issuance of the Bonds: On May 1, 2013, the City Council adopted a resolution approving the issuance of the Bonds.

Debt Service Schedule

The following table presents the annual debt service on the Bonds and the 2004 Bonds (including sinking fund redemptions), assuming that there are no optional or extraordinary redemptions. 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 mandatory redemption of the Bonds. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes” and “THE BONDS—Redemption.”

<i>Period Ending September 1</i>	<i>Bonds</i>			<i>2004 Bonds Debt Service ⁽¹⁾</i>	<i>Total Debt Service</i>
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>		
2013	\$	\$	\$	\$ 928,795.00	\$
2014				935,195.00	
2015				910,320.00	
2016				910,470.00	
2017				914,513.76	
2018				917,358.76	
2019				919,071.26	
2020				913,821.26	
2021				907,821.26	
2022				916,071.26	
2023				852,356.26	
2024				855,585.00	
2025				852,175.00	
2026				837,500.00	
2027				811,100.00	
2028				859,700.00	
2029				864,175.00	
2030				821,725.00	
2031				819,825.00	
2032				816,275.00	
2033				1,391,075.00	
2034				<u>1,387,325.00</u>	
Total	\$	\$	\$	\$20,342,243.82	\$

⁽¹⁾ As of March 1, 2013. Excludes \$85,000 in prepayments scheduled to redeem 2004 Bonds September 1, 2013.

Redemption *

Optional Redemption. The Bonds are subject, at the option of the District, to call and redemption from any available source of funds prior to their stated maturity on any Interest Payment Date, as a whole or in part, and by lot, 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>
Any Interest Payment Date through March 1, 2021	103%
September 1, 2021 and March 1, 2022	102
September 1, 2022 and March 1, 2023	101
September 1, 2023 and any Interest Payment Date thereafter	100

Mandatory Sinking Payment Redemption. The Bonds maturing on September 1, 20__ (the “Term Bonds”) will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established by the Indenture, on September 1, 20__, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 20__

<i>Sinking Fund Redemption Date</i>	<i>Sinking Payments</i>
-------------------------------------	-------------------------

In the event of a partial optional redemption or extraordinary mandatory redemption of the Term Bonds, each of the remaining Sinking Fund Payments for such Term Bonds, as applicable, will be reduced, as nearly as practicable, on a pro rata basis in integral multiples of \$5,000.

Extraordinary Mandatory Redemption. The Bonds are subject to extraordinary mandatory 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 Date</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 2021	103%
September 1, 2021 and March 1, 2022	102
September 1, 2022 and March 1, 2023	101
September 1, 2023 and any Interest Payment Date thereafter	100

The Rate and Method permits landowners within the District to prepay all or a portion of their Special Tax obligation under certain circumstances. In the event of Prepayments, Outstanding 2004 Bonds, Bonds and any Parity Bonds will, to the extent reasonably practicable, be redeemed on a proportionate basis based on the

* Preliminary, subject to change.

Outstanding principal amount of such 2004 Bonds, Bonds and Parity Bonds. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.”

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 F—“BOOK-ENTRY ONLY 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 Underwriter as original purchasers of the Bonds and 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. Notice of a redemption to be made from other than from Sinking Fund Payments shall be conditioned on there being on deposit on the redemption date sufficient money to pay the redemption price of the Bonds to be redeemed.

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.

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, 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 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.

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 Special Taxes are the primary security for the repayment of the Bonds. Under the Indenture, the District has pledged to repay the Bonds, the 2004 Bonds and any Parity Bonds from the Net Taxes (which are Special Tax revenues remaining after the payment of annual Administrative Expenses of up to \$45,000) and amounts on deposit in the Special Tax Fund (other than amounts held in the Administrative Expenses Account therein). Special Tax revenues include the proceeds of the Special Taxes received by the District, including any scheduled payments and Prepayments thereof, the net proceeds of 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. SPECIAL TAXES LEVIED PURSUANT TO THE IMPROVEMENT AREA NO. 1 RATE AND METHOD DO NOT SECURE THE BONDS.

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, the 2004 Bonds and any Parity 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, the 2004 Bonds and any Parity Bonds.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY OF SAN DIEGO, 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 NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

Special Taxes

Authorization and Pledge. In accordance with the provisions of the Act, the City Council established the District on March 13, 2002 for the purpose of financing the acquisition, construction and installation of various public improvements required in connection with the proposed development within the District. At a special election held on March 26, 2002, the owners of the property within the District authorized the District to incur indebtedness in an amount not to exceed \$26,000,000, and approved the Rate and Method which authorizes the Special Tax to be levied to repay District indebtedness, including 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 and any Parity 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 TAXES" 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 Bonds when due. See "SPECIAL RISK FACTORS—Insufficiency of Special Taxes" herein.

Rate and Method of Apportionment of Special Taxes. The Special Taxes will be levied in accordance with the terms of the Rate and Method, the text of which is set forth in Appendix A. All capitalized terms used in this section shall have the meaning set forth in Appendix A.

Under the Rate and Method, all Taxable Property in the District will be classified as Developed Property, Taxable Religious Property, Taxable Public Property, Taxable Property Owner Association Property

or Undeveloped Property and will be subject to a Special Tax levy at the maximum rates described in Sections C and D of the Rate and Method.

A parcel will be classified as Developed Property if it is Golf Course Property or Taxable Property (other than Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property) which is within a Final Map that was recorded prior to January 1 and for which a building permit for new construction was issued prior to March 1 of the fiscal year preceding the Special Tax levy. Developed Property will be further assigned to land use classes for Residential Property, Non-Residential Property, Golf Course Property, and Village Store/Day Care Property. The Maximum Annual Special Tax for Developed Property will be the greater of the Assigned Special Tax or the Backup Special Tax. The Assigned Special Tax rates are set forth in Table 1 of the Rate and Method. The Assigned Special Tax rates range from \$1,621.63 for a residential unit of less than or equal to 1,850 square feet to \$3,243.26 for residential units greater than or equal to 3,851 square feet. The rate for Non-Residential Property is \$13,486 per acre, for Golf Course Property is \$233.64 per acre (not to exceed \$20,000 for all Golf Course Property) and for Village Store/Day Care Property \$0.264 per square foot of Floor Area. The maximum Special Tax rate for Undeveloped Property, Taxable Property Owner Association Property, Taxable Religious Property and Taxable Public Property is \$13,486 per acre.

After classifying the parcels, the City Council will determine the Special Tax Requirement for the fiscal year. "Special Tax Requirement" is defined in the Rate and Method as the amount required in any Fiscal Year to: (i) pay debt service on all Outstanding Parity Bonds due in the calendar year that commences in such Fiscal Year; (ii) pay periodic costs on the Parity Bonds, including, but not limited to, credit enhancement and rebate payments on the Parity Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Parity Bonds; and (v) pay directly for acquisition or construction of CFD No. 2001-1 facilities eligible under the Act; less (vi) a credit for funds available to reduce the annual Special Tax levy, as determined by the Director of Financial Services pursuant to the Indenture. The Special Tax will be levied first on Developed Property up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement. If additional monies are needed to satisfy the Special Tax Requirement after levying on all Developed Property at the applicable Assigned Special Tax, the Special Tax will be levied next on Undeveloped Property up to the maximum rate. If additional moneys are needed to satisfy the Special Tax Requirement, then the Special Tax will be levied on all Developed Property in equal percentages up to the maximum rate through the application of the Backup Special Tax and finally on Taxable Property Owner Association Property, Taxable Religious Property and Taxable Public Property proportionately up to the maximum rate. See APPENDIX A—"RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES."

Prepayment of Special Taxes. The owner of a parcel for which a building permit has been issued may voluntarily prepay the Special Tax obligation for a parcel in whole or in part at certain times as permitted by the Rate and Method. The City has required that each merchant builder offer each purchaser of a new home within the District the option to pay a higher purchase price and cause the merchant builder to prepay the Special Taxes in full prior to the close of escrow or to pay a lower purchase price assuming no prepayment of the Special Taxes. Any prepayment of Special Taxes will result in an extraordinary redemption of Bonds. As of March 31, 2013, the Special Taxes have been prepaid on 161 single family lots, resulting in the extraordinary redemption of \$3,895,000 in 2002 Bonds and 2004 Bonds, and an additional \$135,000 in principal of the 2002 Bonds and the 2004 Bonds has been scheduled to be prepaid on September 1, 2013 from Special Tax prepayments. The Home Builders within the District have offered incentives to home purchasers, including the option of having the District's Special Taxes prepaid. See APPENDIX A—"RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES," "THE BONDS—Redemption—*Extraordinary Mandatory Redemption*," and "SPECIAL RISK FACTORS—*Extraordinary Redemption of Bonds*."

Collection and Application of Special Taxes. The Special Taxes are levied and collected by the Treasurer-Tax Collector of 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.

The District has made certain covenants in the Indenture for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the Bonds, the 2004 Bonds and Parity Bonds and Administrative Expenses when due. First, the District has covenanted that, to the extent it is legally permitted to do so, it will not reduce the maximum Special Tax rates and will oppose the reduction of maximum Special Tax rates by initiative where such reduction would reduce the maximum Special Taxes which may be levied on then existing Developed Property in each Bond Year for any Bonds, 2004 Bonds or any Parity Bonds below 110% of the sum of estimated Administrative Expenses and gross debt service in each Bond Year on all Bonds, 2004 Bonds and Parity Bonds to remain Outstanding after the reduction is approved. See "SPECIAL RISK FACTORS—Proposition 218." Second, the District has covenanted not to permit the tender of Bonds, 2004 Bonds or Parity Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds, 2004 Bonds and any Parity Bonds remaining Outstanding following such tender. See "SPECIAL RISK FACTORS—Non-Cash Payments of Special Taxes."

Although the Special Taxes constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the City or the landowners therein. See "SPECIAL RISK FACTORS—Parity Taxes, Special Assessments and Land Development Costs" herein. In addition to the Bonds and 2004 Bonds, the District has issued \$11,000,000 in bonds secured by special taxes levied pursuant to the Improvement Area No. 1 Rate and Method. Special taxes levied pursuant to the Improvement Area No. 1 Rate and Method have liens upon the property within Improvement Area No. 1 equal in priority to the continuing lien of the Special Taxes. There is no assurance that property 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."

Under the terms of the Indenture, all Special Tax revenues received by the District, other than Prepayments, are to be deposited in the Special Tax Fund. Prepayments shall be deposited in the Redemption Account of the Special Tax Fund. Special Tax revenues 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 up to \$45,000 to the Administrative Expense Fund 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 \$45,000 referenced in (i) above; and (vi) for any other lawful purpose of the District. See APPENDIX C—"SUMMARY OF INDENTURE."

Debt Service Coverage from Net Special Taxes. Table 1 below shows the estimated debt service coverage on the 2004 Bonds and the Bonds.

TABLE 1
ESTIMATED DEBT SERVICE COVERAGE
COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF THE CITY OF OCEANSIDE

<i>Fiscal Year</i>	<i>Residential Developed Special Tax Revenues⁽¹⁾ (2)(3)</i>	<i>Golf Course Special Tax Revenues⁽⁴⁾</i>	<i>Annual Administrative Expenses⁽⁵⁾</i>	<i>Net Developed Special Tax Revenues</i>	<i>Series 2004 Debt Service</i>	<i>Series 2013 Debt Service⁽⁶⁾</i>	<i>Total Debt Service</i>	<i>Coverage from Developed Property</i>
2014	\$1,855,686	\$19,294 ⁽¹⁾	\$45,000	\$1,829,980	\$935,195	\$515,434	\$1,450,629	126.15
2015	1,628,412	19,294 ⁽²⁾	45,000	1,602,706	910,320	499,469	1,409,789	113.68
2016	1,628,412	19,294	45,000	1,602,706	910,470	494,069	1,404,539	114.11
2017	1,628,412	19,294	45,000	1,602,706	914,514	488,669	1,403,183	114.22
2018	1,628,412	19,294	45,000	1,602,706	917,359	488,269	1,405,628	114.02
2019	1,628,412	19,294	45,000	1,602,706	919,071	485,019	1,404,090	114.15
2020	1,628,412	19,294	45,000	1,602,706	913,821	486,619	1,400,440	114.44
2021	1,628,412	19,294	45,000	1,602,706	907,821	494,370	1,402,191	114.30
2022	1,628,412	19,294	45,000	1,602,706	916,071	490,981	1,407,053	113.91
2023	1,628,412	19,294	45,000	1,602,706	852,356	551,681	1,404,038	114.15
2024	1,628,412	19,294	45,000	1,602,706	855,575	544,331	1,399,906	114.49
2025	1,628,412	19,294	45,000	1,602,706	852,175	551,338	1,403,513	114.19
2026	1,628,412	19,294	45,000	1,602,706	837,500	561,656	1,399,156	114.55
2027	1,628,412	19,294	45,000	1,602,706	811,100	580,531	1,391,631	115.17
2028	1,628,412	19,294	45,000	1,602,706	859,700	532,513	1,392,213	115.12
2029	1,628,412	19,294	45,000	1,602,706	864,175	535,113	1,399,288	114.54
2030	1,628,412	19,294	45,000	1,602,706	821,725	560,775	1,382,500	115.93
2031	1,628,412	19,294	45,000	1,602,706	819,825	494,525	1,314,350	121.94
2032	1,628,412	19,294	45,000	1,602,706	816,275	495,188	1,311,463	122.21
2033	1,628,412	19,294	45,000	1,602,706	1,391,075	--	1,391,075	115.21
2034	1,628,412	19,294	45,000	1,602,706	1,387,325	--	1,387,325	115.52

(1) Residential Property Developed Special Tax Revenues for Fiscal Year 2013-14 are equal to approximately 99% of the assigned special tax (based on 110% of the special tax rates levied for Fiscal Year 2012-13). Based on development as of March 1, 2013.

(2) Residential Property Developed Special Tax Revenues for Fiscal Year 2014-15 and each year thereafter are equal to approximately 86% of the assigned special tax (based on 110% of the special tax rates expected to be levied for Fiscal Year 2013-14). Based on development as of March 1, 2013 and assumes no further development.

(3) Pursuant to Section 53321(d) of the Government Code, the special tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within CFD No. 2001-1 by more than ten percent above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the City may not be able to increase the tax levy to the assigned special tax in all years.

(4) Non-Residential Property Developed Special Tax Revenues for Fiscal Year 2013-14 and each year thereafter are based on the assigned special taxes. Based on development as of March 1, 2013 and assumes no further development.

(5) Based on the Administrative Expense Cap of \$45,000.

(6) Based on bond sizing provided by Piper Jaffray.

Covenant to Foreclose; Proceeds of Foreclosure Sales. The net proceeds received following a judicial foreclosure sale of land within the District 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 City Council, 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 for the benefit of the owners of the Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) parcels of common ownership with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due; and (ii) all properties with delinquent Special Taxes by the October 1 following the close of any fiscal year in which the District receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Account is less than the Reserve Requirement. See APPENDIX C—"SUMMARY OF INDENTURE—Other Covenants of the District" 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 "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 "SPECIAL RISK FACTORS—Land 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 or the City 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 Parity Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Account the amount required to increase the balance therein to the Reserve Requirement, 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 lesser of (i) 10% of the initial principal amount of the Bonds, the 2004 Bonds and any Parity Bonds; (ii) the maximum annual debt service on the Bonds, the 2004 Bonds and any Parity Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the Bonds, the 2004 Bonds and any Parity Bonds (the "Reserve Requirement"). Upon issuance of the Bonds, the Reserve Requirement will be \$ _____.

Subject to the limits on the maximum annual Special Tax which may be levied within the District, 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, the 2004 Bonds and any Parity Bonds, to the extent other monies are not available therefor; (ii) redeem the Bonds, the 2004 Bonds and any Parity Bonds in whole or in part in the event of Prepayments; and (iii) pay the principal and interest due in the final year of maturity of the Bonds, the 2004 Bonds and any Parity Bonds. In the event of a prepayment of Special Taxes, under certain circumstances, a portion of the Reserve Account will be added to the amount being prepaid and be applied to redeem the Bonds and the 2004 Bonds. As described in the Rate and Method, the Reserve Account Credit will be equal to the expected reduction in the Reserve Requirement; provided, however, there will be no Reserve Account Credit if the amount in the Reserve Account is less than the Reserve Requirement. See APPENDIX A—"RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX—Prepayment of Special Tax" and APPENDIX C—"SUMMARY OF INDENTURE—Reserve Account" herein.

No Issuance of Parity Bonds Except for Refunding

Under the terms of the Indenture, the District may issue Parity Bonds secured by the Special Taxes on a parity with the Bonds and the 2004 Bonds, for the purpose of refunding all or a portion of the Bonds, 2004 Bonds or any Parity Bonds, or for other purposes of the District. All of the \$26,000,000 of debt originally authorized by the voters in the District has been issued. Accordingly, the District expects that any future Parity Bonds will be issued only for refunding purposes. Parity Bonds may only be issued in accordance with the specific conditions precedent to the issuance of any such Parity Bonds as set forth in the Indenture. See APPENDIX C—"SUMMARY OF INDENTURE—Conditions for the Issuance of Parity Bonds" herein.

Release of Letters of Credit

In connection with the issuance of the Bonds, the District and the City have in accordance with the Indenture waived the requirement that the Home Builders post a letter of credit to secure the payment of Special Taxes on their property. Accordingly, the Trustee, at the instruction of the District, will release all letters of credit currently securing the payment of the Special Taxes within the District.

THE DISTRICT

General Description of the District

The District consists of approximately 538 gross acres. The District is located in the City in the north coastal area of San Diego County, east of Interstate 5, north of State Route 76 immediately south of the Camp Pendleton Marine Corps Base and approximately 35 miles north of downtown San Diego.

The District is largely built out and, as of March 1, 2013, consists of 825 completed single family homes owned by individual owners (of which 154 homes have prepaid their Special Taxes and are no longer subject to the Special Tax levy), an additional 70 single family lots owned by various homebuilders in various states of development (ranging from completed model homes and standing inventory to finished lots with building permits) (and on 7 of which the Home Builder has prepaid the Special Taxes) and 111 single family lots for which no building permits have been issued. The District also includes the following completed and operating amenities: (i) the Arrowood Golf Course, which is a 6,721-yard 18-hole public golf course (including a clubhouse, driving range and habitat area) designed by Ted Robinson Jr. and owned and operated by IAB, LLC (the Special Taxes for the Arrowood Golf Course are levied on three parcels); (ii) a community park and a community center; (iii) a 10-acre community park; (iv) an elementary school; and (v) a pedestrian walkway and trail system. Additionally, an undeveloped 1.36 acre commercial site, consisting of 2 parcels, owned by SM Pacific Investments LLC is planned for a future village store/day care center and a church.

The District has been developed into eleven (11) separate residential neighborhoods or "Villages." Several of the Villages have a golf course orientation, with homes either constructed along the golf course or with views of the golf course. A few of the homes have distant ocean views. All of the backbone

infrastructure for the development of the remaining residential lots within the District has been completed and the remaining 111 single family lots for which no building permits have been issued are in a finished lot condition..

There are three active housing developments within the District owned by Hearthstone Multi-Asset Entity BL, Toll Land XX Ltd. Partnership and DR Horton Los Angeles Holding. See “—Property Ownership” herein.

Estimated Direct and Overlapping Indebtedness

Within the District’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 District and others have authorized but unissued bonds which, if issued, will be secured by taxes and assessments levied on parcels within the District. The approximate amount of the direct and overlapping debt secured by such taxes and assessment on the parcels within the District for fiscal year 2012-13 is shown in Table 2 below (the “Debt Report”).

The Debt Report has been derived from data assembled and reported to the District by David Taussig and Associates, Inc. Neither the District, the City nor the Underwriter have independently verified the information in the Debt Report and do not guarantee its completeness or accuracy.

TABLE 2

DIRECT AND OVERLAPPING DEBT SUMMARY
CITY OF OCEANSIDE COMMUNITY FACILITIES DISTRICT NO. 2001-1

Overlapping District	Actual FY 2012-13 Total Levy	Amount of Levy on Parcels in District	Percent of Levy on Parcels in District	Total Debt Outstanding ⁽¹⁾	District Share of Total Debt Outstanding
Fallbrook Union High School 1998A G.O. Bonds	\$ 2,111,839	\$ 69,997	3.2198%	\$ 8,020,071	\$ 258,231
Metropolitan Water District G.O. Bonds	92,246,662	10,538	0.0114	165,085,000	18,859
Oceanside Unified School District Bond Series 2000D	1,174,914	6,082	0.5176	12,700,000 ⁽³⁾	65,741
Oceanside Unified School District Bond Series 2000E	1,440,668	7,458	0.5176	20,945,000 ⁽⁴⁾	108,421
Oceanside Unified School District Bond Series 2000F	814,747	4,218	0.5176	22,965,000 ⁽⁵⁾	118,878
Oceanside Unified School District Bond Series Prop H Series 2008A	1,255,340	6,498	0.5176	49,995,054	258,798
Oceanside Unified School District Bond Series Prop H Series 2008B&C	0	0	0.0000	44,999,618	232,939 ⁽⁶⁾
Oceanside Unified School District Bond Series 2009 Refunding	551,324	2,854	0.5176	16,600,000	85,929
Oceanside Unified School District Bond Series 2010 Refunding	639,909	3,312	0.5176	14,320,000	74,127
Oceanside Unified School District Bond Series Prop G Series 2012	924,312	4,785	0.5176	23,210,000	120,146
Bonsall Union Elementary School District 2005 Series 2006	478,992	40,726	8.5025	8,165,243	694,246
Bonsall Union Elementary School District 2005 Series 2007B	185,426	15,766	8.5025	3,046,128	258,996
Bonsall Union Elementary School District 2005 Series 2007C	119,465	10,157	8.5025	4,668,309	396,921
Palomar Community College Prop M Series 2006A	8,459,796	23,203	0.2743	145,075,000	397,908
Palomar Community College Prop M Series 2006B	3,519,065	9,652	0.2743	173,498,901	475,868
					\$ 3,566,007
Direct CFD Debt (Improvement Area Only)					
City of Oceanside CFD No. 2001-1, IA No. 1 Series 2004	\$ 668,488 ⁽⁷⁾	\$629,550	94.1753%	\$ 7,695,000 ⁽⁸⁾	\$ 7,246,787
Direct CFD Debt					
City of Oceanside CFD No. 2001-1 Series 2004					\$ 11,655,000 ⁽⁹⁾
City of Oceanside CFD No. 2001-1 Series 2013					6,885,000 ⁽¹⁰⁾
				Direct CFD Debt Allocable to the District	\$ 18,540,000
				Estimated Share of Direct and Overlapping Debt Allocable to the District	\$ 29,352,794

(1) As of March 2, 2013.

(2) \$15,830,000 refunded by Series 2012 Refunding Bonds.

(3) \$8,360,000 refunded by Series 2012 Refunding Bonds.

(4) \$570,000 refunded by Series 2010 Refunding Bonds.

(5) \$255,000 refunded by Series 2010 Refunding Bonds.

(6) Capital appreciation bonds. No debt service due until August 1, 2034. Outstanding debt is allocated based on the total *ad valorem* tax levy for the other OUSD outstanding bonds.

(7) Based on estimated FY 2013-14 levy.

(8) Reduced by \$1,585,000 based on bond calls through March 2013.

(9) Reduced by \$2,320,000 based on bond calls through March 2013.

(10) Based on bond sizing provided by Piper Jaffray.

Source: David Taussig & Associates; County of San Diego Auditor/Controller; Metropolitan Water District; County Water Authority; City of Oceanside.

Expected Tax Burden

Table 3 below sets forth an estimated property tax bill for a single family detached unit of 3,456 square feet located within the District only, and Table 4 below sets forth an estimated property tax bill for a single family detached unit of 2,860 square feet located within the District and Improvement Area No. 1. As can be seen from Tables 3 and 4 below, the total effective tax rates within the District will be approximately 1.5933% of the total assessed value for a typical home in the District only and approximately 1.9253% of the total assessed value for a typical home located within Improvement Area No. 1 of the District. All of the single family homes remaining to be developed or sold by the Home Builders are located within Improvement Area No. 1. The estimated tax rates and amounts presented herein are based on currently available information. The actual amounts charged and actual sales prices may vary and may increase or decrease in future years.

TABLE 3

**SAMPLE PROPERTY TAX BILL
PROJECTED FOR FISCAL YEAR 2013-14
FOR TYPICAL SINGLE FAMILY DETACHED UNITS
(LOCATED WITHIN IMPROVEMENT AREA NO. 1)**

<i>Assessed Valuation and Property Taxes</i>		<i>Percent of Total AV</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
AVERAGE NET ASSESSED VALUE ⁽¹⁾	\$364,535			
AVERAGE TOTAL ASSESSED VALUE ⁽¹⁾	\$371,535			
AVERAGE HOME SIZE ⁽²⁾	2,860 SF			
AD VALOREM PROPERTY TAXES ⁽³⁾				
Basic Levy		1.00000%	\$ 3,645.35	
Bonsall Union Elementary School District 2005 Series 2006		0.01692	61.68	
Bonsall Union Elementary School District 2005 Series 2007B		0.00655	23.88	
Bonsall Union Elementary School District 2005 Series 2007C		0.00422	15.38	
Fallbrook Union High School 1998A G.O. Bonds		0.02825	102.98	
Palomar Community College Prop M Series 2006A		0.00964	35.14	
Palomar Community College Prop M Series 2006B		0.00401	14.62	
<u>Metropolitan Water District G.O. Bonds</u>		<u>0.00350</u>	<u>12.76</u>	
Total General Property Taxes and Overrides		1.07309%	\$ 3,899.03	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES				
CWA Water Availability ⁽⁴⁾			\$ 10.00	
City of Oceanside Lighting 2-1991 ⁽⁵⁾			15.80	
Douglas Park Landscape Maintenance District ⁽⁶⁾			35.68	
Vector Disease Control ⁽⁷⁾			5.86	
Mosquito Surveillance ⁽⁸⁾			3.00	
MWD Water Standby Charge ⁽⁹⁾			11.50	
City of Oceanside CFD No. 2001-1 ⁽¹⁰⁾			2,036.30	2,611.21
<u>City of Oceanside CFD No. 2001-1, IA No. 1 ⁽¹¹⁾</u>			<u>1,108.36</u>	<u>1,290.02</u>
Total Assessments and Parcel Charges			\$ 3,254.10	\$ 3,983.07
<u>PROJECTED TOTAL PROPERTY TAXES</u>			<u>\$ 7,153.13</u>	<u>\$ 7,882.10</u>
Projected Total Effective Tax Rate (as % of Assessed Value)			1.9253%	2.1215%

⁽¹⁾ Net assessed values as of January 1, 2012 provided by the San Diego County Assessor. Average net assessed value for 41 Tax Class 5 owner-occupied homes in CFD No. 2001-1 (CFD and IA) as of January 1, 2012. Total assessed value includes homeowner's exemption of \$7,000 and is used to determine the Total Effective Tax Rate.

⁽²⁾ Based on average home size for 41 Tax Class 5 owner-occupied homes in CFD No. 2000-1 (CFD and IA).

⁽³⁾ Based on fiscal year 2012-13 rates for property within TRA 07030.

⁽⁴⁾ Based on FY 2012-13 rate of \$10.00 per dwelling unit.

⁽⁵⁾ Based on FY 2012-13 rate of \$15.80 per dwelling unit.

⁽⁶⁾ Based on FY 2012-13 rate of \$35.68 per parcel.

⁽⁷⁾ Based on FY 2012-13 rate of \$5.86 per dwelling unit.

⁽⁸⁾ Based on FY 2012-13 rate of \$3.00 per dwelling unit.

⁽⁹⁾ Based on FY 2012-13 rate of \$11.50 per acre for parcels less than 1 acre.

⁽¹⁰⁾ Based on the estimated FY 2013-14 Special Tax rate of \$2,063.90 per unit for Tax Class 5 property. The assigned Special Tax rate is \$2,611.21 per unit for Tax Class 5 property. The assigned Special Tax rate does not escalate.

⁽¹¹⁾ Based on the estimated IA No. 1 FY 2013-14 Special Tax rate of \$1,108.36 per unit for Tax Class 5 property. The IA No. 1 assigned Special Tax rate is \$1,290.02 per unit for Tax Class 5 property. The assigned Special Tax rate does not escalate.

Source: David Taussig and Associates, Inc.; San Diego County Assessor; San Diego County Auditor-Controller; Metropolitan Water District.

TABLE 4

**SAMPLE PROPERTY TAX BILL
PROJECTED FOR FISCAL YEAR 2012-13
FOR TYPICAL SINGLE FAMILY DETACHED UNIT
(LOCATED IN THE DISTRICT ONLY)**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Total AV</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
AVERAGE NET ASSESSED VALUE ⁽¹⁾	\$446,259		
AVERAGE TOTAL ASSESSED VALUE ⁽¹⁾	\$453,259		
AVERAGE HOME SIZE ⁽²⁾	3,456 SF		
AD VALOREM PROPERTY TAXES ⁽³⁾			
Basic Levy	1.00000%	\$ 4,462.59	
Oceanside Unified School District Bond Series 2000D	0.01008	44.98	
Oceanside Unified School District Bond Series 2000E	0.01236	55.16	
Oceanside Unified School District Bond Series 2000F	0.00699	31.19	
Oceanside Unified School District Bond Series Prop H Series 2008A	0.01077	48.06	
Oceanside Unified School District Bond Series 2009 Refunding	0.00473	21.11	
Oceanside Unified School District Bond Series 2010 Refunding	0.00549	24.50	
Oceanside Unified School District Bond Series Prop G Series 2012	0.00793	35.39	
<u>Metropolitan Water District G.O. Bonds</u>	<u>0.00350</u>	<u>15.62</u>	
Total General Property Taxes and Overrides	1.06185%	\$ 4,722.98	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES			
CWA Water Availability ⁽⁴⁾		\$ 10.00	
City of Oceanside Lighting 2-1991 ⁽⁵⁾		15.80	
Douglas Park Landscape Maintenance District ⁽⁶⁾		35.68	
Vector Disease Control ⁽⁷⁾		5.86	
Mosquito Surveillance ⁽⁸⁾		3.00	
MWD Water Standby Charge ⁽⁹⁾		11.50	
<u>City of Oceanside CFD No. 2001-1 ⁽¹⁰⁾</u>		<u>2,417.14</u>	<u>3,058.12</u>
Total Assessments and Parcel Charges		\$ 2,498.98	\$ 3,139.96
PROJECTED TOTAL PROPERTY TAXES		<u>\$ 7,221.96</u>	<u>\$ 7,862.94</u>
Projected Total Effective Tax Rate (as % of Assessed Value)		1.5933%	1.7348%

⁽¹⁾ Net assessed values as of January 1, 2012 provided by the San Diego County Assessor. Average net assessed value for 50 Tax Class 3 owner-occupied homes in CFD No. 2001-1 (CFD only) as of January 1, 2012. Total assessed value includes homeowner's exemption of \$7,000 and is used to determine the Total Effective Tax Rate.

⁽²⁾ Based on average home size for 50 Tax Class 3 owner-occupied homes in CFD No. 2000-1 (CFD only).

⁽³⁾ Based on fiscal year 2012-13 rates for property within TRA 07026.

⁽⁴⁾ Based on FY 2012-13 rate of \$10.00 per dwelling unit.

⁽⁵⁾ Based on FY 2012-13 rate of \$15.80 per dwelling unit.

⁽⁶⁾ Based on FY 2012-13 rate of \$35.68 per parcel.

⁽⁷⁾ Based on FY 2012-13 rate of \$5.86 per dwelling unit.

⁽⁸⁾ Based on FY 2012-13 rate of \$3.00 per dwelling unit.

⁽⁹⁾ Based on FY 2012-13 rate of \$11.50 per acre for parcels less than 1 acre.

⁽¹⁰⁾ Based on the expected FY 2013-14 Special Tax rate of \$2,417.14 per unit for Tax Class 3 property. The assigned Special Tax rate is \$3,058.12 per unit for Tax Class 3 property. The assigned Special Tax rate does not escalate.

Source: David Taussig and Associates, Inc.; San Diego County Assessor; San Diego County Auditor-Controller; Metropolitan Water District.

Estimated Assessed Value-to-Lien Ratio

Excluding parcels that have prepaid their Special Taxes, the assessed value of the land within the District for Fiscal Year 2012-13 is \$301,034,451. Dividing the assessed value by the \$6,885,000* principal amount of the Bonds and the \$22,467,794 of additional direct and overlapping debt which is payable from taxes and assessments levied on the property within the District as set forth in Table 2 above results in an

* Preliminary, subject to change.

estimated assessed value-to-lien ratio of 10.26* to 1. Table 5 below sets forth the estimated assessed value-to-lien ratio of the individual homeowners as a group and for each of the other Home Builders within the District and the golf course as of January 1, 2012 lien date, as shown on the Fiscal Year 2012-13 County Assessor's tax roll. Table 5 allocates the principal amount of the Bonds and the 2004 Bonds to parcels based on the percentage of Special Tax that is estimated to be levied on the parcels in Fiscal Year 2013-14, allocates the principal amount of the Improvement Area No. 1 Bonds of the District based on the estimated Fiscal Year 2013-14 levy and allocates the overlapping debt based on assessed value. The estimated Special Tax levy for Fiscal Year 2013-14 is \$1,495,624*. The District does not anticipate levying Special Taxes on Undeveloped Property in Fiscal Year 2013-14. Accordingly, based on the methodology used in Table 5, no share of the Bonds, the 2004 Bonds or the Improvement Area No. 1 Bonds has been allocated to the Undeveloped Property.

* Preliminary, subject to change.

TABLE 5*
ESTIMATED ASSESSED VALUE-TO-LIEN RATIO
COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF THE CITY OF OCEANSIDE

Owner ⁽¹⁾	Number of Parcels	City of Oceanside CFD No.		Percentage of Estimated FY 2013-14 Special Tax	City of Oceanside CFD No. 2001-1 Outstanding Bond Amount ⁽²⁾		City of Oceanside CFD No. 1001-1 IA No. 1 Outstanding Bond Amount ⁽²⁾	Total Overlapping G.O. Debt ⁽³⁾	Total Direct and Overlapping Debt ⁽³⁾	FY 2012-13 Assessed Value ⁽⁴⁾	Estimated Assessed Value-to-Lien Ratio (CFD/IA Only) ⁽⁵⁾	Estimated Assessed Value-to-Lien Ratio (Including G.O. Debt) ⁽⁶⁾
		Estimated FY 2013-14 Special Tax	Estimated FY 2013-14 Special Tax		CFD No. 2001-1 Outstanding Bond Amount ⁽²⁾	CFD No. 1001-1 IA No. 1 Outstanding Bond Amount ⁽²⁾						
Developed Property ⁽⁷⁾												
D R Horton Los Angeles Holding	20	\$ 38,593	\$ 38,593	2.58%	\$ 478,410	\$ 237,692	\$ 14,863	\$ 730,966	\$ 1,432,577	2.00 to 1	1.96 to 1	
Hearthstone Multi-Asset Entity B L	17	31,968	31,968	2.14	396,277	196,593	29,611	622,481	2,854,000	4.81 to 1	4.58 to 1	
Toil Land X X Ltd Partnership	26	61,720	61,720	4.13	765,096	384,178	40,629	1,189,903	3,916,084	3.41 to 1	3.29 to 1	
Golf Course Property	3	15,250	15,250	1.02	189,043	0	83,006	272,048	8,000,541	42.32 to 1	29.41 to 1	
Individual Owners	671	1,348,093	1,348,093	90.14	16,711,174	6,428,324	3,296,147	26,435,645	275,023,878	11.89 to 1	10.40 to 1	
Subtotal - Developed Property	737	\$ 1,495,624	\$ 1,495,624	100.00%	\$ 18,540,000	\$ 7,246,787	\$ 3,464,255	\$ 29,251,042	\$ 291,227,080	11.29 to 1	9.96 to 1	
Undeveloped Property ⁽⁸⁾	113	\$ 0	\$ 0	0.00%	\$ 0	\$ 0	\$ 101,752	\$ 101,752	\$ 9,807,371	0.00 to 1	96.39 to 1	
Total	850	\$ 1,495,624	\$ 1,495,624	100.00%	\$ 18,540,000	\$ 7,246,787	\$ 3,566,007	\$ 29,352,794	\$ 301,034,451	11.67 to 1	10.26 to 1	

(1) Based on ownership information as of March 5, 2013 provided by First American Title Company 12/10/2013 and DocEdge.com 3/5/2013.
(2) As of March 2, 2013. Allocated based on Fiscal Year 2013-14 Special Tax levy.
(3) As of March 2, 2013. Allocated based on Fiscal Year 2012-13 Special Tax levy.
(4) Based on net assessed values as of January 1, 2012 provided by the County of San Diego. Does not include 161 developed parcels that have been prepaid as of March 25, 2013.
(5) Calculated by dividing FY 2012-13 Assessed Value column by CFD No. 2001-1 and IA No. 1 Outstanding Bond Amount.
(6) Calculated by dividing FY 2012-13 Assessed Value column by Total Direct and Overlapping Debt column.
(7) Golf Course Property and property for which a building permit was issued as of March 1, 2013. Does not include 161 developed parcels that have prepaid their Special Taxes as of March 25, 2013.
(8) Property for which a building permit was not issued as of March 1, 2013.
Source: David Taussig & Associates, Inc.

* Preliminary, subject to change.

As a part of its Annual Report delivered pursuant to its Continuing Disclosure Agreement, the District will provide the estimated assessed value-to-lien ratio for all Developed Property in the aggregate and for each owner of Undeveloped Property.

Table 6 below shows the assessed values of residential parcels only within the District for each of the last five Fiscal Years.

TABLE 6
ASSESSED VALUES OF RESIDENTIAL PARCELS ONLY
COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF THE CITY OF OCEANSIDE

<i>Year</i>	<i>Total Developed Parcels⁽¹⁾⁽³⁾</i>	<i>Net Assessed Value per Developed Parcel⁽²⁾</i>	<i>Percentage Change</i>
2008-2009	629	\$516,312	N/A
2009-2010	660	448,966	(13.04)%
2010-2011	719	422,933	(5.80)
2011-2012	750	442,071	4.53
2012-2013	835	412,724	(6.64)

⁽¹⁾ Pursuant to the RMA, Developed Property is property with a building permit as of March 1 of each year.

⁽²⁾ Net Assessed Values as of January 1 of each year from the County Assessor's Roll.

⁽³⁾ Includes parcels that have prepaid their Special Tax obligation.

Table 7 below shows the range of estimated assessed value-to-lien ratios by parcels within the District as of March 2, 2013.

TABLE 7*

**ASSESSED VALUE-TO-LIEN RATIOS OF DEVELOPED PROPERTIES ONLY
COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF THE CITY OF OCEANSIDE**

<i>Overall Value-to-Lien Range</i>	<i>Number of Developed Parcels</i>	<i>City of Oceanside CFD No. 2001-1 Estimated FY 2013-14 Special Tax</i>	<i>Percentage of Estimated FY 2013-14 Special Tax</i>	<i>City of Oceanside CFD No. 2001-1 Outstanding Bond Amount ⁽¹⁾</i>	<i>City of Oceanside CFD No. 2001-1 IA No. 1 Outstanding Bond Amount (1)</i>	<i>Total Overlapping G.O. Debt ⁽²⁾</i>	<i>Total Direct and Overlapping Debt</i>	<i>FY 2012-13 Assessed Value ⁽³⁾</i>	<i>Estimated Assessed Value-to-Lien Ratio (Land-Secured) ⁽⁴⁾</i>	<i>Estimated Assessed Value-to-Lien Ratio (Overall) ⁽⁵⁾</i>
0-2.99	66 ⁽⁶⁾	\$ 139,494	9.33%	\$ 1,729,196	\$ 863,196	\$ 63,775	\$ 2,656,167	\$ 6,147,021	2.37 to 1	2.31 to 1
3.00-9.99	279	610,159	40.80	7,563,620	3,704,494	1,157,838	12,425,953	110,884,498	9.84 to 1	8.92 to 1
10.00-14.99	369	701,474	46.90	8,695,592	2,653,578	2,040,295	13,389,465	157,228,510	13.85 to 1	11.74 to 1
15.00-19.99	16	25,560	1.71	316,850	21,691	98,223	436,763	6,931,035	20.47 to 1	15.87 to 1
20.00-49.99	6	18,772	1.26	232,706	3,827	99,652	336,185	9,605,000	40.61 to 1	28.57 to 1
50.00 or Greater	<u>1</u>	<u>164</u>	<u>0.01</u>	<u>2,037</u>	<u>0</u>	<u>4,472</u>	<u>6,509</u>	<u>431,016</u>	211.61 to 1	66.22 to 1
Total	737	\$ 1,495,624	100.00%	\$ 18,540,000	\$ 7,246,787	\$ 3,464,255	\$ 29,251,042	\$ 291,227,080	11.29 to 1	9.96 to 1

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

(2) As of March 2, 2013. Allocated based on Fiscal Year 2012-13 levy.

(3) Based on net assessed values as of January 1, 2012 provided by the County of San Diego. Does not include 161 developed parcels that have been prepaid as of March 25, 2013.

(4) Calculated by dividing Fiscal Year 2012-13 Assessed Value by CFD No. 2001-1 and IA No. 1 Outstanding Bond Amount.

(5) Calculated by dividing Fiscal Year 2012-13 Assessed Value by Total Direct and Overlapping Debt.

(6) 63 parcels were builder-owned with \$0 improvement value as of January 1, 2012. Two parcels have a reduced net assessed value due to Proposition 90, which allows seniors over 55 to transfer the base year taxable value of their home. One parcel is a Golf Course sliver parcel.

* Preliminary, subject to change.

Property Ownership

Table 8 below shows the Property Ownership within the District and such Home Builders' share of a hypothetical Special Tax levy for Fiscal Year 2013-14. The estimated Special Tax levy for Fiscal Year 2013-14 is \$1,495,624*.

TABLE 8*

**TOP SPECIAL TAX PAYERS
COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF THE CITY OF OCEANSIDE***

<i>Owner⁽¹⁾</i>	<i>Number of Parcels Taxed</i>	<i>Estimated FY 2013-14 Special Tax Levy</i>	<i>Percent of Total Levy</i>	<i>FY 2012-13 First Installment Delinquency Amount as of 4/4/2013⁽²⁾</i>	<i>FY 2012-13 First Installment Delinquency Percentage as of 4/4/2013⁽²⁾</i>
Toll Land XX Ltd Partnership	26	\$ 61,720	4.13%	\$ 1,377	0.17%
D R Horton Los Angeles Holding	20	38,593	2.58	0	0.00
Hearthstone Multi-Asset Entity B LP	17	31,968	2.14	0	0.00
Golf Course Property	3	15,250	1.02	0	0.00
Individual Owners	<u>671</u>	<u>1,348,093</u>	<u>90.14</u>	<u>17,530</u>	<u>2.16</u>
Total	737	\$ 1,495,624	100.00%	\$ 18,908	2.33%

⁽¹⁾ Based on ownership information as of March 5, 2013 provided by First American Title Company 12/10/2013 and DocEdge.com 3/5/2013.

⁽²⁾ Based on Fiscal Year 2012-13 first installment delinquencies as of April 4, 2013 provided by the County of San Diego.
Source: David Taussig & Associates, Inc.

* Preliminary, subject to change.

Table 9 below shows the development status of the property within the District. The properties owned by the Home Builders are in various stages of development ranging from completed model homes and standing inventory to finished lots. There are certain risks associated with the Undeveloped Property. See “SPECIAL RISK FACTORS—Failure to Develop Properties” herein.

TABLE 9
DEVELOPMENT SUMMARY
COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF THE CITY OF OCEANSIDE

<i>Land Use/Owner</i> ⁽¹⁾	<i>Taxable Property</i>	<i>Prepaid Units</i>	<i>Total</i>
<u>Developed Property (as of 3/1/13)</u> ⁽²⁾			
Residential:			
D R Horton Los Angeles Holding	20 Units	4	24 Units
Hearthstone Multi-Asset Entity B L	17 Units	0	17 Units
Toll Land X X Ltd Partnership	26 Units	3	29 Units
<u>Individual Owners</u>	<u>671 Units</u>	<u>154</u>	<u>825 Units</u>
Subtotal Developed Residential	734 Units	161	895 Units
Golf Course Property	162.570 Acres	0	162.570 Acres
<u>Undeveloped Property</u> ⁽³⁾			
Future Residential:			
D R Horton Los Angeles Holding	83 Lots	0	83 Lots
Hearthstone Multi-Asset Entity B L	2 Lots	0	2 Lots
Toll Land X X Ltd Partnership	24 Lots	0	24 Lots
<u>Individual Owners</u>	<u>2 Lots</u>	<u>0</u>	<u>2 Lots</u>
Subtotal Future Residential	111 Lots	0	111 Lots
Future Village Store/Day Care ⁽⁴⁾	1.360 Acres	0	1.360 Acres
Total Residential Units/Lots	845 ⁽⁵⁾	161	1,006

(1) Based on ownership information as of March 5, 2013 provided by First American Title Company 12/10/2013 and DocEdge.com 3/5/2013.

(2) Golf Course Property and property for which a building permit was issued as of March 1, 2013.

(3) Property for which a building permit was not issued as of March 1, 2013.

(4) Includes property that may be developed as a church site and become exempt from the Special Taxes.

(5) Does not include 161 parcels which prepaid their CFD No. 2001-1 special tax for a total of 1,006 residential units.

Source: David Taussig & Associates, Inc.

D.R. Horton Los Angeles Holding. D.R. Horton Los Angeles Holding Company Inc., a California Corporation, is currently developing property in a village of the District known as Saybrook at Arrowood (“Saybrook”). At completion, Saybrook will consist of 123 single family homes in four floor plans ranging in size from 2,350 to 3,100 square feet. Homes in Saybrook are currently selling for \$470,000 to \$515,000. None of the homes are golf course oriented.

Toll Land XX Ltd. Partnership. Toll Land, a subsidiary of Toll Brothers Inc., is currently developing property in a village of the District known as Arrowood – the Greens (the “Greens”). At completion, the Greens will consist of 79 single family homes in five floor plans ranging in size from 2,900 to over 4,129 square feet. Entry level homes in the Greens are currently selling for between \$570,000 and \$650,000, with prices increasing for larger lot sizes and premium views. Some of the homes are golf course oriented.

Hearthstone Multi-Asset Entity B LP. Hearthstone is currently developing property in a village of the District known as Sea Country at Arrowood (“Sea Country”). At completion, Sea Country will consist of 64 single family homes in three floor plans ranging in size from 2,300 to 3,100 square feet. Homes in Sea Country are currently selling for between \$450,000 and \$499,000. None of the homes are golf course oriented.

Delinquency History

Under the provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, will be billed to the properties within the District on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future.

Table 10 below shows the Special Tax levy and the percentages of delinquent Special Taxes for Fiscal Year 2003-04 through Fiscal Year 2012-13.

TABLE 10
HISTORY OF DELINQUENCIES
COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF THE CITY OF OCEANSIDE

<i>Fiscal Year</i>	<i>Total Tax Levy</i>	<i>Number of Delinquent Parcels at FY End ⁽¹⁾</i>	<i>Delinquent Special Tax at FY End ⁽¹⁾</i>	<i>Delinquency Rate at FY End ⁽¹⁾</i>	<i>Number of Delinquent Parcels as of 4/4/2013 ⁽²⁾</i>	<i>Delinquent Special Tax as of 4/4/2013 ⁽²⁾</i>	<i>Delinquency Rate as of 4/4/2013 ⁽²⁾</i>
2003-2004	\$ 730,635	0	\$ 0	0.00%	0	\$ 0	0.00%
2004-2005	753,556	5	8,842	1.17	0	0	0.00
2005-2006	1,831,887	19	17,821	0.97	0	0	0.00
2006-2007	1,821,643	30	57,891	3.18	1	1,529 ⁽⁸⁾	0.08
2007-2008	1,850,491	42 ⁽³⁾	100,508 ⁽³⁾	5.43 ⁽³⁾	1	3,058 ⁽⁸⁾	0.17
2008-2009	1,863,127	115 ⁽⁴⁾	117,832 ⁽⁴⁾	6.32 ⁽⁴⁾	2	6,116 ⁽⁸⁾	0.33
2009-2010	1,874,802	43 ⁽⁵⁾	92,107 ⁽⁵⁾	4.91 ⁽⁵⁾	2	6,116 ⁽⁸⁾	0.33
2010-2011	1,678,064	32 ⁽⁶⁾	64,291 ⁽⁶⁾	3.83 ⁽⁶⁾	1	3,058 ⁽⁸⁾	0.18
2011-2012	1,691,713	27 ⁽⁷⁾	45,770 ⁽⁷⁾	2.71 ⁽⁷⁾	2	5,784 ⁽⁸⁾	0.68
2012-2013	1,622,172	NA	NA	NA	15 ⁽⁹⁾	18,908 ⁽⁹⁾	2.33 ⁽⁹⁾

(1) As of fiscal year end of year levied, unless otherwise noted.

(2) Delinquency data as of April 4, 2013 provided by the County of San Diego.

(3) As of September 11, 2008. \$8,063 of delinquent amount attributable to three parcels owned by mortgage lenders; remaining \$92,444 of delinquent amount attributable to individual owners.

(4) As of June 5, 2009. \$14,426 of delinquent amount represents 66 parcels owned by Hearthstone Multi-Asset Entity, \$4,750 of delinquent amount attributable to two parcels owned by mortgage lenders; remaining \$98,656 of delinquent amount attributable to individual owners.

(5) As of June 1, 2010. \$4,750 of delinquent amount attributable to two parcels owned by mortgage lenders; remaining \$87,357 of delinquent amount attributable to individual owners.

(6) As of June 2, 2011.

(7) As of June 6, 2012.

(8) Foreclosure has commenced on delinquent parcels.

(9) Delinquent parcels and delinquent special tax for the first installment of the FY 2012-13 Special Tax levy only.

Source: David Taussig & Associates, Inc.

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. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District 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 District. See “SPECIAL RISK FACTORS—Land Values” and “—Limited Secondary Market” below.

Concentration of Ownership

As of March 5, 2013, the Home Builders owned 172 lots within the District in various stages of development. For Fiscal Year 2013-14, the District does not anticipate levying Special Taxes on Undeveloped Property, which consists of 109 of the lots owned by the Home Builders and 2 lots owned by individuals. In Fiscal Year 2013-14, the District anticipates that the Developed Property owned by the Home Builders (as of March 5, 2013) will be responsible for less than 9% of the projected Special Tax levy. The Home Builders are actively marketing and selling homes in the District. See “THE DISTRICT—Property Ownership.” Until the sale of parcels owned by the Home Builders, the receipt of some of the Special Taxes is dependent on the willingness and ability to pay the Special Taxes when due. Failure of the Home Builders, or any successor, to pay the annual Special Taxes when due could result in a default in payments of the principal of, and interest on, the Bonds, when due. See “SPECIAL RISK FACTORS—Failure to Develop Properties” below.

No assurance can be made that the Home Builders, or their successors, will complete the intended construction and development in the District. See “SPECIAL RISK FACTORS—Failure to Develop Properties” below. As a result, no assurance can be given that the Home Builders, and their successors, will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See “SPECIAL RISK FACTORS—Bankruptcy and Foreclosure” below, for a discussion of certain limitations on the District’s ability to pursue judicial proceedings with respect to delinquent parcels.

Limited Obligations

The Bonds and interest thereon are not payable from the general funds of the City. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District or the City 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 or the City or force the forfeiture of any City or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of the City’s or the District’s property or upon any of the City’s or the District’s income, receipts or revenues, except the Special Taxes and other amounts pledged under the Indenture.

Insufficiency of Special Taxes

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on whether such parcel is categorized as Undeveloped Property or as Developed Property and on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” and “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Rate and Method of Apportionment of Special Taxes.*”

Based on current development projections, the maximum Special Taxes that may be levied within the District are at least 110% of Maximum Annual Debt Service on the Bonds and the 2004 Bonds plus the Administrative Expense Cap. Notwithstanding that the maximum Special Taxes that may be levied in the District exceeds debt service due on the Bonds and the 2004 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. Additionally, under the Act, Special Taxes may never be increased by more than ten percent in the aggregate to account for delinquencies in the collection of Special Taxes.

The Rate and Method governing the levy of the Special Tax expressly exempts up to 172.89 acres of property owned by public agencies and/or owned by a property owners’ association and 0.49 acres of property

owned by a religious organization. If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

Moreover, if a substantial portion of land within the District became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining property within the District 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.

Failure to Develop Properties

As of March 1, 2013, 111 lots and 1.360 acres within the District remained to be developed. Notwithstanding the foregoing, approximately 100% of the Fiscal Year 2013-14 Special Tax Levy is estimated to be on Developed Property. All of the Undeveloped Property in the District is in finished condition. Undeveloped or partially developed land is inherently less valuable than developed land and provides less security to the Bondowners should it be necessary for the District to foreclose on the property due to the nonpayment of Special Taxes. Any delays in developing the Undeveloped Property, or the decision not to develop such property, may affect the willingness and ability of the owners of property within the District to pay the Special Taxes when due.

Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development. Finally, development of land is subject to economic considerations.

The future development of the land within the District may be adversely affected by existing or future governmental policies, or both, restricting or controlling the development of land in the District.

There can be no assurance that land development operations within the District will not be adversely affected by a future deterioration of the real estate market and economic conditions, increases in interest rates for real estate loans or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the Home Builders to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Bonds when due.

Bondowners should assume that any event that significantly impacts the ability to develop land in the District or delays the timing of development would cause the property values within the District to decrease substantially and could affect the willingness and ability of the owners of land within the District to pay the Special Taxes when due.

Future Land Use Regulations and Growth Control Initiatives

Future growth control initiatives could be enacted by the voters or future local, state or federal land use regulations could be adopted by governmental agencies and be made applicable to the development of the vacant land within the District with the effect of negatively impacting the ability of the owners of such land to complete the development of such land if they should desire to develop it. See "SPECIAL RISK FACTORS—

Endangered Species” below. This possibility presents a risk to prospective purchasers of the Bonds in that an inability to complete desired development increases the risk that the Bonds will not be repaid when due. The owners of the Bonds should assume that any reduction in the permitted density, significant increase in the cost of development of the vacant land or substantial delay in development caused by growth and building permit restrictions or more restrictive land use regulations would cause the values of such vacant land within the District to decrease. A reduction in land values increases the likelihood that in the event of a delinquency in payment of Special Taxes a foreclosure action will result in inadequate funds to repay the Bonds when due.

Completion of construction of any proposed structures on the vacant land within the District is subject to the receipt of approvals from a number of public agencies concerning the layout and design of such structures, land use, health and safety requirements and other matters. The failure to obtain any such approval could adversely affect the planned development of such land.

Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. Because future development of vacant property in the District could occur over many years, if at all, the application of future land use regulations to the development of the vacant land could cause significant delays and cost increases not currently anticipated, thereby reducing the development potential of the vacant property and the ability or willingness of owners of such land to pay Special Taxes when due or causing land values of such land within the District to decrease substantially.

Endangered Species

During the past several years, there has been an increase in activity at the State and federal levels related to the listing and possible listing of certain plant and animal species found in California as endangered species. An increase in the number of endangered species is expected to curtail development in a number of areas. Additionally, new species are proposed to be added to the State and federal protected lists on a regular basis. Any action by the State or federal government to protect species located on or adjacent to the property within the District could have an adverse effect on the ability of the owners of undeveloped property to develop such property. Any such action could reduce the likelihood of timely payment of the Special Taxes which might be levied upon such undeveloped property and would likely reduce the value of such property and the potential revenues available at foreclosure sales for delinquent Special Tax installments. See “SECURITY FOR THE BONDS—Covenant for Superior Court Foreclosure.”

Natural Disasters

According to recent geotechnical reports, no active or potentially active faults are known to cross the land within the District; therefore, the potential for primary ground rupture due to faulting on-site is very low to negligible. The land within the District is not within an Alquist-Priolo Earthquake Fault Zone. However, the land within the District will likely be subject to seismic shaking at some time in the future. Additionally, the land within the District is not located within a FEMA Special Flood Hazard Area or high fire area. However land adjacent to the District is located within a very high fire hazard area. The land within and immediately adjacent to the District was not affected by the October 2003 wildfires that burned over 200,000 acres in San Diego County.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. As a result, a substantial portion of the Home Builders may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

According to recent geotechnical reports, no active or potentially active faults are known to cross the land within the District; therefore, the potential for primary ground rupture due to faulting on-site is very low to negligible. The land within the District is not within an Alquist-Priolo Earthquake Fault Zone. However, the land within the District will likely be subject to seismic shaking at some time in the future.

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.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel that is realizable upon a delinquency. None of the Developer, Southchase, Richmond American, Centex Homes nor Fieldstone is aware of any hazardous substances located on their respective property within the District.

Parity Taxes, Special Assessments and Land Development Costs

Property within the District is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within the District. See “THE DISTRICT—Estimated Direct and Overlapping Indebtedness.”

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by the City and other agencies 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 “SPECIAL RISK FACTORS—Bankruptcy and Foreclosure” below.

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 landowners 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 a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within the District described herein.

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 District 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, the 2004 Bonds and any Parity Bonds are derived, are customarily billed to the properties within the District on the ad valorem property tax bills sent to owners of such properties. The Act provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do ad valorem property tax installments.

See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*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 “SPECIAL RISK FACTORS—Bankruptcy and Foreclosure” below, for a discussion of the policy of the Federal Deposit Insurance Corporation 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.

Non-Cash Payments of Special Taxes

Under the Act, the City Council as the legislative body of the District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond, 2004 Bond or Parity Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Bond, 2004 Bond or Parity Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds, 2004 Bond or Parity Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond, 2004 Bond or Parity Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other Bonds, 2004 Bond or Parity Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds, 2004 Bond or Parity Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Bonds, 2004 Bond or Parity Bonds in payment of Special Taxes, the Indenture includes a covenant pursuant to which the District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of Bonds, 2004 Bond or Parity Bonds unless the District shall have first obtained a report of an Independent Financial Consultant certifying that doing so would not result in the District having insufficient

Special Tax revenues to pay the principal of and interest on all Outstanding Bonds and any Parity Bonds when due.

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 of such parcel.

Land Values

The value of the property within the District 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 against the delinquent parcel 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, delays in development or other events will adversely impact the security underlying the Special Taxes. See "THE DISTRICT—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 San Diego County Assessor, generally not to exceed an increase of more than 2% per fiscal year. Over the last several years, such upward adjustment has been less than 2% annually, and in certain years, the assessed value for specific parcels within the District may have actually been revised downwards. No assurance can be given that a parcel could actually be sold for its assessed value.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure 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 Tax—*Proceeds of Foreclosure Sales.*"

FDIC/Federal Government Interests in Properties

General. 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 Federal Deposit Insurance Corporation (the "FDIC"), the Drug Enforcement Agency, the Internal Revenue Service, or other federal agency has or obtains an interest.

The supremacy clause of the United States Constitution reads as follows: "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding."

This means that, unless Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within the District but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent

taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. In Rust v. Johnson (9th Circuit; 1979) 597 F.2d 174, the United States Court of Appeal, Ninth Circuit held that the Federal National Mortgage Association ("FNMA") is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States.

The District has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes within the District, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

FDIC. 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, resulting in ownership of the property by the FDIC, 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 Ninth Circuit has issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from Mello-Roos special taxes.

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 District in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes 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 2013 Subaccount of the Reserve Account and perhaps, ultimately, if enough property were to become owned by the FDIC, 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—*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.

Second, the Bankruptcy Code might prevent moneys on deposit in the Project Account of the Acquisition and Construction Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against a landowner or other party and if the court found that the landowner or other party had an interest in such moneys within the meaning of Section 541(a)(1) of the Bankruptcy Code.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount 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 prosecuting 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.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled In re Glasply Marine Industries. In that case, the court held that ad valorem property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed after the filing of the bankruptcy petition were declared to be "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all the proceeds of the sale except the amount of the pre-petition taxes.

The Bankruptcy Reform Act of 1994 (the "Bankruptcy Reform Act") included a provision which exempts from the Bankruptcy Code's automatic stay provisions, "the creation of a statutory lien for an ad valorem property tax imposed by . . . a political subdivision of a state if such tax comes due after the filing of the petition [by a debtor in bankruptcy court]." This amendment effectively makes the Glasply holding inoperative as it relates to ad valorem real property taxes. However, it is possible that the original rationale of the Glasply ruling could still result in the treatment of post-petition special taxes as "administrative expenses," rather than as tax liens secured by real property, at least during the pendency of bankruptcy proceedings.

According to the court's ruling, as administrative expenses, post-petition taxes would be paid, assuming that the debtor had sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise), it would at that time become subject to current ad valorem taxes.

The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the case of delinquency as ad valorem taxes. No case law exists with respect to how a bankruptcy court would treat the lien for Special Taxes levied after the filing of a petition in bankruptcy. Glasply is controlling precedent on bankruptcy courts in the State. If the Glasply precedent was applied to the levy of the Special Taxes, the amount of Special Taxes received from parcels whose owners declare bankruptcy could be reduced.

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 under the Bonds or the Indenture.

Loss of Tax Exemption

As discussed under the caption “TAX EXEMPTION,” the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of a change in legislation or a failure of the District to comply with certain provisions of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of 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 the Bonds.

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, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors’ rights, by equitable principles, by the exercise of judicial discretion and limitations on remedies against public agencies in the State of California. 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.

Extraordinary Redemption of Bonds

The Home Builders and other homebuilders within the District have previously offered buyers of homes certain incentives in the purchase of such homes, including, but not limited to, the option of the homebuilder prepaying the Special Taxes on the home at the close of escrow. As of March 5, 2013, the Special Taxes on 161 lots within the District have been prepaid, resulting in the extraordinary redemption of \$3,895,000 in 2002 Bonds and 2004 Bonds, and an additional \$135,000 in principal on the 2002 Bonds and the 2004 Bonds has been scheduled to be prepaid on September 1, 2013 from Special Tax prepayments. Neither the District nor the Underwriter makes any assurance about whether the Home Builders are currently offering such incentives or will do so in the future. See “THE BONDS—Redemption—*Extraordinary Mandatory Redemption*” herein.

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 financial and operating information on an annual or semi-annual basis, there can be no assurance that such information will be available to Bondowners on a timely basis. See “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.

Proposition 218

An initiative measure commonly referred to as the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” The provisions of the Initiative have not yet been interpreted by the courts, although several lawsuits have been filed requesting the courts to interpret various aspects of the Initiative. The Initiative could potentially impact the Special Taxes 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 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 City Council 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 that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels within the District to an amount that is less than 110% of Maximum Annual Debt Service on the Outstanding Bonds and Parity Bonds in each future Bond Year. In connection with the foregoing covenant, the District has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds and the 2004 Bonds. The District also has covenanted that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

Ballot Initiatives

Article XIII A, XIII B, XIII C and 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 or on the ability of the landowners within the District to complete the remaining proposed development. See "SPECIAL RISK FACTORS—Failure to Develop Properties" herein.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement (the "Disclosure Agreement") with David Taussig & Associates, Inc., as dissemination agent, 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 (each, a "Repository") certain annual financial information and operating data concerning the District. The Annual Report to be filed by the District is to be filed not later than April 1 of each year, beginning April 1, 2014, and is to include audited financial statements of the City. The requirement that the City file its audited financial statements as a part of the Annual Report has been included in the Disclosure Agreement solely to satisfy the provisions of Rule 15c2-12. The inclusion of this information does not mean that the Bonds are secured by any resources or property of the City. See "SOURCES OF PAYMENT FOR THE BONDS" and "SPECIAL RISK FACTORS—Limited Obligations." In the last five years, the City has on occasion failed to comply in certain material respects with its previous continuing disclosure undertakings pursuant to Rule 15c2-12 promulgated under the Securities and Exchange Act of 1934, including, but not limited to, the failure to timely file complete annual reports for some of the City's outstanding debt obligations and a failure to timely file notices of significant event to reflect rating downgrades to certain insurers who insured some of the City's debt obligations. However, the City has since brought itself current with respect to its past filings and is currently in compliance with its continuing disclosure undertakings. Additionally, the City will establish and implement policies and procedures prior to the delivery date of the 2013A Bonds to ensure future compliance with its continuing disclosure obligations.

TAX EXEMPTION

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (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 on the Bonds may be included as an adjustment in calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

In the opinion of Bond Counsel, the difference between the issue price of a 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 of such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. The amount of original issue discount that accrues to the Bondowner of the Bonds is excluded from the gross income of such Bondowner 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 (including any original issue discount) is based upon certain representations of fact and certifications made by the District, the Underwriter 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 on the Bonds (including any 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 on the Bonds (including any original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District will covenant to comply with all such requirements.

The amount by which a Bondowner'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 Bondowner'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 Bondowner realizing a taxable gain when a Bond is sold by the Bondowner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Bondowner. 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). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

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

Bond Counsel's opinion 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. 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 exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel will render an opinion that interest on the Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds (including any original issue discount) may otherwise affect the tax liability of the recipient. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

A copy of the proposed form of opinion of Bond Counsel for the Bonds is attached in APPENDIX E.

LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds, the pledge of Special Taxes to repay the Bonds, the powers or authority of the District with respect to the Bonds, or seeking to restrain or enjoin development of the land within the District 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.

LEGAL OPINION

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. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix E hereto and will accompany the Bonds. Certain legal matters will be passed upon for the City and the District by the City Attorney, and for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Bond Counsel and Disclosure Counsel express no opinion as to the accuracy, completeness or fairness of this Official Statement or other offering materials as relating to the Bonds and expressly disclaims any duty to advise the Beneficial Owners of the Bonds as to matters related to the Official Statement.

RATING

The District expects that Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") will assign the Bonds an underlying rating of "____." S&P's rating reflects only the views of S&P, and an explanation of the significance of such ratings may be obtained from Standard & Poor's Ratings Service, 55 Water Street, 38th Floor, New York, New York 10041, (212) 438 2074. The City makes no representation as to the appropriateness of the rating. Further, there is no assurance that the rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the trading value and the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$ _____ (being \$ _____ aggregate principal amount thereof, less Underwriter's discount of \$ _____ and plus/less net original issue premium/discount of \$ _____). 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.

The Underwriter and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper Jaffray & Co.

FINANCIAL ADVISOR

The District has retained CSG Advisors, Incorporated, San Francisco, California, as Financial Advisor for the sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

CSG Advisors is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

FINANCIAL INTERESTS

The fees being paid to the Financial Advisor, the Underwriter, Underwriter's Counsel and Bond 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 and Underwriter's Counsel represents the City 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 City Manager of the City has been duly authorized by the City Council acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF
THE CITY OF OCEANSIDE (MORRO HILLS
DEVELOPMENT)

By: _____
City Manager

APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2001-1 ("CFD No. 2001-1") of the City of Oceanside (Morro Hills Development) and collected each Fiscal Year commencing in Fiscal Year 2002-2003, in an amount determined by the City Council of the City of Oceanside, through the application of the Rate and Method of Apportionment as described below. All of the real property in CFD No. 2001-1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County map.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2001-1: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, CFD No. 2001-1 or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2001-1 or any designee thereof of complying with City, CFD No. 2001-1 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, CFD No. 2001-1 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the City's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD No. 2001-1 for any other administrative purposes of CFD No. 2001-1, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

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

"Assessor's Parcel Map" means an official map of the County Assessor of the County designating parcels by Assessor's Parcel number.

"Assigned Special Tax" means the Special Tax for each Assessor's Parcel of Developed Property, as determined in accordance with Section C below.

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

"Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2001-1 under the Act.

“**CFD No. 2001-1**” means Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development).

“**City**” means the City of Oceanside.

“**Council**” means the City Council of the City.

“**County**” means the County of San Diego.

“**Developer**” means Richland Calabasas, Ltd., a Florida limited partnership doing business in California as Richland Calabasas, L.P., and/or any assignee(s) or successor(s) serving as the master developer of infrastructure for CFD No. 2001-1.

“**Developed Property**” means, for each Fiscal Year, Golf Course Property and all other Taxable Property, exclusive of Taxable Public Property, Taxable Property Owner Association Property, and Taxable Religious Property, which is within a Final Map that was recorded prior to January 1 and for which a building permit for new construction was issued prior to March 1 of the prior Fiscal Year.

“**Final Map**” means (i) a final map, or portion thereof, approved by the City pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) that creates individual lots or parcels for which building permits may be issued, or (ii) for condominiums, a final map approved by the City and a condominium plan recorded pursuant to California Civil Code Section 1352 creating such individual lots or parcels. The term “Final Map” shall not include any Assessor’s Parcel Map or subdivision map or portion thereof, that does not create individual lots for which a building permit may be issued, including Assessor’s Parcels that are designated as remainder parcels.

“**Finance Director**” means the Administrative Services Director of the City or his or her designee.

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

“**Floor Area**” or “**FA**” means the building square footage of a structure, measured from outside wall to outside wall, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area attached to the building. The determination of Floor Area shall be made by reference to the building permit(s) issued for such Assessor’s Parcel.

“**Golf Course Operator**” means the Developer, any merchant builder, and any other entity that owns and/or operates the golf course. Golf Course Operator shall not include individual homeowners whose Residential Property is partially covered by a golf course easement.

“**Golf Course Property**” means, for each Fiscal Year, up to 188.6 Acres that (i) is owned by a Golf Course Operator and (ii) has recorded an easement or that is actually being used for golf course purposes including: fairways, greens, driving ranges, parking facilities, cart barns, garages, tennis facilities, banquet facilities, pro shop, restaurants, locker rooms, meeting rooms, and any other golf course purpose use as determined by the Finance Director, as of January 1 of the prior Fiscal Year. If the golf course exceeds 188.6 Acres, any Acreage above 188.6 shall be considered Non-Residential Property.

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

“**Land Use Class**” means any of the classes listed in Table 1.

“**Maximum Special Tax**” means the Maximum Special Tax, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor’s Parcel.

“Non-Residential Property” means all Assessor’s Parcels of Developed Property, excluding Golf Course Property and Village Store/Day Care Property, for which a building permit was issued for a non-residential use.

“Outstanding Bonds” means all Bonds which are deemed to be outstanding under the Indenture.

“Proportionately” means, for Developed Property, that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor’s Parcels of Developed Property. For Undeveloped Property, Taxable Public Property, Taxable Property Owner Association Property, and Taxable Religious Property **“Proportionately”** means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Undeveloped Property, Taxable Public Property, Taxable Property Owner Association Property, and Taxable Religious Property.

“Property Owner Association Property” means, for each Fiscal Year, any property within the boundaries of CFD No. 2001-1 that is owned by or irrevocably dedicated to a property owner association, including any master or sub-association as of January 1 of the prior Fiscal Year.

“Public Property” means, for each Fiscal Year, any property within the boundaries of CFD No. 2001-1 that is (i) used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to the federal government, the State of California, the County, the City or any other public agency as of January 1 of the prior Fiscal Year or (ii) encumbered by an unmanned utility easement making impractical its utilization for other than the purpose set forth in the easement as of January 1 of the prior Fiscal Year, provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

“Religious Property” means, for each Fiscal Year, any property within the boundaries of CFD No. 2001-1 that is used primarily as a place of worship and is exempt from *ad valorem* property taxes because it is owned by a religious organization as of January 1 of the prior Fiscal Year. Religious Property, without limitation, does not include any Assessor’s Parcels used for religious schools, day care, or congregational care facilities.

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

“Special Tax” means the special tax to be levied in each Fiscal Year on each Assessor’s Parcel of Taxable Property to fund the Special Tax Requirement.

“Special Tax Requirement” means that amount required in any Fiscal Year for CFD No. 2001-1 to: (i) pay debt service on all Outstanding Bonds due in the calendar year that commences in such Fiscal Year; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; and (v) pay directly for acquisition or construction of CFD No. 2001-1 facilities eligible under the Act; less (vi) a credit for funds available to reduce the annual Special Tax levy, as determined by the Finance Director pursuant to the Indenture.

“State” means the State of California.

“Taxable Property” means all of the Assessor’s Parcels within the boundaries of CFD No. 2001-1 for which the Special Tax has not been prepaid in full pursuant to Section H and which are not exempt from the Special Tax pursuant to law or Section E below.

“Taxable Property Owner Association Property” means all Assessor’s Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

“**Taxable Public Property**” means all Assessor’s Parcels of Public Property that are not exempt pursuant to Section E below.

“**Taxable Religious Property**” means all Assessor’s Parcels of Religious Property that are not exempt pursuant to Section E below.

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

“**Undeveloped Property**” means, for each Fiscal Year, all Taxable Property not classified as Taxable Religious Property, Taxable Public Property or Taxable Property Owner Association Property as of January 1 of the prior Fiscal Year and not classified as Developed Property.

“**Village Store/Day Care Property**” means up to 1.6 Acres of Developed Property that is identified as village store or day care uses in Attachment A to this Rate and Method of Apportionment, or as such area is modified pursuant to a final map for such property. If the village store and day care property exceeds 1.6 Acres, any Acreage above 1.6 shall be considered Non-Residential Property.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within CFD No. 2001-1 shall be classified as Developed Property, Taxable Religious Property, Taxable Public Property, Taxable Property Owner Association Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with this rate and method of apportionment determined pursuant to Sections C and D below.

Assessor’s Parcels of Developed Property shall further be classified as Golf Course Property, Residential Property, Non-Residential Property, or Village Store/Day Care Property. An Assessor’s Parcel of Residential Property shall further be classified to its appropriate Land Use Class based on the Floor Area located on such Assessor’s Parcel.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property

a. Maximum Special Tax

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

The Maximum Special Tax for each Assessor’s Parcel of Golf Course Property, Non-Residential Property, and Village Store/Day Care Property shall be the Assigned Special Tax described in Table 1.

b. Assigned Special Tax

The Assigned Special Tax for each Assessor's Parcel of Developed Property is shown in Table 1 below.

Table 1
Assigned Special Taxes for Developed Property in
Community Facilities District No. 2001-1
(Morro Hills)

<i>Land Use Class</i>	<i>Description</i>	<i>Floor Area</i>	<i>Assigned Special Tax</i>
1	Residential Property	3,851 sq. ft. or greater	\$3,243.26 per unit
2	Residential Property	3,601 sq. ft. to 3,850 sq. ft.	\$3,090.04 per unit
3	Residential Property	3,351 sq. ft. to 3,600 sq. ft.	\$3,058.12 per unit
4	Residential Property	3,101 sq. ft. to 3,350 sq. ft.	\$2,726.13 per unit
5	Residential Property	2,851 sq. ft. to 3,100 sq. ft.	\$2,611.21 per unit
6	Residential Property	2,651 sq. ft. to 2,850 sq. ft.	\$2,247.30 per unit
7	Residential Property	2,451 sq. ft. to 2,650 sq. ft.	\$2,138.77 per unit
8	Residential Property	2,251 sq. ft. to 2,450 sq. ft.	\$1,953.62 per unit
9	Residential Property	2,051 sq. ft. to 2,250 sq. ft.	\$1,838.70 per unit
10	Residential Property	1,851 sq. ft. to 2,050 sq. ft.	\$1,730.17 per unit
11	Residential Property	1,850 sq. ft. or less	\$1,621.63 per unit
12	Golf Course Property	N/A	\$233.64 per Acre, not to exceed \$20,000 for all Golf Course Property
13	Village Store/Day Care Property	N/A	\$0.264 per sq. ft. of FA
14	Non-Residential Property	N/A	\$13,486 per Acre

c. Backup Special Tax

When a Final Map is recorded within CFD No. 2001-1, the Backup Special Tax for each lot or parcel within such Final Map that is expected to become Residential Property shall be determined by the Finance Director. At the time of the recordation of each Final Map, a copy of such Final Map shall be provided to the Finance Director by the Developer.

For Assessor's Parcels of Residential Property within a Final Map, the Backup Special Tax shall be determined by multiplying \$13,486 by the total Acreage of Taxable Property excluding the Acreage associated with Golf Course Property, the portion of an Assessor's Parcel of Residential Property that is covered by a golf course easement (as determined by the Finance Director), Non-Residential Property, Village Store/Day Care Property, Taxable Religious Property, Taxable Public Property and Taxable Property Owner Association Property in such Final Map and dividing such amount by the expected number of residential lots within such Final Map.

Notwithstanding the foregoing, if all or any portion of the Final Map(s) described in the preceding paragraph is subsequently changed or modified, then the Backup Special Tax for each Assessor's Parcel of Residential Property in such Final Map that is changed or modified shall be a rate per Acre calculated as follows:

1. Determine the total Backup Special Taxes anticipated to apply to the changed or modified Final Map prior to the change or modification.

2. The result of paragraph 1 above shall be divided by the total Acreage of Taxable Property excluding the Acreage associated with Golf Course Property, the portion of an Assessor's Parcel of Residential Property that is covered by a golf course easement (as determined by the Finance Director), Non-Residential Property, Village Store/Day Care Property, Taxable Religious Property, Taxable Public Property, and Taxable Property Owner Association Property which is ultimately expected to exist in such changed or modified Final Map area, as reasonably determined by the Finance Director.

3. The result is the Backup Special Tax per Acre which shall be applicable to all Assessor's Parcels of Residential Property in such changed or modified Final Map.

2. Undeveloped Property, Taxable Public Property, Taxable Property Owner Association Property, and Taxable Religious Property

a. Maximum Special Tax

The Maximum Special Tax for Undeveloped Property, Taxable Religious Property, Taxable Public Property, and Taxable Property Owner Association Property shall be \$13,486 per Acre.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2002-2003 and for each following Fiscal Year, the Council shall determine the Special Tax Requirement and shall levy the Special Tax until the amount of Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

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

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

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

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Religious Property, Taxable Public Property and Taxable Property Owner Association Property at up to the Maximum Special Tax for Taxable Religious Property, Taxable Public Property or Taxable Property Owner Association Property.

E. EXEMPTIONS

No Special Tax shall be levied on up to 0.49 Acres of Religious Property and 172.89 Acres of Public Property and/or Property Owner Association Property. Tax-exempt status will be irrevocably assigned by the Finance Director in the chronological order in which property becomes Religious Property, Public Property or Property Owner Association Property. However, should an Assessor's Parcel no longer be classified as Religious Property, Public Property or Property Owner Association Property, its tax-exempt status will be revoked.

Religious Property, Public Property or Property Owner Association Property that is not exempt from Special Taxes under this section shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fourth step in Section D above, at up to 100% of the applicable Maximum Special Tax for Taxable Religious Property, Taxable Public Property or Taxable Property Owner Association Property, if such property does not repay the Special Tax pursuant to Section H.1.

F. REVIEW/APPEAL COMMITTEE

The Council shall establish as part of the proceedings and administration of CFD No. 2001-1 a special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax, as to their Assessor's Parcel, is in error, may file a notice with the Review/Appeal Committee appealing the amount of the Special Tax levied on such Assessor's Parcel. The Review/Appeal Committee shall interpret this Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding as to all persons.

G. MANNER OF COLLECTION

The Special Tax will be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 2001-1 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

H. PREPAYMENT OF SPECIAL TAX

The following definition applies to this Section H:

"CFD Public Facilities" means either \$20.6 million in 2001 dollars, which shall increase by the Construction Inflation Index on July 1, 2002, and on each July 1 thereafter, or such lower number as (i) shall be determined by the Finance Director as sufficient to provide the public facilities to be provided by CFD No. 2001-1 under the authorized bonding program for CFD No. 2001-1, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

"Construction Fund" means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

"Construction Inflation Index" means the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the Finance Director that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

"Future Facilities Costs" means the CFD Public Facilities minus (i) public facility costs previously paid from the Construction Fund, (ii) moneys currently on deposit in the Construction Fund, and (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance facilities costs.

"Outstanding Bonds" means all Bonds which are deemed to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

1. Prepayment in Full

The obligation of an Assessor's Parcel to pay the Special Tax may be prepaid and permanently satisfied as described herein; provided that a prepayment may be made only for Assessor's Parcels of Developed Property, Undeveloped Property for which a building permit has been issued, Taxable Religious Property, Taxable Public Property, or Taxable Property Owner Association Property, and only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the Finance Director with written notice of intent to prepay. Within 30 days of receipt of such written notice, the Finance Director shall notify such owner of the prepayment amount of such Assessor's Parcel. The Finance Director may charge a reasonable fee for providing this service. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

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

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance Amount
plus	Administrative Fees and Expenses
less	Reserve Fund Credit
less	<u>Capitalized Interest Credit</u>
Total: equals	Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated as follows:

Paragraph No.:

1. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
2. For Assessor's Parcels of Developed Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property (for which a building permit has been issued) to be prepaid, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel. For Assessor's Parcels of Taxable Religious Property, Taxable Public Property, or Taxable Property Owner Association Property to be prepaid, compute the Maximum Special Tax for such Assessor's Parcel.
3. (a) Divide the Assigned Special Tax for Developed Property or Maximum Special Tax for Taxable Religious Property, Taxable Public Property, or Taxable Property Owner Association Property, as applicable, computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for the entire CFD No. 2001-1 based on the Developed Property Assigned Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 2001-1 plus the Maximum Special Tax for an Assessor's Parcel of Taxable Religious Property, Taxable Public Property, or Taxable Property Owner Association Property being prepaid (if applicable), excluding any Assessor's Parcels which have been prepaid, and

(b) Divide the Backup Special Tax for Residential Property, Assigned Special Tax for other Developed Property, or Maximum Special Tax for Taxable Religious Property, Taxable Public Property, or Taxable Property Owner Association Property, as applicable, computed pursuant to paragraph 2 by the

estimated Maximum Special Taxes from Developed Property at buildout of CFD No. 2001-1 plus the Maximum Special Tax for an Assessor's Parcel of Taxable Religious Property, Taxable Public Property, or Taxable Property Owner Association Property being prepaid (if applicable), excluding any Assessor's Parcels which have been prepaid.

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

5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").

6. Compute the current Future Facilities Costs

7. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").

8. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.

9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.

10. Compute the amount the Finance Director reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.

11. Add the amounts computed pursuant to paragraphs 8 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").

12. Verify the administrative fees and expenses of CFD No. 2001-1, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").

13. If reserve funds for the Outstanding Bonds, if any, are at or above 100% of the reserve requirement (as defined in the Indenture) on the prepayment date, a reserve fund credit shall be calculated as a reduction in the applicable reserve fund for the Outstanding Bonds to be redeemed pursuant to the prepayment (the "Reserve Fund Credit"). No Reserve Fund Credit shall be granted if reserve funds are below 100% of the reserve requirement.

14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").

15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").

16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the construction fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 2001-1.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the Finance Director shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel that is prepaid, the Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Assigned Special Taxes that may be levied on Taxable Property within CFD No. 2001-1 both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

2. Prepayment in Part

The Special Tax on an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meaning:

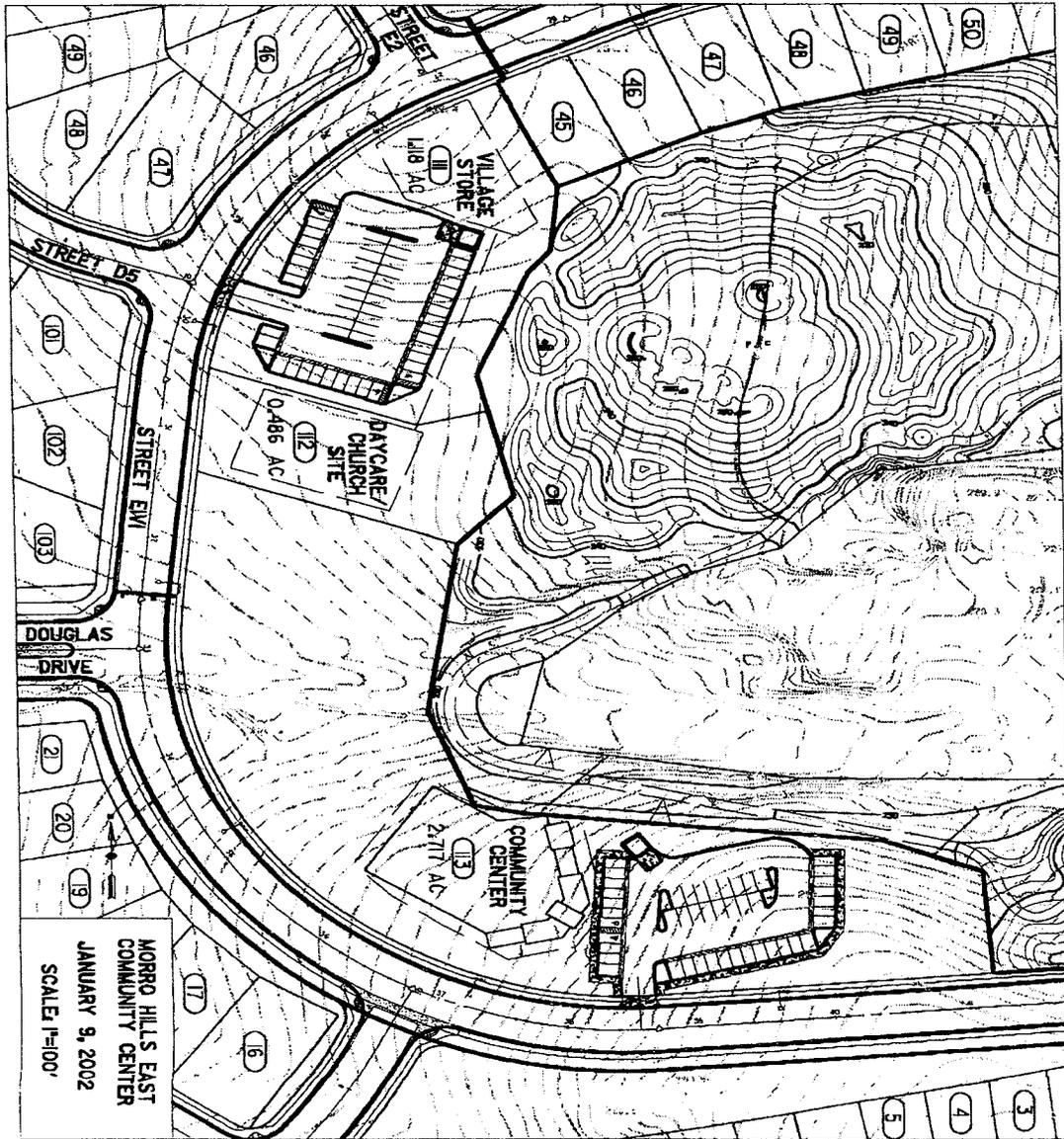
- PP = the partial prepayment
- P_E = the Prepayment Amount calculated according to Section H.1
- F = the percentage by which the owner of the Assessor's Parcel(s) is partially prepaying the Special Tax.

The owner of any Assessor's Parcel who desires such prepayment shall notify the Finance Director of such owner's intent to partially prepay the Special Tax and the percentage by which the Special Tax shall be prepaid. The Finance Director shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor's Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service. With respect to any Assessor's Parcel that is partially prepaid, the City shall (i) distribute the funds remitted to it according to Section H.1, and (ii) indicate in the records of CFD No. 2001-1 that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section D.

I. TERM OF THE SPECIAL TAX

The Special Tax shall be levied for the period necessary to fully satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2040-41.

ATTACHMENT A
VILLAGE STORE/DAY CARE PROPERTY



APPENDIX B

SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF OCEANSIDE

The information and expressions of opinion set forth herein have been obtained from sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein 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 facts. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein since the date of the Official Statement.

General Information

The City is located in San Diego County, approximately 90 miles south of Los Angeles and 30 miles north of the City of San Diego. The City comprises approximately 44 square miles at an elevation between sea level and 300 feet. Typical of Southern California, it offers a temperate climate with an average high temperature of 60.9 degrees and average annual rain fall of 4.5 inches.

Incorporated in 1888, The City operates as a general law city. It has a council-manager form of government, with the Mayor and other council members elected at large for four-year terms.

City Council

The members of the City Council and the expiration dates of their respective terms are as follows:

CITY OF OCEANSIDE City Council

<i>Council Member</i>	<i>Term Expires</i>
Jim Wood, Mayor	November 2016
Jack Feller, Deputy Mayor	November 2016
Jerome M. Kern	November 2014
Esther C. Sanchez	November 2016
Gary Felien	November 2014

The City Council appoints the City Manager who heads the executive branch of the government, implements City Council directives and policies and manages the administrative and operational functions through the various departmental heads, who are appointed by the City Manager.

City Management

The City Manager's Office is responsible for the administrative supervision of all City activities. This task involves the continual evaluation of the provision of efficient, effective, and economical services to the citizens of the City. The City Manager's Office keeps the City Council informed of City activities and services and implements the policy of the City Council. The City Manager also serves as the Executive Director of the Community Development Commission and oversees the functions of the housing activities of the Community Development Commission.

Peter A. Weiss is the City Manager and has served in such position since August 2007.

Cari Dale is the Water Utilities Director and has served in such position since May 2010.

John P. Mullen is the City Attorney and has served in such position since March 2006.

Gary M. Ernst is the City Treasurer and has served in such position since December 2010.

City full-time employees numbered 851 as of June 30, 2012, of which 276 were assigned to the Police Department and 111 to the Fire Department.

Employee Relations

In accordance with the provisions of California Government Code Section 3500 and the City’s Employee/Employer Relations Indenture, the City recognizes the following bargaining units:

<i>Unit/Affiliation</i>	<i>Number of Members</i>
Oceanside City Employee’s Association	295
Management Employees of City of Oceanside.....	62
Oceanside Police Officer’s Association (non-sworn).....	63
Oceanside Police Officer’s Association (sworn)	192
Oceanside Firefighter’s Association	91
Oceanside Fire Management Association.....	6
Western Council of Engineers	11
Oceanside Police Management Association	<u>10</u>
Total	<u>730</u>

Source: City of Oceanside.

Management of various unrepresented position classifications include a total of 60 classifications which are not represented by any bargaining unit. In addition, the City has 63 unrepresented non-management positions.

Population

The City’s population as of January 1, 2012 was approximately 169,319. The following chart shows the population for the City, the County and state from 2008 through 2012.

**POPULATION
For Years 2008 through 2012**

<i>Year (as of 1/1)</i>	<i>City of Oceanside</i>	<i>County of San Diego</i>	<i>State of California</i>
2008	166,064	3,032,689	36,704,375
2009	166,242	3,064,436	36,966,713
2010	167,241	3,091,579	37,223,900
2011	167,943	3,115,810	37,427,946
2012	169,319	3,143,429	37,678,563

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and State, 2001-2010, with 2000 & 2010 Census Counts and E-1 Population Estimates for Cities, Counties and the State, 2011-2012, Sacramento, California, May 2012.*

City's Economy

The City enjoys one of the most desirable locations in the United States. With Camp Pendleton to the north (a permanent open space) and the Pacific Ocean to the west, Oceanside provides a retail market for tourists and military alike. Many senior citizens and retirees settle in Oceanside because it is one of the last moderately-priced coastal communities in California. Although the City was incorporated in 1888, the majority of development has occurred within the last twenty years. Infrastructure and facilities are therefore relatively new.

The City's commercial base is growing. The downtown redevelopment agency is aggressively recruiting major hotel and retail enterprises to locate within blocks of the City's wide beaches and large marina. Raw land is still available next to major freeway off-ramps for commercial development.

Education

Public instruction in the City is provided by the Oceanside Unified School District, Bonsall Union School District, the Fallbrook Union Elementary School District, the Carlsbad Unified School District and the Vista Unified School District. The following table summarizes public school enrollment in the five school districts over the past five years:

OCEANSIDE UNIFIED SCHOOL DISTRICT PUBLIC SCHOOL ENROLLMENT 2007-08 through 2011-12

<i>Grades</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
K-6	11,943	12,034	11,887	11,960	12,024
7-12	<u>9,279</u>	<u>9,483</u>	<u>9,235</u>	<u>9,121</u>	<u>8,985</u>
Total	<u>21,222</u>	<u>21,517</u>	<u>21,122</u>	<u>21,081</u>	<u>21,009</u>

Source: California Department of Education, Educational Demographics Unit.

BONSALL UNION SCHOOL DISTRICT PUBLIC SCHOOL ENROLLMENT 2007-08 through 2011-12

<i>Grades</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
K-6	1,524	1,536	1,611	1,628	1,640
7-12	<u>384</u>	<u>345</u>	<u>366</u>	<u>377</u>	<u>326</u>
Total	<u>1,908</u>	<u>1,881</u>	<u>1,977</u>	<u>2,005</u>	<u>1,966</u>

Source: California Department of Education, Educational Demographics Unit.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT PUBLIC SCHOOL ENROLLMENT 2007-08 through 2011-12

<i>Grades</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
K-6	4,343	4,480	4,564	4,730	4,651
7-12	<u>1,142</u>	<u>1,137</u>	<u>1,132</u>	<u>1,130</u>	<u>1,165</u>
Total	<u>5,485</u>	<u>5,617</u>	<u>5,696</u>	<u>5,860</u>	<u>5,816</u>

Source: California Department of Education, Educational Demographics Unit.

**CARLSBAD UNIFIED
SCHOOL DISTRICT
PUBLIC SCHOOL ENROLLMENT
2007-08 through 2011-12**

<i>Grades</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
K-6	5,832	5,837	6,020	6,077	6,073
7-12	<u>4,909</u>	<u>4,858</u>	<u>4,845</u>	<u>4,953</u>	<u>4,973</u>
Total	<u>10,741</u>	<u>10,695</u>	<u>10,865</u>	<u>11,030</u>	<u>11,046</u>

Source: California Department of Education, Educational Demographics Unit.

**VISTA UNIFIED
SCHOOL DISTRICT
PUBLIC SCHOOL ENROLLMENT
2007-08 through 2011-12**

<i>Grades</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>
K-6	12,899	12,876	12,677	12,537	12,415
7-12	<u>14,103</u>	<u>13,850</u>	<u>13,468</u>	<u>13,306</u>	<u>13,178</u>
Total	<u>27,002</u>	<u>26,726</u>	<u>26,145</u>	<u>25,843</u>	<u>25,593</u>

Source: California Department of Education, Educational Demographics Unit.

The City is also served by California State University, San Marcos and by one community college district, Mira Costa College, which includes Camp Pendleton, a U.S. Marine Corps base adjacent to the City.

Building Activity

Residential building activity for the past five calendar years for Oceanside is shown in the following tables.

**City of Oceanside
New Housing Units Building Permits**

	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Single Family Units	149	56	64	64	106
Multifamily Units	<u>104</u>	<u>32</u>	<u>159</u>	<u>159</u>	<u>28</u>
Total Units	<u>253</u>	<u>88</u>	<u>223</u>	<u>223</u>	<u>134</u>

Source: Construction Industry Research Board and California Homebuilding Foundation.

**City of Oceanside
Building Permit Valuations
(Dollars in Thousands)**

	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Residential					
New Single Family	\$ 44,252.3	\$ 2,329.4	\$ 21,814.8	\$ 21,814.8	\$ 33,894.5
New Multifamily	15,456.9	14,863.5	33,172.0	33,172.0	3,748.9
Res. Alt. & Adds	<u>18,938.3</u>	<u>34,330.6</u>	<u>17,784.3</u>	<u>17,784.3</u>	<u>3,609.4</u>
Total Residential	\$ 78,647.6	\$ 71,523.5	\$ 72,771.2	72,771.2	\$ 41,252.8
Nonresidential					
New Commercial	\$ 1,634.6	\$ 8,761.7	\$ 13,591.8	13,591.8	8,803.9
New Industrial	2,804.3	7,259.0	0.0	0.0	0.0
New Other ⁽¹⁾	8,079.2	9,483.5	20,264.0	20,264.0	21.0
Alters. & Adds.	<u>19,071.0</u>	<u>30,589.6</u>	<u>20,387.8</u>	<u>20,387.8</u>	<u>5,837.7</u>
Total Non-Residential	\$ 49,589.1	\$ 56,093.8	\$ 54,243.7	\$ 54,243.6	\$ 14,662.6
Total All Building	<u>\$ 128,236.7</u>	<u>\$ 127,617.3</u>	<u>\$ 127,014.8</u>	<u>\$ 127,014.8</u>	<u>\$ 55,915.4</u>

⁽¹⁾ Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings.

Note: "Total All Building" is the sum of Residential and Nonresidential Building Permit Valuations. Totals may not add to sums because of independent rounding.

Source: Construction Industry Research Board and California Homebuilding Foundation.

Employment

The civilian labor force in the City increased to an annual average of 86,800 in 2011, up 0.04 percent from the 83,400 average in 2007. For the past five years the unemployment rate in the City has been below the rate for the County of San Diego and the State and roughly even with the nation's rate. The following table summarizes the labor force, employment and unemployment figures over the past five years for the City, the County of San Diego, the State of California and the nation as a whole.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT Yearly Average for Years 2008 through 2012

<i>Year and Area</i>	<i>Labor Force</i>	<i>Civilian Employment⁽¹⁾</i>	<i>Unemployment⁽²⁾</i>	<i>Unemployment Rate⁽³⁾</i>
2007				
City of Oceanside	83,400	79,800	3,600	4.3%
County of San Diego	1,517,600	1,448,500	69,100	4.6
California.....	17,921,000	16,960,700	960,300	5.4
United States ⁽⁴⁾	153,124,000	146,047,000	7,078,000	4.6
2008				
City of Oceanside	85,000	80,200	4,800	5.7%
County of San Diego	1,548,200	1,455,600	92,700	6.0
California.....	18,203,100	16,890,000	1,313,100	7.2
United States ⁽⁴⁾	154,287,000	145,362,000	8,924,000	5.8
2009				
City of Oceanside	85,200	77,400	7,800	9.1%
County of San Diego	1,554,200	1,405,000	149,200	9.6
California.....	18,208,300	16,144,500	2,063,900	11.3
United States ⁽⁴⁾	154,142,000	139,877,000	14,265,000	9.3
2010				
City of Oceanside	86,200	77,500	8,600	10.0%
County of San Diego	1,572,600	1,407,100	165,600	10.5
California.....	18,316,400	16,051,500	2,264,900	12.4
United States ⁽⁴⁾	153,889,000	139,064,000	14,825,000	9.6
2011				
City of Oceanside	86,800	78,600	8,200	9.5%
County of San Diego	1,583,800	1,426,100	157,700	10.0
California.....	18,384,900	16,226,600	2,158,300	11.7
United States ⁽⁴⁾	153,617,000	139,869,000	13,747,000	8.9

(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 2011 benchmark and U.S. Department of Labor, Bureau of Labor Statistics.

The table below summarizes employment by Industry in the San Diego Metropolitan Statistical Area (“MSA”) from 2008 to 2012. Manufacturing, Retail Trade, Services and Government are the largest employment sectors in the San Diego MSA.

**San Diego-Carlsbad-San Marcos MSA
(San Diego County)
Industry Employment & Labor Force – by Annual Average
March 2011 Benchmark**

<i>Industry</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Total Farm	10,500	9,500	10,500	10,000	9,500
Total Nonfarm	1,298,700	1,231,400	1,222,800	1,231,200	1,250,600
Total Private	1,073,600	1,006,900	992,400	1,002,700	1,022,200
Goods Producing	179,200	156,800	148,600	148,400	147,900
Natural Resources & Mining	400	400	400	400	400
Construction	76,100	61,100	55,300	55,200	56,300
Manufacturing	102,800	95,300	92,900	92,800	91,200
Durable Goods	78,100	73,100	71,000	70,800	69,800
Nondurable Goods	24,700	22,200	21,900	21,900	21,400
Service Providing	1,119,500	1,074,600	1,074,200	1,082,800	1,102,700
Private Service Producing	894,400	850,100	843,800	854,400	874,300
Trade, Transportation & Utilities	215,900	199,600	197,300	199,000	202,500
Wholesale Trade	44,900	40,600	40,100	40,700	38,700
Retail Trade	142,000	131,600	130,700	132,200	137,300
Transportation, Warehousing & Utilities	29,000	27,400	26,500	26,100	26,500
Information	31,400	28,200	25,100	24,000	23,800
Financial Activities	75,200	69,800	67,200	66,800	68,100
Professional & Business Services	222,300	206,800	207,700	211,500	218,300
Educational & Health Services	137,300	144,300	145,500	149,100	153,700
Leisure & Hospitality	164,000	154,800	154,800	156,900	160,800
Other Services	48,400	46,800	46,200	47,100	47,100
Government	<u>225,100</u>	<u>224,500</u>	<u>230,400</u>	<u>228,400</u>	<u>228,400</u>
Total, All Industries	<u>1,309,300</u>	<u>1,240,900</u>	<u>1,233,300</u>	<u>1,241,200</u>	<u>1,260,100</u>

Note: The “Total, All Industries” data is not directly comparable to the employment data found herein.

⁽¹⁾ Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add to totals due to rounding.

Source: State of California, Employment Development Department, *San Diego-Carlsbad-San Marcos MSA Industry Employment & Labor Force – by Annual Average, March 2011 Benchmark*.

Industry

Within the City, principal employers and the approximate number of employees are:

CITY OF OCEANSIDE PRINCIPAL EMPLOYERS As of December 31, 2011

<i>Name of Company</i>	<i>Type of Business</i>	<i>Number of Employees</i>
Tri-City Hospital	Hospital District (Non-Profit)	2,100
City of Oceanside	Municipal Government	1,150
Mira Costa Community College	Education	1,150
Genentech	Manufacturer/Bio-technology	500
Oceanside Unified School District	Education	500
Hydranautics	Manufacturer/Bio-technology	400
Ocean's Eleven Casino	Casino	400
Deutsch	Manufacturing/Transportation	300
T.E.R.I. Inc.	Healthcare	300
US Postal Service	Government	200
Monterey Financial Services, Inc.	Financial Services	200
Joe & Mary Mottino Family YMCA	Community Center	200

Source: City of Oceanside.

City Water Supply

The City operates its own municipal water department and serves all of the City's water needs, primarily to residential and commercial users and to some industrial users. Water delivered through the City's water system has historically been supplied by the San Diego Water Authority, which is a member of the Metropolitan Water District, and local water sources. The City has a reverse osmosis system which reclaims ground water and the system contributes to approximately 20% of the City's water consumption. In addition, the City is participating with the City of Carlsbad on pilot project for ocean water desalinization as a water source. While the recent drought reduced water conditions throughout the region, the City expects that future water needs will continue to be met by the San Diego Water Authority and new sources of local water and reclaimed water.

The City has an ongoing water conservation program which includes limitations on watering hours and certain water uses. In the event that the drought were to return and water conditions were to deteriorate the City would likely expand its water conservation program to include additional water use restrictions, such as imposing limitations on the landscaping of new developments.

Commercial Activity

The following table summarizes the annual volume of taxable transactions within the City for the years 2007 through 2011⁽¹⁾.

**CITY OF OCEANSIDE
TABLE OF TAXABLE TRANSACTIONS BY TYPE
For the Years 2007 Through 2011⁽¹⁾**

	(In thousands)				
	2007	2008	2009	2010	2011 ⁽¹⁾
Apparel Stores.....	\$ 48,996	\$ 45,268	\$ 47,739	\$ 47,327	\$ 34,654
General Merchandise.....	263,121	268,918	235,242	232,331	158,403
Food Stores	104,987	96,871	105,588	103,171	78,541
Eating and Drinking Places	198,759	201,960	207,282	207,729	165,833
Home Furnishings and Appliances.....	29,225	51,058	80,566	81,201	59,060
Building Materials.....	117,695	105,987	102,100	104,226	81,981
Auto Dealers and Supplies	141,290	130,635	117,635	103,315	87,255
Service Stations.....	184,056	211,769	173,070	199,862	185,065
Other Retail Stores	<u>223,453</u>	<u>181,576</u>	<u>136,664</u>	<u>136,566</u>	<u>98,727</u>
Subtotal retail outlets.....	1,311,582	1,294,041	1,205,885	1,215,730	949,520
All Other Outlets.....	<u>270,572</u>	<u>274,787</u>	<u>232,980</u>	<u>226,660</u>	<u>177,059</u>
Total all outlets.....	<u>1,582,154</u>	<u>1,568,828</u>	<u>1,438,866</u>	<u>1,442,389</u>	<u>1,126,578</u>

⁽¹⁾ Through 3rd quarter 2011.

Source: California State Board of Equalization.

APPENDIX C

SUMMARY OF INDENTURE

The following is a summary of certain definitions and provisions of the Indentures which are not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Indentures for a full and complete statement of their provisions. The Indentures for each Improvement Area are substantially identical and the following summary is applicable to both Indentures.

DEFINITIONS

“Account” means any account created pursuant to the Indenture.

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

“Acquisition Agreement” means that certain Funding, Construction and Acquisition Agreement dated as of November 1, 2002, by and among the City, the District, Florida Southchase Ltd., Richland Calabasas, L.P. and Richland Ventures, Inc., together with any amendments thereto.

“Acquisition and Construction Fund” means the fund by that name established pursuant to the Indenture.

“Administrative Expenses” means the administrative costs 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 and related costs for credit enhancement for the Bonds or any Parity 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 any other costs otherwise incurred by the City 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 hereunder.

“Administrative Expenses Account” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

“Administrative Expenses Cap” means an amount equal to \$45,000 per Bond Year, or such lesser amount as may be designated in written instructions from an Authorized Representative of the District.

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

“Annual Debt Service” means the principal amount of any Outstanding Bonds or Parity Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds or Parity Bonds in such Bond Year, if the Bonds and any Parity Bonds are retired as scheduled; provided, however, that there shall be included from such calculation any Escrow Bonds.

“Appraisal” means the appraisal of taxable property in the District dated August 15, 2004 delivered in connection with the initial sale and issuance of the Series 2004 Bonds.

“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) (A) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”); (B) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; (C) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America; or (D) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(2) Federal Housing Administration debentures.

(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

- Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
Senior Debt obligations
- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system-wide bonds and notes
- Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)
Senior debt obligations
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- Student Loan Marketing Association (SLMA)
Senior debt obligations (excluded are 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)
- Financing Corporation (FICO)
Debt obligations
- Resolution Funding Corporation (REFCORP)
Debt obligations

(4) Unsecured certificates of deposit, time deposits, and bankers’ acceptances (having maturities of not more than 30 days) of any bank (including the Trustee and any affiliate) the short-term obligations of which are rated “A-1” or better by Standard & Poor’s.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks (including the Trustee and any affiliate) which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days rated “A-1+” by Standard & Poor’s and “Prime-1” by Moody’s).

(7) Money market funds rated “AAM” or “AAM-G” by Standard & Poor’s, or better (including those of the Trustee or its affiliates).

(8) “State Obligations,” which means:

(A) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated “A3” by Moody’s and “A” by Standard & Poor’s, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(B) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated “A-1+” by Standard & Poor’s and “Prime-1” by Moody’s.

(C) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated “AA” or better by Standard & Poor’s and “Aa” or better by Moody’s.

(9) Pre-refunded municipal obligations rated “AAA” by S & P and “Aaa” by Moody’s meeting the following requirements:

(A) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(B) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(C) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”);

(D) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(E) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(F) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(10) Repurchase agreements:

(A) With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by Standard & Poor’s and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or

the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by Standard & Poor's and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "A" or better by Standard & Poor's and Moody's, provided that:

(a) The market value of the collateral is maintained at levels equal to 104% of the amount of cash transferred by the Trustee to the provider of the repurchase agreement plus accrued interest with the collateral being valued weekly and marked-to-market at one current market price plus accrued interest;

(b) The Trustee or a third party acting solely as agent therefor or for the District (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

(c) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(d) The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or Standard & Poor's is withdrawn or suspended or falls below "A-" by Standard & Poor's or "A3" by Moody's, as appropriate, the provider must, at the direction of the District or the Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Trustee.

(B) Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by Standard & Poor's and Moody's, respectively.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by Standard & Poor's and "Aa" by Moody's; provided that, by the terms of the investment agreement:

(A) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Acquisition and Construction Fund, construction draws) on the Bonds;

(B) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the District and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(C) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof, or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks *pari passu* with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;

(D) the District and the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the District and the Trustee) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the District;

(E) the investment agreement shall provide that if during its term.

(1) the provider's rating by either Standard & Poor's or Moody's falls below "AA-" or "Aa3," respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to Standard & Poor's and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment; and

(2) the provider's rating by either Standard & Poor's or Moody's is withdrawn or suspended or falls below "A-" or "A3," respectively, the provider must, at the direction of the District or the Fiscal Agent, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Trustee; and

(F) The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(G) the investment agreement must provide that if during its term

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate, and

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate.

(12) The State of California Local Agency Investment Fund; provided that the Trustee may restrict investments in such Fund to the extent necessary to keep monies available for the purposes of this Indenture.

"Authorized Representative of the City" means the City Manager of the City, the Deputy City Manager of the City, the Administrative Services Director of the City or the Chief Financial Officer of the City or any other person or persons designated by the City Manager, the Deputy City Manager or Administrative Services Director by a written certificate signed by the City Manager, the Deputy City Manager or Administrative Services Director and containing the specimen signature of each such person.

“Authorized Representative of the District” means the City Manager of the City, the Deputy City Manager of the City, the Administrative Services Director of the City or the Chief Financial Officer of the City or any other person or persons designated by the City Manager, the Deputy City Manager or Administrative Services Director by a written certificate signed by the City Manager, the Deputy City Manager or Administrative Services Director 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 and any Parity Bonds shall be recorded.

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

“Bonds” means the Series A of 2002 Bonds.

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

“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 an Authorized Representative” means a written certificate executed by an Authorized Representative of the City.

“Certificate of the Special Tax Administrator” means a certificate of an Authorized Representative of the District, or any successor entity appointed by the City, to administer the calculation and collection of the Special Taxes.

“City” means the City of Oceanside, 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 dated as of November 1, 2002 between the District and BNY Western Trust Company, together with any amendments thereto and that certain Continuing Disclosure Agreement dated as of December 1, 2004, executed and delivered by the District and BNY Western Trust Company, together with any amendments thereto.

“Costs of Issuance” means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds and Parity Bonds, fees of financial consultants and all other related fees and expenses, as set forth in a Certificate of an Authorized Representative of the City.

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

“Depository” shall mean The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Certificates, or any other securities depository acting as Depository under the Indenture.

“Developed Property” means real property within the District for which a building permit has been issued.

“District” means Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) established pursuant to the Act and the Resolution of Formation.

“Escrow Bonds” means the principal amount of any Parity Bonds deposited in an escrow account established by a Supplemental Indenture which are not secured by a pledge of the Net Taxes while on deposit therein.

“Event of Default” shall mean the “event of default” described in the Indenture.

“Federal Securities” means any of the following: (a) non-callable direct obligations of the United States of America (“Treasuries”), (b) evidence of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, and (c) pre-refunded municipal obligations rated “AAA” and “Aaa” by Standard & Poor’s and Moody’s, respectively (or any combination thereof).

“First Supplement” means the First Supplemental Bond Indenture, dated as of December 1, 2004, by and between the District and the Trustee, together with any amendments thereto.

“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, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of this Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions.

“Improvement Area No. 1” means Improvement Area No. 1 of the District as designated by the legislative body of the District in the Resolution of Formation.

“Indenture” means the Original Indenture, as supplemented by the First Supplement, together with any Supplemental Indenture approved pursuant to the Indenture hereof.

“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.

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

“Interest Payment Date” means each March 1 and September 1, commencing March 1, 2003; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date; provided that for the Series 2004 Bonds the first Interest Payment Date shall be March 1, 2005.

“Investment Agreement” means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in Subsection (11) of the definition of Authorized Investments.

“Letter of Credit” means any letter of credit delivered to the Trustee pursuant to the terms of the Acquisition Agreement.

“Letter of Credit Account” means the account by that name established in the Special Tax Fund pursuant to the Indenture.

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year; provided, however, that there shall be excluded from such calculation any Escrow Bonds:

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

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

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

“Net Taxes” means Gross Taxes minus amounts set aside to pay Administrative Expenses, not to exceed the Administrative Expenses Cap.

“Nominee” shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

“Ordinance” means the Ordinance adopted by the legislative body of the District on May 1, 2002, providing for the levying of the Special Tax.

“Original Indenture” means the Bond Indenture, dated as of November 1, 2002, by and between the District and the Trustee, together with any amendments thereto.

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

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

(2) Bonds and Parity 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 or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in this Indenture or any applicable Supplemental Indenture for Parity Bonds; and

(3) Bonds and Parity 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, including the Series 2004 Bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in this Indenture or any Supplemental Indenture, rank on a parity with the Bonds and Series 2004 Bonds.

“Participants” shall mean those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds or Parity Bonds as securities depository.

“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 Rate and Method of Apportionment of Special Taxes attached to the Resolution of Formation.

“Principal Account” means the account by that 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.

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

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

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

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

“Rebate Fund” means the fund by that name established pursuant to the Indenture in which there are established the Accounts described in 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 that 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” shall mean the Blanket Letter of Representations from the District and the Paying Agent to the Depository as described in the Indenture.

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

“Reserve Requirement” means that amount as of any date of calculation equal to the lesser of (i) 10% of the initial principal amount of the Bonds and Parity Bonds, if any, (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any.

“Resolution of Formation” means Resolution No. 02-R185-1 adopted by the City Council of the City on March 13, 2002, pursuant to which the City formed the District.

“Series A of 2002 Bonds” means the District’s Special Tax Bonds, Series A of 2002 issued on October 30, 2002 in the aggregate principal amount of \$9,915,000.

“Series 2004 Bonds” means the District’s Special Tax Bonds, Series A of 2004 issued on December 22, 2004 in the aggregate principal amount of \$16,085,000.

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

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

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

“Special Taxes” means the taxes authorized to be levied by the District on property within the District in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the March 26, 2002 election in the District, including any scheduled payments and any Prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and penalties and interest thereon.

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

“Supplemental Indenture” means any supplemental indenture amending or supplementing this Indenture.

“Surplus Fund” means the fund by that 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.

“Tax-Exempt” means, with reference to an Authorized Investment, an Authorized Investment the interest earnings on which are excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code, other than one described in Section 57(a)(5)(C) of the Code.

“Term Bonds” means the Series A of 2002 Bonds maturing on September 1, 2027 and September 1, 2032 and the Series 2004 Bonds maturing on September 1, 2029 and September 1, 2034, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

“Trustee” means The Bank of New York Trust Company, N.A., a national banking association duly organized and existing under 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 Citigroup Global Markets Inc. and Jackson Securities LLC with respect to the Bonds and, with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

CREATION OF FUNDS AND APPLICATION OF PROCEEDS

Creation of Funds; Application of Proceeds.

(a) The Trustee has established the following funds and accounts:

(1) The Community Facilities District No. 2001-1 of the City of Oceanside Special Tax Fund (the “Special Tax Fund”) (in which there shall be established and created an Interest Account (in which there shall be established the Capitalized Interest Subaccount), a Principal Account, a Redemption Account, a Reserve Account (in which there shall be established a 2002 Subaccount of the Reserve Account and 2004 Subaccount of the Reserve Account) and an Administrative Expenses Account and a Letter of Credit Account).

(2) The Community Facilities District No. 2001-1 of the City of Oceanside Rebate Fund (the “Rebate Fund”) (in which there shall be established a Rebate Account and an Alternative Penalty Account).

(3) The Community Facilities District No. 2001-1 of the City of Oceanside Acquisition and Construction Fund (the “Acquisition and Construction Fund”) (in which there shall be established a Costs of Issuance Account and a Project Account (in which there shall be established a 2002 Subaccount of the Project Account and a 2004 Subaccount of the Project Account)).

(4) The Community Facilities District No. 2001-1 of the City of Oceanside Surplus Fund (the “Surplus 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 Parity Bonds, the Trustee, at the 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 and any Parity Bonds.

(b) The proceeds of the sale of the Series 2004 Bonds shall be received by the Trustee on behalf of the District and deposited and transferred as set forth in the Official Statement under the caption "ESTIMATED SOURCES AND USES OF FUNDS."

(c) The Letter of Credit shall be held by the Trustee in trust for the Owners of the Bonds and any Parity Bonds. In the event that the Trustee receives a Certificate of an Authorized Representative stating that an event has occurred which requires a draw under the Letter of Credit, the Trustee shall draw on the Letter of Credit in the amount set forth in the Certificate of an Authorized Representative and shall deposit the proceeds of such draw in the Letter of Credit Account of the Special Tax Fund for application in accordance with the Indenture. In the event that the Trustee receives a Certificate of an Authorized Representative stating that the conditions to the release of the Letter of Credit contained in the Acquisition Agreement have been satisfied, the Trustee shall release the Letter of Credit to the provider of the Letter of Credit and upon such release neither the Trustee nor the Owners of the Bonds or any Parity Bonds shall have any further right, title and interest in the Letter of Credit.

In the event that the District collects delinquent Special Taxes from any parcel whose delinquency caused a draw on the Letter of Credit which has not been reimbursed, such Special Taxes shall be deposited to the Letter of Credit Account and the Trustee shall disburse to the provider of the Letter of Credit from such Special Taxes the amount specified in a Certificate of an Authorized Representative of the District.

Deposits to and Disbursements from Special Tax Fund.

(a) Except for the portion of any Prepayment to be deposited to the Redemption Account as specified in a Certificate of an Authorized Representative, and except as set forth in the Indenture, the Trustee shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- (1) the Administrative Expenses Account of the Special Tax Fund;
- (2) the Interest Account of the Special Tax Fund;
- (3) the Principal Account of the Special Tax Fund;
- (4) the Redemption Account of the Special Tax Fund;
- (5) the Reserve Account of the Special Tax Fund;
- (6) the Rebate Fund; and
- (7) the Surplus Fund.

(b) The Trustee shall deposit all proceeds of a draw on the Letter of Credit in the Letter of Credit Account. The District shall deliver to the Trustee at least five Business Days prior to each Interest Payment Date a Certificate of an Authorized Representative of the District stating what amount, if any, is to be transferred by the Trustee to the Interest Account, the Principal Account and the Redemption Account with respect to the upcoming Interest Payment Date. Upon receipt of such Certificate, the Trustee shall make the required transfers to the Interest Account, the Principal Account and the Redemption Account, as applicable. Amounts in the Letter of Credit Account shall be transferred only to the Interest Account and the Principal

Account and to the Redemption Account (but only to the extent needed to pay Sinking Fund Payments when due) or upon the release of the Letter of Credit from the lien of this Indenture to the provider of the Letter of Credit, all as directed in a Certificate of an Authorized Representative of the District.

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

Administrative Expenses Account of the Special Tax Fund. The Trustee shall transfer from the Special Tax Fund and deposit in the Administrative Expenses Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses as set forth in a Certificate of an Authorized Representative of the District; provided, however, that, except as set forth in the following sentence, the total amount transferred in a Bond Year shall not exceed the Administrative Expenses Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit in the Indenture, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Account to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expenses Cap may be transferred to the Administrative Expenses Account to the extent necessary to collect delinquent Special Taxes. Moneys in the Administrative Expenses Account of the Special Tax Fund may be invested in any Authorized Investments as directed in writing by an Authorized Representative of the Water District and shall be disbursed as directed in a Certificate of an Authorized Representative.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the 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 and any Parity Bonds will be made when due, after making the transfer required by the Indenture, at least one Business Day prior to each March 1 and September 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, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund (exclusive of the Letter of Credit Account and the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Letter of Credit Account, and, thereafter, by an immediate from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account one Business Day prior to September 1 of each year, commencing September 1, 2003, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account of the Special Tax Fund.

(a) With respect to each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Administrative Expenses Account, the Interest Account and the Principal Account of the Special Tax Fund as required by the preceding two paragraphs, the Trustee shall next transfer into the

Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account one Business Day prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such September 1; provided, however, 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, if funded, pursuant to the Indenture. Moneys so deposited in the Redemption Account shall be used and applied by the Trustee to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in the Indenture, and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedule in the Supplemental Indenture for such Parity Bonds.

(b) After making the deposits to the Administrative Expenses Account, the Interest Account and the Principal Account of the Special Tax Fund and to the Redemption Account for Sinking Fund Payments then due pursuant to the preceding paragraph, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Indenture, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for Parity Bonds, 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 principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expenses Account in the Indenture) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(c) Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to the Indenture for the use of such Prepayments to the payment of the principal of, premium, and interest on the Bonds and Parity Bonds to be redeemed with such Prepayments. Prepayments shall, to the extent reasonably practicable, be applied to redeem Series A of 2002 Bonds, Series 2004 Bonds and any Parity Bonds on a proportionate basis based on the Outstanding principal amount of such Series A of 2002 Bonds, Series 2004 Bonds and Parity Bonds.

(d) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption or an extraordinary redemption from Prepayments 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, other than Prepayments, may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in the next sentence. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture, or in the case of Parity Bonds the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account of the Special Tax Fund. There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. If funded, 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 the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption

Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Trustee shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers to the Administrative Expenses Account, the Interest Account, the Principal Account and the Redemption Account, 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 Administrative Expenses Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. If amounts in the Special Tax Fund together with any other amounts 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 or extraordinary redemption of Bonds or Parity Bonds, or a partial defeasance of Bonds in accordance with any Supplemental Indenture, or Parity Bonds, amounts in the Reserve Account may be applied to such 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. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to the Indenture to partially defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds in accordance with any Supplemental Indenture, or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and Parity Bonds, as applicable, in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this section shall be withdrawn from the Reserve Account on the Business Day before each March 1 and September 1 and transferred to the Project Account of the Acquisition and Construction Fund until the receipt of a Certificate of an Authorized Representative stating that all Project Costs required or expected to be funded pursuant to the Acquisition Agreement have been funded or amounts in the Project Account are sufficient to fund all remaining Project Costs and thereafter to the Interest Account of the Special Tax Fund.

Rebate Fund. 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 in the Indenture. 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 Alternate Penalty Account shall be established for the Bonds and each issue of Parity 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 the Bonds or an issue of Parity Bonds shall be governed by the Indenture and the Tax Certificate for such issue, 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 and Parity Bonds will not be adversely affected if such requirements are not satisfied.

Surplus Fund. After making the transfers required by the Indenture, as soon as practicable after each September 1, and in any event prior to each October 1, the Trustee shall transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, unless on or prior to such date it has received a Certificate of an Authorized Representative directing that certain amounts be retained in the Special Tax Fund because the District has included such amounts as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative 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 and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor; (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement; (iii) to the Administrative Expenses Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expenses Account of the Special Tax Fund are insufficient to pay Administrative Expenses; (iv) to the Acquisition and Construction Fund to pay Project Costs; or (v) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Trustee in a Certificate of an Authorized Representative and 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 at the written direction of the District in Authorized Investments the interest on which is excludable from gross income under the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Acquisition and Construction Fund.

(a) The moneys in the Costs of Issuance Account shall be disbursed by the Trustee pursuant to a Certificate of an Authorized Representative of the District, and any balance therein shall be transferred by the Trustee to the Project Account as directed in writing by an Authorized Representative of the District.

(b) The moneys in the Project Account of the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs. Amounts for Project Costs shall be disbursed by the Trustee from the Project Account of the Acquisition and Construction Fund as specified in a Request for Disbursement of Project Costs which must be submitted in connection with each requested disbursement.

(c) Upon receipt of a Certificate of an Authorized Representative of the District stating that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs, the Trustee shall transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Acquisition and Construction Fund to the Principal Account or Redemption Account of the Special Tax Fund or to the Surplus Fund, as directed in the Certificate, provided that in connection with any direction to transfer amounts to the Surplus Fund there shall have been delivered to the Trustee with such Certificate an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Investments. Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the written direction 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 Acquisition and Construction Fund, the Special Tax Fund, the Surplus Fund and the Rebate Fund and each Account therein (other than the Reserve Account of the Special Tax Fund) shall be deposited in those respective Funds and Accounts, and (ii) investment earnings on all amounts deposited in the Reserve Account shall be applied as set forth in the Indenture. Moneys in the Funds, Accounts and Subaccounts held under the Indenture may be invested by the Trustee as directed in writing by the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Acquisition and Construction Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything in the Indenture to the contrary, amounts in the Acquisition and Construction Fund three years after the Delivery Date for the Bonds and the proceeds of each issue of Parity Bonds issued on a tax-exempt basis which are remaining on deposit in the Acquisition and Construction Fund on the date which is three years following the date of issuance of such issue of Parity Bonds shall be invested by the District only in Authorized Investments the interest on which is excluded from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds from which such proceeds were derived, unless in the opinion of Bond Counsel such restriction is not necessary to prevent interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes from being included in gross income for federal income tax purposes.

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

(c) Monies in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which, taken together, have a weighted average maturity not in excess of five years; provided that such amounts may be invested in an Investment Agreement to the later of the final maturity of the Bonds or any Parity 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 the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds, as applicable.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (1) 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 or in Authorized Investments of the type described in clause (7) of the definition thereof.

(e) In the absence of written investment directions from the District, the Trustee shall invest solely in Authorized Investments specified in clause (7) of the definition thereof.

COVENANTS AND WARRANTY

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

Covenants. So long as any of the Bonds or Parity Bonds issued under the Indenture are Outstanding and unpaid, the District has made the following covenants 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 Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

Punctual Payment; Against Encumbrances. The District has covenanted that it will receive all Special Taxes in trust for the Owners and will instruct the Treasurer to deposit all Special Taxes with the Trustee immediately upon their apportionment to the District, 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 has covenanted that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with the Indenture to the extent that Net Taxes and other amounts pledged under the Indenture 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, any Parity Bonds, and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and of the Bonds and any Parity 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, other than Parity Bonds. 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 and the Parity Bonds.

Levy of Special Tax. Beginning in Fiscal Year 2002-03 and so long as any Bonds or Parity Bonds issued under the Indenture are Outstanding, the legislative body of the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund deemed available for such purpose, to pay (1) the principal of and interest on the Bonds and any Parity Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement (the "Special Tax Requirement"). The District has also covenanted that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding.

Commence Foreclosure Proceedings. The District has covenanted for the benefit of the Owners of the Bonds and any Parity Bonds that it (i) will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount on deposit in the Reserve Account is at less than the Reserve Requirement; and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid.

The District has covenanted that it will deposit the net proceeds of any foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds.

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 Expenses Account as set forth in the Indenture), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided, however, 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.

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 Project, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners of not less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

Federal Tax Covenants. Absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis for federal income tax purposes will not be adversely affected for federal income tax purposes, the District has covenanted 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:

(1) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other monies or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “private activity bonds” within the meaning of Section 141 of the Code;

(2) Arbitrage. The District will make no use of the proceeds of the Bonds or any Parity Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(3) Federal Guaranty. The District will make no use of the proceeds of the Bonds or any Parity Bonds or take or omit to take any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

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

(5) Hedge Bonds. The District will make no use of the proceeds of the Bonds or any Parity Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds and any applicable Parity Bonds; and

(6) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated in the Indenture and incorporated by reference in the Indenture.

(7) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any Bonds or Parity 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 the Bonds and any Parity Bonds issued on a tax-exempt basis.

(8) 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 the 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.

Reduction of Maximum Special Taxes. The District has covenanted, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment of Special Taxes then in effect in the District) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses and gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds, and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultants shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by 2% in each subsequent Fiscal Year.

Covenants to Defend. The District covenants that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the minimum or 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.

Limitation on Right to Tender Bonds. The District has covenanted that it will not adopt any policy pursuant to the Act permitting the tender of Bonds or Parity 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 and Parity Bonds when due.

Letter of Credit. The District has covenanted to deliver any Letter of Credit received by it pursuant to the terms of the Acquisition Agreement to the Trustee and if an event occurs which permits a draw on the Letter of Credit to deliver a Certificate of an Authorized Representative of the District to the Trustee in accordance with the Indenture. Notwithstanding the foregoing, the District and the City each has the right to amend the provisions of the Acquisition Agreement relating to the Letter of Credit in any manner, including authorizing its release by the Trustee, without the consent of the Bondowners, and neither the District nor the City shall be liable to any person or entity, including Bondowners, for any such amendment; provided, however, that the District covenants not to release a Letter of Credit provided by a landowner so long as such landowner, together with any affiliates of the landowner, posting such Letter of Credit is responsible for payment of 33% or more of the Special Taxes levied in the current Fiscal Year or projected to be levied in the current Fiscal Year or projected to be levied in the next Fiscal Year based on the property owned by such landowner or its affiliates on the date of calculation without the consent of the owners of a majority of the principal amount of all Outstanding Bonds and Parity Bonds, or upon the provision of a substitute Letter of Credit.

AMENDMENTS TO INDENTURE

Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt 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 or Parity Bond payments;

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

(d) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued under the Indenture, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds or any Parity Bonds then Outstanding;

(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 110% of the principal and interest due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such amendment; 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 preceding paragraph, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such 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 or Parity Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon, (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond, or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of this Section 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 and Parity 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 not less than a majority in aggregate principal amount of the Bonds and Parity 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 and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity 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 and Parity Bonds in instances where such consent is required pursuant to the provisions of this section, 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 and Parity Bonds shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments.

TRUSTEE

Trustee. BNY Western Trust Company has been appointed the Trustee for the Bonds and any Parity Bonds unless and until another Trustee is appointed by the District under the Indenture. The Trustee represents that it has a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000. The District may, at any time, appoint a successor Trustee satisfying certain requirements under 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.

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 shall be a bank 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. 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.

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.

EVENTS OF DEFAULT; REMEDIES

Events of Default. Any one or more of the following events shall constitute an “event of default”:

- (a) default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;
- (b) default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same shall become due and payable; or
- (c) except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds or any Parity Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Trustee or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

The Trustee has agreed to give notice to the Owners as soon as practicable upon the occurrence of an Event of Default under (a) or (b) above and within 30 days of the Trustee’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 Parity 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 25% in aggregate principal amount of Outstanding Bonds and Parity 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 and Parity Bonds.

No remedy conferred in the Indenture upon or reserved to the Trustee or to the Owners 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 hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

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 and Parity Bonds shall be applied by the Trustee in the following order upon presentation of the several Bonds and Parity 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 and Parity 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 and Parity 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 and Parity 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 and Parity 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 and Parity 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 25% in aggregate principal amount of the Bonds and Parity Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds and Parity 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 and Parity Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds or Parity 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 and Parity Bonds similarly situated and the Trustee has been appointed (and the successive respective Owners of the Bonds and Parity 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 and Parity 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 and Parity 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 hereunder, 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 and Parity 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 hereunder, pending such proceedings, with such powers as the court making appointments shall confer.

Non-Waiver. Nothing in the Indenture, or in the Bonds or the Parity 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

and Parity Bonds to the respective Owners of the Bonds and Parity 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.

Limitations on Rights and Remedies of Owners. No Owner of any Bond or Parity 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 and Parity Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers in the Indenture before granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are, in every case, to be conditions precedent to the exercise by any Owner of Bonds and Parity Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Bonds and Parity 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 and Parity Bonds.

The right of any Owner of any Bond and Parity Bond to receive payment of the principal of and interest and premium (if any) on such Bond and Parity 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 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 AND PARITY BONDS

Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity 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 or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to this Section, 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 this Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the preceding paragraph if such Bond or Parity Bond is paid in any one or more of the following ways:

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

(b) by depositing with the 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 Expenses Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable; or

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, 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 Expenses Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable.

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the federal tax covenants of the District 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 under (b) or (c) above, 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 and Parity Bonds to be defeased in accordance with this Section, 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 or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture.

Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness. The District may at any time after the issuance and delivery of the Bonds under the Indenture issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expenses Account in the Indenture) 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 any Parity Bonds then Outstanding. Parity Bonds which may only be issued to effect a partial refunding may be issued subject to the following additional specific conditions, which are hereby 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:

(1) 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;

(2) the authorized principal amount of such Parity Bonds;

(3) the date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on an September 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;

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

(5) the denominations and method of numbering of such Parity Bonds;

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

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

(8) the form of such Parity Bonds; and

(9) such other provisions as are necessary or appropriate and not inconsistent with the 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 accept any of such documents bearing a prior date):

(1) a certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(2) a written request of the District as to the delivery of such Parity Bonds;

(3) an opinion of Bond Counsel and/or 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 the Bonds and any Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

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

(5) a certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity 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 and Parity Bonds Outstanding prior to the issuance of such Parity Bonds; and

(6) 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 and Parity Bonds. All Bonds and Parity Bonds surrendered to the Trustee for payment upon maturity or for redemption shall be upon payment therefor, and any Bond or Parity 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.

Unclaimed Moneys. Any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds or Parity 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 or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee at the expense of the District, shall cause to be mailed by first-class mail, postage prepaid, to the registered Owners of such Outstanding Bonds or Parity 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.

Provisions Constitute Contract. The provisions of the Indenture shall constitute a contract between the District and the Bondowners and the provisions hereof shall be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Trustee, then the District, the Trustee and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds the Indenture shall be irrevocable, but shall be subject to modifications to the extent and in the manner provided in the Indenture, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Indenture shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Net Taxes which is subordinate to the pledge under the Indenture, or which is payable from the general fund of the District or from taxes or any source other than the Net Taxes and other amounts pledged under the Indenture.

Further Assurances. The District will adopt, make, execute and deliver any and all such further resolutions, 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 or any Parity Bonds the rights and benefits provided in the Indenture.

Severability. If any covenant, agreement or provision, or any portion thereof, contained in the Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and the Indenture, the Bonds and any Parity Bonds issued pursuant hereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

Provisions of Indenture in Effect. Except as expressly modified in the First Supplement, all of the provisions of the Original Indenture shall remain in full force and effect.

Partial Invalidity. If any section, paragraph, sentence, clause or phrase of the First Supplement shall for any reason be held illegal, invalid or unenforceable, such holding shall not affect the validity of the remaining portions of the First Supplement. The District has declared that it would have entered into the First Supplement and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Series 2004 Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses, or phrases of the First Supplement may be held illegal, invalid or unenforceable.

Governing Law. The First Supplement shall be construed and governed in accordance with the laws of the State of California applicable to contracts made and performed in such state.

APPENDIX D
FORM OF CONTINUING DISCLOSURE AGREEMENT

[TO COME]

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

Community Facilities District No. 2001-1
of the City of Oceanside (Morro Hills Development)
Oceanside, California

Re: \$_____ Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) Special Tax Refunding Bonds, Series 2013A

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 Oceanside taken in connection with the formation of Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) (the "District") and the authorization and issuance of Special Tax Refunding Bonds, Series 2013A 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 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, 2002 by and between the District and The Bank of New York Trust Company, N.A., as trustee (the "Trustee") as amended and supplemented by the First Supplemental Bond Indenture dated as of December 1, 2004 and the Second Supplemental Bond Indenture, dated as of _____ 1, 2013 (collectively, the "Indenture"). All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

The Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on each March 1 and September 1, commencing on March 1, 2014, at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided for 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 of Oceanside, 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 City of Oceanside, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(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 (to the extent the redemption price at maturity is more than the issue price) 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 opinion 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 or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes of the interest (and original issue discount) on any Bonds if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation 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,

APPENDIX F

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.

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

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. 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 bonds representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. 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.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 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.

6. 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.

7. 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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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).

8. Redemption proceeds, distributions, and dividend 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 Authority 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 Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

11. The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

ATTACHMENT 3

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of _____ 1, 2013 (the "Disclosure Agreement") is executed and delivered by the Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) (the "Issuer") and David Taussig & Associates, Inc. (the "Dissemination Agent") in connection with the issuance of the Issuer's \$_____ Special Tax Refunding Bonds Series 2013A (the "Bonds"). The Bonds are being issued pursuant to a Bond Indenture, dated as of November 1, 2002, by and between the Issuer and the Trustee, as supplemented by the First Supplemental Bond Indenture, dated as of December 1, 2004, and by the Second Supplemental Bond Indenture, dated as of _____ 1, 2013 (collectively, the "Bond Indenture"). The Issuer, the Trustee and the Dissemination Agent covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Bond 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 Comprehensive Annual Financial Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Disclosure Representative" shall mean the City Manager of the City of Oceanside (the "City"), the Assistant City Manager of the City, the Director of Financial Services of the City or their designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean David Taussig & Associates, Inc., or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated _____, 2013.

"Repository" shall mean the Municipal Securities Rulemaking Board, which can be found at <http://emma.msrb.org>.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“Underwriter” shall mean the original Underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than each April 1 of each year commencing April 1, 2014, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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 Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) business days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) (if the Dissemination Agent is other than the Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating, to the extent it can confirm such filing of the Annual Report, the date it was provided.

SECTION 4. Content of Annual Reports. The Issuer’s Annual Report shall contain or include by reference the following:

(a) The City’s audited financial statements, prepared in accordance with generally accepted auditing standards for municipalities in the State of California. If the City’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 financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof:

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Bond Indenture as of the September 2 preceding the filing of the Annual Report;

(iii) any changes to the Rate and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors for approval prior to the filing of the Annual Report and a description of any parcels for which the Special Taxes have been prepaid, including the amount prepaid, since the date of the last Annual Report;

(iv) a table setting forth the estimated assessed value-to-lien ratios for Developed Property as a group and for each owner of Undeveloped Property based upon the most recent Special Tax levy preceding the date of the Annual Report, the most recent assessed values of the property and the principal amount of the Bonds and any other land secured debt allocable to parcels within the District;

(v) a table including a list of all taxpayers within the District which own property in the District upon which 5% or more of the total Special Taxes for the current fiscal year have been levied, and a statement as to whether any of such taxpayers is delinquent in the payment of Special Taxes;

(vi) any event known to the Issuer which results in a moratorium on future building within the District;

(vii) a table setting forth for the five most recent fiscal years in which Special Taxes were levied, the amount of Special Taxes levied in each fiscal year and the percentage delinquent as of June 30 of such fiscal year and as of the date of the Annual Report, and a description of the status of any foreclosure actions being pursued by the Issuer with respect to delinquent Special Taxes;

(viii) the date of issuance and the principal amount of any Parity Bonds and a copy of any appraisal delivered in connection with such issuance; and

(ix) any information not already included under (i) through (viii) above that the Issuer is required to file in its annual report to the California Debt and Investment Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) days after the event, if material:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposal Issue (IRS Form 5701-TEB);
6. Tender Offers;
7. Defeasances;
8. Rating changes; and
9. Bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material in a timely manner not more than ten (10) days after occurrence:

1. unless described in Section 5(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. modifications to the rights of Bondholders;
3. optional, unscheduled or contingent Bond calls;
4. release, substitution or sale of property securing repayment of the Bonds;
5. non-payment related defaults;
6. the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event under subsection (b) would be material under applicable federal securities laws, and if the Dissemination Agent is other than the Issuer, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with the MSRB in an electronic format as prescribed by the MSRB in a timely manner not more than ten (10) Business Days after the event.

(d) If the Issuer determines that the Listed Event under subsection (b) would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and, if the Dissemination Agent is other than the Issuer, the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure 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 form or content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days written notice to the Issuer and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Issuer and shall have no duty to review any information provided to it by the Issuer. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same

manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer 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 Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, 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 Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

No Bond holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Issuer satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Issuer shall have refused to comply therewith within a reasonable time.

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 the Issuer agrees, to the extent permitted by law, 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 attorney's 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 Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Bond holders, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

Disclosure Representative: City of Oceanside
300 North Coast Highway

Oceanside, CA 92054
Attention: City Manager

Dissemination Agent: David Taussig & Associates, Inc.
5000 Birch Street, Suite 6000
Newport Beach, CA 92660
Attention: _____

SECTION 13. Beneficiaries. This Disclosure Agreement solely to the benefit of the Issuer, the Dissemination Agent, the Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the Issuer to the undertaking herein provided.

COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE (MORRO HILLS
DEVELOPMENT)

By: _____
Its: City Manager of the City of Oceanside

DAVID TAUSSIG & ASSOCIATES, INC., as
Dissemination Agent

By: _____
Its: Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Community Facilities District No. 2001-1 of the City of Oceanside
(Morro Hills Development)

Name of Certificate Issue: Community Facilities District No. 2001-1 of the City of Oceanside
(Morro Hills Development) Special Tax Refunding Bonds Series
2013

Date of Issuance: _____, 2013

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement executed by the Issuer on the date of issuance of the Bonds. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

Dissemination Agent

By: _____

ATTACHMENT 4

SECOND SUPPLEMENTAL BOND INDENTURE

by and between

**COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE
(MORRO HILLS DEVELOPMENT)**

and

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.
as Trustee**

Dated as of _____ 1, 2013

Relating to

**\$ _____
COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE
(MORRO HILLS DEVELOPMENT)
SPECIAL TAX REFUNDING BONDS
SERIES 2013A**

SECOND SUPPLEMENTAL BOND INDENTURE

THIS SECOND SUPPLEMENTAL BOND INDENTURE dated as of _____ 1, 2013 (the "Second Supplement"), by and between Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) (the "District") and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), governs the terms of the Special Tax Refunding Bonds Series 2013A which are being issued as Parity Bonds in accordance with the Bond Indenture (the "Original Indenture") dated as of November 1, 2002, between the District and the Trustee, and the First Supplemental Bond Indenture (the "First Supplement," and together with the Original Indenture, the Supplemented Indenture"), dated as of December 1, 2004, and supplements the Supplemented Indenture. The Original Indenture, the First Supplement and the Second Supplement are hereinafter collectively referred to as the "Indenture."

RECITALS:

WHEREAS, the City Council of the City of Oceanside, located in San Diego County, California (hereinafter sometimes referred to as the "legislative body of the District" or the "City"), has heretofore undertaken proceedings and declared the necessity to issue bonds on behalf of the District pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the "Act"); and

WHEREAS, based upon Resolution Nos. 02-R185-1 and 02-R186-1 adopted by the legislative body of the District on March 13, 2002, and an election held on March 26, 2002 authorizing the levy of a special tax and the issuance of bonds by the District, the District is authorized to issue bonds in one or more series, pursuant to the Act, in an aggregate principal amount not to exceed \$26,000,000; and

WHEREAS, pursuant to the Original Indenture, the District has previously issued its Special Tax Bonds, Series A of 2002 (the "Series 2002 Bonds") in the aggregate principal amount of \$9,915,000; and

WHEREAS, pursuant to the First Supplement, the District has previously issued its Special Tax Bonds, Series A of 2004 (the "Series 2004 Bonds") in the aggregate principal amount of \$16,085,000.

WHEREAS, the legislative body of the District intends refund the Series 2002 Bonds through the issuance of bonds in an aggregate principal amount of \$_____ designated as the "Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) Special Tax Refunding Bonds, Series 2013A" (the "Series 2013 Bonds"); and

WHEREAS, the District has determined all requirements of the Act for the issuance of the Series 2013 Bonds as Parity Bonds under the terms of the Supplemented Indenture have been satisfied; and

NOW, THEREFORE, in order to establish the terms and conditions upon and subject to which the Series 2013 Bonds are to be issued, and in consideration of the premises and of the mutual covenants contained herein and of the purchase and acceptance of the Series 2013 Bonds by the

Owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the District does hereby covenant and agree, for the benefit of the Owners of the Series 2004 Bonds, the Series 2013 Bonds and any Parity Bonds (as defined in the Supplemented Indenture) which may be issued from time to time, as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. All capitalized terms not otherwise defined herein shall have the meaning set forth in the Supplemented Indenture. The following definitions set forth in Section 1.1 of the Indenture are revised to mean the following with respect to the Series 2013 Bonds:

“Continuing Disclosure Agreement” together, means that certain Continuing Disclosure Agreement dated as of December 1, 2004, by and between the District and The Bank of New York Mellon Trust Company, N.A., together with any amendments thereto, and that certain Continuing Disclosure Agreement dated as of _____ 1, 2013, by and between the District and David Taussig & Associates, Inc., together with any amendments thereto.

“Underwriter” means Piper Jaffray & Co. with respect to the Series 2013 Bonds.

ARTICLE II

GENERAL AUTHORIZATION AND BOND TERMS

Section 2.1. Amount, Issuance, Purpose and Nature of Series 2013 Bonds. Under and pursuant to the Supplemented Indenture, the Series 2013 Bonds in the aggregate principal amount of \$ _____ shall be issued as Parity Bonds governed by the terms of the Supplemented Indenture, as supplemented by this Second Supplement, for the purpose of refunding the Series 2002 Bonds, funding a deposit to the Reserve Account and paying the costs of administration and issuance of the Series 2013 Bonds.

Section 2.2. Description of Bonds; Interest Rates. The Series 2013 Bonds shall be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof within a single maturity. The Series 2013 Bonds shall be numbered as determined by the Trustee.

The Series 2013 Bonds shall be designated “COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF THE CITY OF OCEANSIDE (MORRO HILLS DEVELOPMENT) SPECIAL TAX REFUNDING BONDS SERIES 2013A.” The Series 2013 Bonds shall be dated as of their Delivery Date and shall mature and be payable on September 1 in the years and in the aggregate principal amounts and shall be subject to and shall bear interest at the rates set forth in the table below payable on March 1, 2014 and each Interest Payment Date thereafter:

*Maturity Date
(September 1)*

Principal Amount

Interest Rate

Section 2.3. Form of Series 2013 Bonds; Execution and Authentication. The Series 2013 Bonds and the certificate of authentication shall be substantially in the form attached hereto as Exhibit A, which forms are hereby approved and adopted as the forms of such Series 2013 Bonds and of the certificate of authentication.

Only the Series 2013 Bonds as shall bear thereon such certificate of authentication in the form set forth in Exhibit A hereto shall be entitled to any right or benefit under the Indenture, and no Series 2013 Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been manually executed by the Trustee.

Section 2.4. Conditions to Issuance of Series 2013 Bonds. The Series 2013 Bonds shall not be issued unless and until the conditions for the issuance of the Series 2013 Bonds as Parity Bonds pursuant to Section 9.2 of the Supplemented Indenture shall have been satisfied.

ARTICLE III

APPLICATION OF PROCEEDS OF SERIES 2013 BONDS

Section 3.1. Application of Proceeds of Sale of Series 2013 Bonds

The proceeds of the sale of the Series 2013 Bonds shall be received by the Trustee on behalf of the District and deposited and transferred as follows:

(a) \$ _____ shall be transferred to the Costs of Issuance Account of the Acquisition and Construction Fund to pay the Costs of Issuance of the Series 2013 Bonds;

(b) \$ _____ shall be transferred to the 2013 Subaccount of the Reserve Account of the Special Tax Fund which is hereby established in the Special Tax Fund to fund the portion of the Reserve Requirement attributable to the Series 2013 Bonds; and

(c) \$ _____ shall be transferred to the Bank of New York Mellon Trust Company, N.A., as escrow bank (the "Escrow Bank") under that certain 2002 Escrow Agreement, dated as of _____ 1, 2013, by and between the District and the Escrow Bank.

There is hereby established a 2013 Subaccount of the Reserve Account of the Special Tax Fund.

The Trustee may, in its discretion, establish a temporary fund or account in its books and records to facilitate such transfers.

ARTICLE IV

REDEMPTION OF SERIES 2013 BONDS

Section 4.1. Redemption of Series 2013 Bonds

(a) Optional Redemption. The Series 2013 Bonds are subject, at the option of the District, to call and redemption from any available source of funds prior to their stated maturity on any Interest Payment Date, as a whole or in part, and by lot, 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>
Any Interest Payment Date through March 1, 2021	103%
September 1, 2021 and March 1, 2022	102
September 1, 2022 and March 1, 2023	101
September 1, 2023 and any Interest Payment Date thereafter	100

(b) Mandatory Sinking Fund Redemption. The Term Bonds maturing on September 1, _____ shall be called before maturity and redeemed, from Sinking Fund Payments deposited into the Redemption Account, on September 1, _____, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, _____

Sinking Fund Redemption Date

Sinking Fund Payments

*

* Maturity

In the event of a partial optional redemption of the Term Bonds pursuant to Section 4.1(a), each of the remaining Sinking Fund Payments for such Term Bonds, as applicable, will be reduced, as nearly as practicable, on a pro rata basis, in integral multiples of \$5,000.

(c) Extraordinary Redemption. The Series 2013 Bonds shall be subject to extraordinary redemption as a whole, or in part as nearly as practicable on a pro rata basis among maturities and by lot within a maturity, on any Interest Payment Date from Prepayments deposited to the Redemption Account and allocated to the redemption of the Series 2013 Bonds as set forth in Section 4.1 of this Second Supplement, plus amounts transferred from the Reserve Account to the Redemption Account in connection with such Prepayments, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

<i>Redemption Date</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 2021	103%
September 1, 2021 and March 1, 2022	102
September 1, 2022 and March 1, 2023	101
September 1, 2023 and any Interest Payment Date thereafter	100

When a Prepayment is received and transferred to the Trustee, such payment shall be accompanied by a Certificate of the Special Tax Administrator stating the principal amount of the Series 2004 Bonds and the Series 2013 Bonds and any Parity Bonds, respectively, to be redeemed from such Prepayment.

ARTICLE V

MISCELLANEOUS

Section 5.1. Provisions of Indenture in Effect. Except as expressly modified herein, all of the provisions of the Supplemented Indenture shall remain in full force and effect.

Section 5.2. Partial Invalidity. If any section, paragraph, sentence, clause or phrase of this Second Supplement shall for any reason be held illegal, invalid or unenforceable, such holding shall not affect the validity of the remaining portions of this Second Supplement. The District hereby declares that it would have entered into this Second Supplement and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Series 2013 Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses, or phrases of this Second Supplement may be held illegal, invalid or unenforceable.

Section 5.3. Execution in Counterparts. This Second Supplement 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.

Section 5.4. Governing Law. This Second Supplement shall be construed and governed in accordance with the laws of the State of California applicable to contracts made and performed in such state.

IN WITNESS WHEREOF, COMMUNITY FACILITIES DISTRICT NO. 2001-1 of the City of Oceanside (Morro Hills Development) has caused this Second Supplemental Bond Indenture to be signed by an Authorized Representative of the District and THE BANK OF NEW YORK TRUST COMPANY, N.A., in token of its acceptance of the trust created hereunder and has caused this Second Supplemental Bond Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE (MORRO HILLS
DEVELOPMENT)

By: _____
Mayor of the City of Oceanside, California,
acting as the legislative body of Community
Facilities District No. 2001-1 of the City of
Oceanside (Morro Hills Development)

ATTEST:

City Clerk of the City of Oceanside,
California, acting as the legislative body
of Community Facilities District
No. 2001-1 of the City of Oceanside
(Morro Hills Development)

THE BANK OF NEW YORK TRUST COMPANY,
N.A., as Trustee

By: _____
Its: Authorized Signatory

EXHIBIT A

FORM OF SPECIAL TAX REFUNDING BOND, SERIES 2013A

R- _____

\$ _____

**UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SAN DIEGO**

**COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE
(MORRO HILLS DEVELOPMENT)
SPECIAL TAX REFUNDING BONDS, SERIES 2013A**

INTEREST RATE: MATURITY DATE: DATED DATE: CUSIP:
_____ % September 1, _____ _____, 2013 _____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ AND NO/100 DOLLARS

COMMUNITY FACILITIES DISTRICT NO. 2001-1 OF THE CITY OF OCEANSIDE (MORRO HILLS DEVELOPMENT) (the "District") which was formed by the City of Oceanside (the "City") and is situated in the County of San Diego, State of California, FOR VALUE RECEIVED, hereby promises to pay, solely from certain amounts held under the Indenture (as hereinafter defined), to the Registered Owner named above, or registered assigns, on the Maturity Date set forth above, unless redeemed prior thereto as hereinafter provided, the Principal Amount set forth above, and to pay interest on such Principal Amount from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication hereof, unless (i) the date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication; (ii) the date of authentication is after a Record Date (as hereinafter defined) but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date in which event interest shall be payable from the Dated Date set forth above. Notwithstanding the foregoing, if at the time of authentication of this Bond interest is in default, interest on this Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment, interest on this Bond shall be payable from the Dated Date set forth above. Interest will be paid semiannually on March 1 and September 1 (each, an "Interest Payment Date"), commencing March 1, 2014, at the Interest Rate set forth above, until the Principal Amount hereof is paid or made available for payment.

The principal of and premium, if any, on this Bond are payable to the Registered Owner hereof in lawful money of the United States of America upon presentation and surrender of this Bond at the Principal Office of the Trustee (as such term is defined in the Indenture), initially The Bank of New York Trust Company, N.A. (the "Trustee"). Interest on this Bond shall be paid by check of the Trustee mailed by first class mail, postage prepaid, or in certain circumstances described in the Indenture by wire transfer to an account within the United States of America, to the Registered Owner hereof as of the close of business on the fifteenth day of the month preceding the month in which the Interest Payment Date occurs (the "Record Date") at such Registered Owner's address as it appears on the registration books maintained by the Trustee.

This Bond is one of a duly authorized issue of "Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) Special Tax Refunding Bonds, Series 2013A" (the "Bonds") issued in the aggregate principal amount of \$ _____ pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311, *et seq.*, of the California Government Code (the "Act") for the purpose of refunding the District's outstanding Special Tax Bonds, Series A of 2002, funding a reserve account and paying certain costs related to the issuance of the Bonds. The issuance of the Bonds and the terms and conditions thereof are provided for by a resolution adopted by the City Council of the City, acting in its capacity as the legislative body of the District (the "Legislative Body"), on _____ and a Bond Indenture dated as of November 1, 2002, by and between the District and the Trustee, as amended and supplemented by that certain First Supplemental Bond Indenture, dated as of December 1, 2004, by and between the District and the Trustee, and by that certain Second Supplemental Bond Indenture, dated as of _____ 1, 2013, by and between the District and the Trustee (collectively, the "Indenture"), and this reference incorporates the Indenture herein, and by acceptance hereof the Registered Owner of this Bond assents to said terms and conditions. The Indenture is executed and delivered and this Bond is issued under, and both are to be construed in accordance with, the laws of the State of California.

This Bond has been issued as a Parity Bond in accordance with Section 9.2 of the Indenture.

Pursuant to the Act and the Indenture, the principal of, premium, if any, and interest on this Bond are payable solely from the portion of the annual special taxes authorized under the Act to be levied and collected within the District (the "Special Taxes") and certain other amounts pledged to the repayment of the Bonds as set forth in the Indenture. Any amounts for the payment hereof shall be limited to the Special Taxes pledged and collected or foreclosure proceeds received following a default in payment of the Special Taxes and other amounts deposited to the Special Tax Fund (other than the Administrative Expense Account therein) established under the Indenture, except to the extent that other provision for payment has been made by the Legislative Body, as may be permitted by law. The District has covenanted for the benefit of the owners of the Bonds that under certain circumstances described in the Indenture it will commence and diligently pursue to completion appropriate foreclosure proceedings in the event of delinquencies of Special Tax installments levied for payment of principal and interest on the Bonds.

The Bonds are subject, at the option of the District, to call and redemption from any available source of funds prior to their stated maturity on any Interest Payment Date, as a whole or in part, and by lot, 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>
Any Interest Payment Date through March 1, 2021	103%
September 1, 2021 and March 1, 2022	102
September 1, 2022 and March 1, 2023	101
September 1, 2023 and any Interest Payment Date thereafter	100

The Bonds maturing on September 1, _____ (the “Term Bonds”) shall be called before maturity and redeemed, from Sinking Fund Payments deposited into the Redemption Account, on September 1, _____ and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth in the Second Supplemental Bond Indenture at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium.

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 shall be redeemed by the Trustee, from Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account in connection with such transfers, at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

<i>Redemption Date</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 2021	103%
September 1, 2021 and March 1, 2022	102
September 1, 2022 and March 1, 2023	101
September 1, 2023 and any Interest Payment Date thereafter	100

Notice of redemption with respect to the Bonds to be redeemed shall be mailed to the registered owners thereof not less than 30 nor more than 45 days prior to the redemption date by first class mail, postage prepaid, to the addresses set forth in the registration books. Neither a failure of the Registered Owner hereof to receive such notice nor any defect therein will affect the validity of the proceedings for redemption. All Bonds or portions thereof so called for redemption will cease to accrue interest on the specified redemption date, provided that funds for the redemption are on deposit with the Trustee on the redemption date. Thereafter, the registered owners of such Bonds shall have no rights except to receive payment of the redemption price upon the surrender of the Bonds.

This Bond shall be registered in the name of the Registered Owner hereof, as to both principal and interest, and the District and the Trustee may treat the Registered Owner hereof as the absolute owner for all purposes and shall not be affected by any notice to the contrary.

The Bonds are issuable only in fully registered form in the denomination of \$5,000 or any integral multiple thereof and may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same issue and maturity, all as more fully set forth in the Indenture. This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, upon surrender and cancellation of this Bond. Upon such transfer, a new registered Bond of authorized denomination or

denominations for the same aggregate principal amount of the same issue and maturity will be issued to the transferee in exchange therefor.

The Trustee shall not be required to register transfers or make exchanges of (i) any Bonds for a period of 15 days next preceding any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

The rights and obligations of the District and of the registered owners of the Bonds may be amended at any time, and in certain cases without notice to or the consent of the registered owners, to the extent and upon the terms provided in the Indenture.

THE BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE CITY OF OCEANSIDE OR OF THE DISTRICT FOR WHICH THE CITY OF OCEANSIDE OR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES REFERENCED HEREIN. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM THE PORTION OF THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE BUT ARE NOT A DEBT OF THE CITY OF OCEANSIDE, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Trustee.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

IN WITNESS WHEREOF, Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) has caused this Bond to be dated as of the Dated Date, to be signed on behalf of the District by the Mayor of the City by his facsimile signature and attested by the facsimile signature of the City Clerk of the City.

Mayor of the City of Oceanside, California,
acting in its capacity as the legislative body of
Community Facilities District No. 2001-1 of
the City of Oceanside (Morro Hills
Development)

ATTEST:

City Clerk of the City of Oceanside,
California, acting in its capacity as the
legislative body of Community Facilities
District No. 2001-1 of the City of Oceanside
(Morro Hills Development)

**[FORM OF TRUSTEE'S CERTIFICATE
OF AUTHENTICATION AND REGISTRATION]**

This is one of the Series 2013 Bonds described in the within-defined Indenture.

Dated: _____, 2013

THE BANK OF NEW YORK TRUST COMPANY,
N.A., as Trustee

By: _____
Its: Authorized Signatory

[FORM OF LEGAL OPINION]

The following is a true copy of the opinion rendered by Stradling Yocca Carlson & Rauth, a Professional Corporation, in connection with the issuance of, and dated as of the date of the original delivery of, the Bonds. A signed copy is on file in my office.

City Clerk of the City of Oceanside,
California, acting in its capacity as the
legislative body of Community Facilities
District No. 2001-1 of the City of Oceanside
(Morro Hills Development)

[FORM OF ASSIGNMENT]

For value received the undersigned do(es) hereby sell, assign and transfer unto

whose tax identification number is _____,
the within-mentioned registered Bond and hereby irrevocably constitute(s) and appoint(s)

attorney to transfer the same on the books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature guaranteed:

NOTE: Signature(s) must be guaranteed by an eligible guarantor institution.

NOTE: The signatures(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

ATTACHMENT 5

§ _____
**COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE
(MORRO HILLS DEVELOPMENT)
SPECIAL TAX REFUNDING BONDS, SERIES 2013A**

BOND PURCHASE AGREEMENT

_____, 2013

Community Facilities District No. 2001-1 of the
City of Oceanside (Morro Hills Development)
c/o City of Oceanside
300 North Coast Highway
Oceanside, California 92054

Ladies and Gentlemen:

Piper Jaffray & Co. (the “Underwriter”), acting not as a fiduciary or agent for you, but on behalf of itself, offers to enter into this Bond Purchase Agreement (the “Bond Purchase Agreement”) with the Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) (the “District”), which, upon acceptance, will be binding upon the District and upon the Underwriter. This offer is made subject to the written acceptance of this Bond Purchase Agreement by the District and delivery of such acceptance to us at or prior to 11:59 p.m., California Time, on the date hereof, and if not accepted will be subject to withdrawal by the Underwriter upon notice delivered to the District at any time prior to the acceptance hereof by the District. The District has been formed by and is located in the City of Oceanside, California (the “City”).

The Underwriter hereby acknowledges that it is duly authorized to execute this Bond Purchase Agreement and to take all action required or permitted to be taken hereunder by or on behalf of the Underwriter. Any authority, discretion or other power conferred upon the Underwriter by this Bond Purchase Agreement may be executed by the representative alone. Capitalized terms not otherwise defined herein shall have the meaning provided in the Indenture (defined below).

1. Purchase, Sale and Delivery of the Bonds.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter agrees to purchase from the District, and the District agrees to sell to the Underwriter, all (but not less than all) of the \$ _____ Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) Special Tax Refunding Bonds, Series 2013A (the “Bonds”). The Bonds shall be dated the Closing Date (hereinafter defined), and bear interest (payable semiannually on

March 1 and September 1 in each year, commencing March 1, 2014) at the rates per annum and maturing on the dates and in the amounts set forth in Exhibit A hereto. The purchase price for the Bonds shall be \$ _____ (representing the principal amount of the Bonds, less an Underwriter's discount of \$ _____, and [less net original issue discount] [plus net original issue premium] of \$ _____). The Bonds will be subject to redemption as set forth in the Indenture (defined below). The Bonds will be issued in book-entry form only.

The Bonds shall be issued and secured under the provisions of, and shall be payable and subject to redemption as provided in, a Bond Indenture, dated as of November 1, 2002, by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), as amended and supplemented by the First Supplemental Bond Indenture dated as of December 1, 2004, and by the Second Supplemental Bond Indenture dated as of May 1, 2013 (collectively, the "Indenture"), approved in a resolution adopted by the City Council of the City (the "City Council"), acting in its capacity as the legislative body of the District (the "Resolution of Issuance"). The Bonds and interest thereon will be payable from special taxes (referred to herein as the "Special Tax" or the "Special Taxes") levied and collected on the taxable land within the District. Proceeds of the sale of the Bonds, together with certain other funds of the District, will be used in accordance with the Indenture and 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"), to refund the Community Facilities District No. 2001-01 of the City of Oceanside Special Tax Bonds, Series A of 2002 (the "Refunded Bonds"), to fund a Reserve Account for the Bonds, and to pay costs of issuance of the Bonds.

(b) At or prior to the acceptance hereof, the District has authorized the use of the Official Statement in connection with the public offering of the Bonds. The District has also consented to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement (defined below) relating to the Bonds in connection with the public offering of the Bonds. Authorized officers of the District have certified to the Underwriter that such Preliminary Official Statement was deemed to be final as of its date for purposes of Rule 15c2-12 (defined below), with the exception of certain final pricing and related information referred to in Rule 15c2-12.

(c) Subsequent to its receipt of a certificate from the District deeming the Preliminary Official Statement for the Bonds, dated _____, 2013 (which Preliminary Official Statement, together with the cover page and all appendices thereto, is herein collectively referred to as the "Preliminary Official Statement" and which, as amended with the prior approval of the Underwriter and executed by the District, will be referred to herein as the "Official Statement") final for purposes of Rule 15c2-12 ("Rule 15c2-12") of the Securities and Exchange Commission (the "SEC"), the Underwriter has distributed electronic copies of the Preliminary Official Statement. The District hereby ratifies the use by the Underwriter of the Preliminary Official Statement and authorizes the Underwriter to use and distribute the final Official Statement dated the date hereof (including all information previously permitted to have been omitted by Rule 15c2-12 and any supplements and amendments thereto as have been approved by the District as evidenced by the execution and delivery of such document by an officer of the District (the "Official Statement"), the Indenture, the Continuing Disclosure Agreement (the "Disclosure Agreement") between the District and David Taussig & Associates, Inc., as dissemination agent (the "Dissemination Agent"), this Bond Purchase Agreement, the

Escrow Agreement, dated as of May 1, 2013 (the “Escrow Agreement”), between the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”), any other documents or contracts to which City, acting on behalf of the District, or the District is a party, and all information contained therein, and all other documents, certificates and statements furnished by the District to the Underwriter in connection with the transactions contemplated by this Bond Purchase Agreement, in connection with the offer and sale of the Bonds by the Underwriter.

The Underwriter hereby agrees to deliver a copy of the Official Statement to a national repository on or before the Closing Date (as hereinafter defined), and to make available an electronic copy to each investor that purchases any of the Bonds prior to the “end of the underwriting period” (as such term is defined in Section 2 (h) below), and otherwise to comply with all applicable statutes and regulations in connection with the offering and sale of the Bonds, including, without limitation, Rule G-32 of the Municipal Securities Rulemaking Board (the “MSRB”) and Rule 15c2-12. The Underwriter has reviewed the information in this Official Statement in accordance with, and as 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. As of the date hereof, the Underwriter has not notified the District of the need to modify or supplement the Preliminary Official Statement.

(d) At 8:00 A.M., Pacific Daylight Time, on _____, 2013, or at such earlier time or date as shall be agreed upon by the Underwriter and the District (such time and date being herein referred to as the “Closing Date”), the City, on behalf of the District, will deliver (i) through the facilities of The Depository Trust Company, New York, New York, the Bonds in definitive form (all Bonds being in book-entry form registered in the name of Cede & Co. and having the CUSIP numbers assigned to them printed thereon), duly executed by the officers of the District as provided in the Indenture, and (ii) to the Underwriter, at the offices of Stradling Yocca Carlson & Rauth, a Professional Corporation (“Bond Counsel”) in Newport Beach, California, or at such other place as shall be mutually agreed upon by the District and the Underwriter, the other documents herein mentioned; and the Underwriter shall accept such delivery and pay the purchase price of the Bonds in immediately available cleared funds (such delivery and payment being herein referred to as the “Closing”). Notwithstanding the foregoing, the Underwriter may, in its discretion, accept delivery of the Bonds in temporary form upon making arrangements with the District which are satisfactory to the Underwriter relating to the delivery of the Bonds in definitive form.

(e) The District acknowledges and agrees that: (i) the primary role of the Underwriter is to purchase securities for resale to investors in an arms-length commercial transaction between the District and the Underwriter and that the Underwriter has financial and other interests that differ from those of the District, (ii) the Underwriter is not acting as a municipal advisor, financial advisor or fiduciary to the District or any other person or entity and has not assumed any advisory or fiduciary responsibility to the District with respect to the transaction contemplated hereby and the discussions, undertakings and proceedings leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the District or the City on other matters), (iii) the only obligations the Underwriter has to the District with respect to the transaction contemplated hereby expressly are

set forth in this Bond Purchase Agreement, except as otherwise provided by applicable rules and regulations of the SEC or the rules of the MSRB, and (iv) the District has consulted its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate in connection with the transaction contemplated herein. The District acknowledges that it has previously provided the Underwriter with an acknowledgement of receipt of the required Underwriter disclosure under Rule G-17 of the MSRB.

2. Representations, Warranties and Agreements of the District. The District represents, warrants and covenants to and agrees with the Underwriter that:

(a) The District is duly organized and is validly existing under the Act and laws of the State as a community facilities district, has full legal right, power, and authority (i) to execute, deliver and perform its obligations under, and to carry out all transactions contemplated by, the Indenture, the Disclosure Agreement, the Escrow Agreement and this Bond Purchase Agreement (collectively, the “District Documents”), (ii) to issue, sell and deliver the Bonds to the Underwriter pursuant to the Resolution of Issuance, this Bond Purchase Agreement and the Indenture as provided herein, and (iii) to carry out, give effect to and consummate the transactions contemplated by the District Documents and the Official Statement. The City Council, in its capacity as the legislative body for the District, has duly formed the District, and adopted an ordinance authorizing the levy of the Special Tax on the taxable property within the District (the “Special Tax Ordinance”). The District has caused to be recorded in the real property records of the County of San Diego a Notice of Special Tax Lien for each Improvement Area of the District (collectively, the “Notice of Special Tax Lien”) (such ordinances and resolutions, as subsequently amended, and the Notice of Special Tax Lien being collectively referred to herein as the “Formation Documents”) with respect to the District. Each of the Formation Documents remains in full force and effect as of the date hereof and has not been otherwise amended.

(b) The District has complied, and will at the Closing Date be in compliance, in all material respects with, the Formation Documents and the District Documents, and any immaterial compliance by the District, if any, will not impair the ability of the District to carry out, give effect to or consummate the transactions contemplated by the foregoing. From and after the date of issuance of the Bonds, the District will continue to comply with its covenants in the District Documents;

(c) The City Council, in its capacity as the legislative body for the District, has duly and validly: (i) taken or caused to be taken, all proceedings necessary under the Act and the Constitution and laws of the State of California in order to form the District, to authorize the execution of the District Documents and the levy of the Special Tax on the taxable property within the District pursuant to the Rate and Method of Apportionment of Special Tax for each Improvement Area within the District (collectively, the “Rate and Method of Apportionment”), to cause the Special Tax to be secured by a continuing lien on each parcel of Taxable Property (as defined in the Rate and Method of Apportionment); (ii) authorized and approved the execution and delivery of the District Documents and the issuance and sale of the Bonds; and (iii) authorized and approved the performance by the District of its obligations contained in, and the taking of any and all action as may be necessary to carry out, give effect to and consummate the transactions contemplated by, each of said District Documents (including, without limitation,

the collection of the Special Tax). The District has been validly formed, the Special Tax has been approved and its levy authorized, and (assuming due authorization, execution and delivery by other parties thereto, where necessary) the District Documents will constitute the valid, legal and binding obligations of the District, enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights in general and to the application of equitable principles.

(d) To the best of the District's knowledge, neither the District nor the City, acting on behalf of the District, is in breach of or default under any applicable material law or administrative rule or regulation of the State of California (the "State"), or of any department, division, agency or instrumentality thereof, or under any applicable court or administrative decree or order, or under any material loan agreement, note, resolution, bond indenture, contract, agreement or other instrument to which the District or the City, acting on behalf of the District, is a party or is otherwise subject or bound, a consequence of which could be to materially and adversely affect the performance by the District of its obligations under the Bonds, the Formation Documents or the District Documents, and compliance with the provisions of each thereof, will not conflict with or constitute a material breach of or default under any applicable law or administrative rule or regulation of the State, or of any department, division, agency or instrumentality thereof, or under any applicable court or administrative decree or order, or a material breach of or default under any loan agreement, note, resolution, trust agreement, contract, agreement or other instrument to which the District or the City, acting on behalf of the District, as the case may be, is a party or is otherwise subject to or bound;

(e) Except for compliance with the blue sky or other states securities law filings, as to which the District makes no representations, all approvals, consents, authorizations, elections and orders of or filings or registrations with any State governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the District of its obligations hereunder, or under the Formation Documents or the District Documents, have been obtained and are in full force and effect;

(f) The Special Tax constituting the security for the Bonds (i) has been duly and lawfully authorized and may be levied under the Act and the Constitution and the applicable laws of the State of California, and (ii) such Special Tax, when levied in accordance with the Rate and Method of Apportionment, will constitute a valid and legally binding continuing lien on the properties on which it has been levied, subject to the effect of bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors' rights generally, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against agencies in the State of California;

(g) The District has never been in default at any time, as to principal of or interest on any obligation which it has issued, which default may have an adverse effect on the ability of the District to consummate the transactions on its part under the District Documents, except as specifically disclosed in the Official Statement; and other than the Indenture and the Notice of Special Tax Lien, the District has not entered into any contract or arrangement of any

kind which might give rise to any lien or encumbrance on the Special Taxes following issuance of the Bonds.

(h) Until the earlier of (i) the date which is twenty-five (25) days after the “end of the underwriting period” (as hereinafter defined), or (ii) the date on which all of the Bonds have been sold by the Underwriter, if any event shall occur of which the District is aware, as a result of which it may be necessary to supplement the Official Statement in order to make the statements in the Official Statement, in light of the circumstances existing at such time, not misleading, the District shall forthwith notify the Underwriter of any such event of which it has knowledge and shall cooperate fully in furnishing any information available to it for any supplement to the Official Statement necessary, in the Underwriter’s or District’s opinion, so that the statements therein as so supplemented will not be misleading in light of the circumstances existing at such time and the District shall promptly furnish to the Underwriter electronic copies of such supplement. As used herein, the term “end of the underwriting period” means the later of such time as (i) the District delivers the Bonds to the Underwriter, or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the “end of the underwriting period” shall be deemed to be the Closing Date. Any notice delivered pursuant to this provision shall be written notice delivered to the District at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the “end of the underwriting period,” and the Underwriter agrees to notify the District in writing of the date on which the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public;

(i) The Indenture creates a valid pledge of the Special Taxes and the moneys in the Special Tax Fund (other than the Administrative Expenses) established pursuant to the Indenture, including the investments thereof, subject in all cases to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein;

(j) Except as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body is pending or, to the best current, actual knowledge of the District, threatened against the District or the City, acting on behalf of the District, in which the District or the City has been served (i) which would materially adversely affect the ability of either the District to perform its obligations under the Formation Documents, the Bonds or the District Documents, or (ii) seeking to restrain or to enjoin the issuance, sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or the collection or application of the Special Tax pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds, the Formation Documents, the District Documents, or any action contemplated by any of said documents, or (iii) in any way contesting the completeness or accuracy of the Preliminary Official Statement or the powers or authority of the District with respect to the Bonds, the Formation Documents, the District Documents, or any action of the District contemplated by any of said documents; nor is there any action pending or, to the best knowledge of the District, threatened against the District or the City, acting in the capacity of the District, in which the District or the City has been served, which alleges that interest on the Bonds is not excludable

from gross income for federal income tax purposes or is not exempt from California personal income taxation;

(k) The District will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order for the Underwriter to qualify the Bonds for offer and sale under the "Blue Sky" or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; provided, however, the District shall not be required to register as a dealer or a broker of securities or to consent to service of process in connection with any blue sky filing;

(l) Any certificate signed by any authorized official of the District and the City, acting on behalf of the District, authorized to do so shall be deemed a representation and warranty to the Underwriter as to the statements made therein;

(m) Based on a review of its prior undertakings with respect to Rule 15c2-12, and except as otherwise described in the Official Statement, the District has not failed in any material respect to comply with any undertaking of the District under Rule 15c2-12 in the previous five years;

(n) The District will apply the proceeds of the Bonds in accordance with the Indenture and as described in the Official Statement;

(o) The total interest cost to maturity on the Bonds plus the principal amount of the Bonds is less than the total remaining interest cost to maturity on the Refunded Bonds plus the outstanding principal amount of the Refunded Bonds;

(p) The information contained in the Preliminary Official Statement and the Official Statement as of the date thereof did not, and on the Closing Date the Official Statement will not, contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and

(q) The Preliminary Official Statement heretofore delivered to the Underwriter was deemed final by the District as of its date, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of Rule 15c2-12. The District hereby covenants and agrees that, within seven (7) business days from the date hereof, the District shall cause a final version of the Official Statement to be electronically delivered to the Underwriter, so that the Underwriter may comply with paragraph (b)(4) of Rule 15c2-12 and Rules G-12, G-15, G-32 and G-36 of the MSRB.

3. Conditions to the Obligations of the Underwriter. The obligations of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and warranties on the part of the District contained herein, as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the District or the City, acting on behalf of the District, made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the District of its

obligations to be performed hereunder at or prior to the Closing Date and to the following additional conditions:

(a) At the Closing Date, the Formation Documents and the District Documents shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and there shall have been taken in connection therewith, with the issuance of the Bonds and with the transactions contemplated thereby and by this Bond Purchase Agreement, all such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate;

(b) Between the date hereof and the Closing Date, the market price or marketability of the Bonds, or the ability of the Underwriter to enforce contracts for the sale of the Bonds, at the initial offering prices set forth in the Official Statement shall not have been materially adversely affected, in the reasonable judgment of the Underwriter following consultation with the District (evidenced by a written notice to the District terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds), by reason of any of the following:

(1) legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America or recommended to the Congress by the President of the United States, the Department of the Treasury, the Internal Revenue Service, or any member of Congress, or favorably reported for passage to either House of Congress by any committee of such House to which such legislation had been referred for consideration or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department or the Internal Revenue Service of the United States of America, with the purpose or effect, directly or indirectly, of imposing federal income taxation upon the interest as would be received by the holders of the Bonds beyond the extent to which such interest is subject to taxation as of the date hereof (it being acknowledged by the parties hereto that of the date hereof no such legislation, ruling, regulation, press release or other form of notice which would result in such adverse impact on the market price or marketability of the Bonds exists);

(2) legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America, or an order, decree or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, or the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering or sale of obligations of the general character of the Bonds, or of the Bonds, including any or all underwriting arrangements, as contemplated hereby or by the Official Statement or otherwise is or would be in violation of the federal securities laws, rules or regulations as amended and then in effect;

(3) any amendment to the federal or California Constitution or action by any federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the District or the City, their property, income, securities (or interest thereon), or the validity or enforceability of the Special Tax;

(4) any event occurring, or information becoming known, which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or results in the Official Statement containing any untrue statement of a material fact or omitting to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(5) the declaration of war or the escalation of, or engagement in, military hostilities by the United States or the occurrence of any other national or international emergency or calamity relating to the effective operation of the government of, or the financial community in, the United States;

(6) the declaration of a general banking moratorium by federal, State of New York or State of California authorities, or the general suspension of trading on any national securities exchange;

(7) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to the Bonds or obligations of the general character of the Bonds or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

(8) any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material adverse respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(9) the withdrawal or downgrading of any rating of the City's or the District's outstanding indebtedness by a national rating agency; or

(10) any amendment is made to the Official Statement that in the Underwriter's reasonable judgment will materially adversely affect the marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds.

(c) On the Closing Date, the Underwriter shall have received counterpart originals or certified copies of the following documents, in each case reasonably satisfactory in form and substance to the Underwriter:

(1) the Formation Documents and the District Documents, together with a certificate dated as of the Closing Date of the Clerk of the City Council to the effect that

each Formation Document is a true, correct and complete copy of the one duly adopted by the City Council;

(2) the Preliminary Official Statement and the Official Statement;

(3) an opinion of Bond Counsel, dated the Closing Date and addressed to the District, in the form attached to the Preliminary Official Statement as APPENDIX E, and an unqualified opinion of such counsel, dated the Closing Date and addressed to the Underwriter, to the effect that such approving opinion addressed to the District may be relied upon by the Underwriter to the same extent as if such opinion was addressed to it;

(4) a supplemental opinion, dated the Closing Date and addressed to the Underwriter, of Bond Counsel, to the effect that (i) this Bond Purchase Agreement has been duly authorized, executed and delivered by the District and, assuming such agreement constitutes a valid and binding obligation of the other parties thereto, constitutes the legally valid and binding agreement of the District enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditor's rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law); (ii) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended; (iii) the information contained in the Official Statement on the cover and under the captions "INTRODUCTION," "THE REFUNDING PLAN," "THE BONDS," "SOURCES OF PAYMENT FOR THE BONDS," "TAX EXEMPTION" and APPENDICES C, D and E thereof, insofar as it purports to summarize certain provisions of the Act, the Bonds and the Indenture and such counsel's opinion as to the exclusion from gross income for federal income tax purposes and exemption from State of California personal income taxes of interest on the Bonds, present a fair and accurate summary of such provisions; and (iv) the Special Taxes have been duly and validly authorized in accordance with the provisions of the Act and a lien to secure payment of the Special Taxes has been imposed on all non-exempt property in the District as and to the extent provided in Streets and Highways Code Section 3114.5; provided, however, enforcement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditor's rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law); and provided, further, we express no opinion as to whether the particular levy on any parcel was made in accordance with the provisions of the Rate and Method of Apportionment;

(5) a letter from Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel ("Disclosure Counsel"), to the Underwriter, to the effect that, without having undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement, no facts have come to the attention of the attorneys in the firm rendering legal services in connection with the issuance of the Bonds that have caused them to believe that the Official Statement as of its date contained, or as of the Closing Date contains, any untrue statement of a material fact, or as of its date omitted, or as of the Closing Date omits, to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that the firm expresses no view with respect to any information concerning The

Depository Trust Company, or the book-entry system, or with respect to any financial, statistical, economic or demographic data or revenue or other forecasts, projections, numbers, estimates, tables, assumptions, appraisals, assessed valuations or assumptions or expressions of opinion contained in the Official Statement, or with respect to any of the appendices thereto);

(6) a defeasance opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriter, in a form satisfactory to the Underwriter, with respect to the Refunded Bonds;

(7) a certificate, dated the Closing Date and signed by an authorized representative of the District, ratifying the use and distribution by the Underwriter of the Preliminary Official Statement and the Official Statement in connection with the offering and sale of the Bonds; and certifying that (i) the representations and warranties of the District contained in Section 2 hereof are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; (ii) to the best of his or her knowledge, no event has occurred since the date of the Official Statement affecting the matters contained therein which should be disclosed in the Official Statement in order to make the statements and information contained in the Official Statement not misleading in any material respect, and the Bonds, the Formation Documents and the District Documents conform as to form and tenor to the descriptions thereof contained in the Official Statement; (iii) the District has complied with all the material agreements and satisfied all the conditions on its part to be performed or satisfied under the Formation Documents, the District Documents and the Official Statement at or prior to the Closing Date; and (iv) the District is currently in compliance with the requirements of Rule 15c2-12;

(8) an opinion of the City Attorney, as counsel to the District and the City, acting on behalf of the District, dated the Closing Date and addressed to the Underwriter, substantially to the effect that (i) the District is duly organized and validly existing under the Constitution and laws of the State as a community facilities district under the Act; (ii) the District has full legal right, power, and authority to execute and deliver the District Documents; (iii) the District Documents have been duly authorized, executed, and delivered by the District and, assuming due authorization and execution by any other applicable parties thereto, the District Documents constitute the valid and binding obligations of the District, enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally, to the limitations on legal remedies against municipal corporations in the State of California, and to the application of equitable principles if equitable remedies are sought; (iv) the City Council adopted the resolutions and ordinances forming the District, confirming the Special Taxes, approving the District Documents and authorizing the sale and issuance of the Bonds at meetings of the City Council which were called, held and conducted pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and such resolutions and ordinances are now in full force and effect and have not been amended, modified or rescinded; (v) except as disclosed in the Official Statement, to the best of such counsel's current, actual knowledge, after due inquiry, there are no actions, suits, proceedings, inquiries, or investigations, at law or in equity, before or by any court, governmental agency, public board, or body, pending or threatened against the District or the City, acting on behalf of the District, for which the District or the City has been served, to restrain or enjoin the issuance of the Bonds, the

collection or application of the Special Taxes, or the payment of principal of and interest on the Bonds, or in any way contesting the validity of the formation of the District, the Bonds, or the District Documents; (vi) the execution and delivery of the District Documents, and compliance with the provisions thereof and hereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the District or the City, acting on behalf of the District, a breach of or default under any agreement or other instrument to which either is a party or by which either is bound or any existing law, regulation, court order or consent decree to which either is subject that the City Attorney has, in the exercise of customary professional diligence, recognized as applicable to the District and the transactions contemplated by the District Documents and the Formation Documents, and with respect to such conflict, breach or default, would materially adversely affect the ability of the District to pay the principal or interest on the Bonds; and if any such agreement or instrument to which the City acting on behalf of the District or the District is a party is governed by the laws of a jurisdiction other than California, the City Attorney has assumed that such agreement or instrument is governed by the laws of California and the City Attorney expresses no opinion as to the effect of the District's performance of its obligations under the District Documents and the Formation Documents on the District's compliance with its financial covenants in such other agreements or instruments, and (vii) except as disclosed in the Official Statement, the Special Taxes constituting the security for the Bonds have been duly and lawfully levied under and pursuant to the Act and constitute valid and legally binding liens on the properties on which they have been levied, subject to the effect of bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws relating to or affecting creditors' rights generally, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipalities in the State of California;

(9) a certificate dated the Closing Date from David Taussig & Associates, Inc. (the "Special Tax Consultant") addressed to District and the Underwriter to the effect that (i) the Special Tax if collected in the maximum amounts permitted pursuant to the Rate and Method of Apportionment as of the Closing Date would generate at least 110% of the sum of the maximum annual debt service payable on the Bonds, plus the Administrative Expenses, based on such assumptions and qualifications as shall be acceptable to the Underwriter, and (ii) it has reviewed the Preliminary Official Statement and Official Statement, and the statements concerning the Rate and Method of Apportionment and all statistical, financial and other data set forth in the tables and described in the Official Statement which were derived from information supplied by the Special Tax Consultant for use in the Official Statement as of the date of the Official Statement and as of the Closing Date are true, correct and complete in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and no events or occurrences have been ascertained by the Special Tax Consultant or have come to its attention that would substantially change such information set forth in the Official Statement;

(10) a certificate of the District dated the Closing Date, in a form reasonably acceptable to Bond Counsel, that the Bonds are not arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;

(11) a certificate of the Trustee and an opinion of counsel to the Trustee dated the Closing Date and addressed to the District and the Underwriter to the effect that it has duly authorized the execution and delivery of the Indenture and that the Indenture is a valid and binding obligation of the Trustee enforceable in accordance with its terms;

(12) a certificate of the Escrow Agent and an opinion of counsel to the Escrow Agent dated the Closing Date and addressed to the District and the Underwriter to the effect that it has duly authorized the execution and delivery of the Escrow Agreement and that the Escrow Agreement is a valid and binding obligation of the Trustee enforceable in accordance with its terms;

(13) a certificate of CSG Advisors, as Financial Advisor to the District, dated the Closing Date, to the effect that while the Financial Advisor has not independently verified or undertaken an independent investigation of the information in the Preliminary Official Statement and the Official Statement, based on its participation in the preparation and review of the Preliminary Official Statement and Official Statement, no information has come to its attention which would lead it to believe that the information contained in the Preliminary Official Statement and Official Statement is as of the date of delivery of the Bonds, not true or correct in all material respects, or that the Preliminary Official Statement and the Official Statement contains any untrue statement of a material fact or omits to state a material fact where necessary to make a statement not misleading in light of the circumstances under which it was made;

(14) an opinion, dated the date of the Closing addressed to the Underwriter, of Nossaman LLP, counsel to the Underwriter, in such form as may be acceptable to the Underwriter; and

(15) a certificate of the Applied Best Practices LLC (“ABP”), describing compliance with continuing disclosure undertakings of the City and the District during the past 5 years, and that the City and the District have filed all missing reports and audits and is in compliance with the requirements of Rule 15c2-12 as of the Closing Date;

(16) a copy of the verification report of Grant Thornton, LLP, concluding that the amounts on deposit under the Escrow Agreement, together with interest thereon, are sufficient to defease the Refunded Bonds

(17) such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the statements and information contained in the Preliminary Official Statement and the Official Statement, of the District’s representations and warranties contained herein and the due performance or satisfaction by the District at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the District in connection with the transactions contemplated hereby and by the Official Statement.

If the District shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds contained in this Bond Purchase Agreement, or if the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be terminated for any reason permitted by this Bond Purchase

Agreement, this Bond Purchase Agreement shall terminate and neither the Underwriter nor the District shall be under any further obligation hereunder, except that the respective obligations of the District and the Underwriter set forth in Section 5 and Section 6 hereof shall continue in full force and effect.

4. Conditions of the District's Obligations. The District's obligations hereunder are subject to the Underwriter's performance of its obligations hereunder, and are also subject to the following conditions:

(a) As of the Closing Date, except as disclosed in the Official Statement or as may be waived by the District, no litigation shall be pending or, to the knowledge of the duly authorized officer of the District executing the certificate referred to in Section 3(c)(6) hereof, threatened, to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Bonds, the Formation Documents, the District Documents or the existence or powers of the District or the City; and

(b) As of the Closing Date, the District shall receive the opinions of Bond Counsel and Disclosure Counsel referred to in Section 3(c)(3) and (5) hereof.

5. Expenses. Whether or not the Bonds are delivered to the Underwriter as set forth herein:

(a) The Underwriter shall be under no obligation to pay, and the District shall pay or cause to be paid (out of any legally available funds of the District) any expenses incident to the performance of the District's obligations hereunder, including, but not limited to, the cost of printing and delivering the Bonds to the Underwriter, the cost of preparation, posting, distribution and delivery of the Indenture, the Preliminary Official Statement, the Official Statement and all other agreements and documents contemplated hereby (and drafts of any thereof) as requested by the Underwriter; and any fees and disbursements of the Trustee for the Bonds then due, Bond Counsel, Disclosure Counsel, counsel to the District, and any accountants, engineers or any other experts or consultants the District or the City has retained in connection with the Bonds; and

(b) The District shall be under no obligation to pay, and the Underwriter shall pay, any fees of the California Debt and Investment Advisory Commission, the cost of preparation of any "blue sky" or legal investment memoranda and this Bond Purchase Agreement; expenses to qualify the Bonds for sale under any "blue sky" or other state securities laws; and all other expenses incurred by the Underwriter in connection with its public offering and distribution of the Bonds (except those specifically enumerated in paragraph (a) of this section), including Underwriter's counsel and any advertising expenses.

6. Notices. Any notice or other communication to be given to the District under this Bond Purchase Agreement may be given by delivering the same in writing to the District at the address set forth above; and any notice or other communication to be given to the Underwriter under this Bond Purchase Agreement may be given by delivering the same in writing to Piper Jaffray & Co., 1100 South Coast Highway, Suite 300A, Laguna Beach, CA 92651, att.: Ms. Katie Koster.

7. Parties in Interest. This Bond Purchase Agreement is made solely for the benefit of the District and the Underwriter (including their successors or assigns), and no other person shall acquire or have any right hereunder or by virtue hereof.

8. Survival of Representations and Warranties. The representations and warranties of the District set forth in or made pursuant to this Bond Purchase Agreement and any certificates delivered hereunder shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing or termination of this Bond Purchase Agreement and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the District and regardless of delivery of and payment for the Bonds.

9. Effective. This Bond Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the District and shall be valid and enforceable as of the time of such acceptance.

10. No Prior Agreements. This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understandings between the parties hereto in relation to the sale of Bonds for the District.

11. Governing Law. This Bond Purchase Agreement shall be governed by the laws of the State of California.

12. Counterparts. This Bond Purchase Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one and the same instrument.

Very truly yours,

PIPER JAFFRAY & CO.

By: _____
Authorized Representative

ACCEPTED:

**COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE(MORRO HILLS
DEVELOPMENT)**

By: _____
Title: _____
Time of Execution: _____

EXHIBIT A
MATURITY SCHEDULE

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>
--	---	--	---

* Term Bond.

** Yield to first optional call date of September 1, 20__ at par.

ATTACHMENT 6

2002 ESCROW AGREEMENT

THIS 2002 ESCROW AGREEMENT, dated as of _____ 1, 2013 (the "Agreement"), by and between the Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) (the "District") and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as escrow agent (the "Escrow Agent"), is entered into in accordance with Resolution No. _____ of the City of Oceanside, acting as legislative body for the District, adopted on _____, 2013 and a Bond Indenture dated as of November 1, 2002, by and between the District and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), as amended and supplemented by the First Supplemental Bond Indenture, dated as of December 1, 2004, and the Second Supplemental Bond Indenture, dated as of _____ 1, 2013 (collectively, the "Indenture") to refund all of the outstanding Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) Special Tax Bonds, Series A of 2002 (the "Refunded Bonds").

WITNESSETH:

WHEREAS, the District previously issued the Refunded Bonds pursuant to the Indenture;

WHEREAS, the District has determined that a portion of the proceeds of the \$ _____ aggregate principal amount of the Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) Special Tax Refunding Bonds Series 2013 (the "2013A Bonds") issued pursuant to the Indenture, together with certain other moneys, will be used to provide the funds to pay on and prior to September 1, 2013, all regularly scheduled payments of interest on the Refunded Bonds, and to redeem on September 1, 2013 the principal of the Refunded Bonds maturing on and after September 1, 2013, plus interest with respect thereto accrued to such date, without premium (the "Redemption Price");

WHEREAS, the District will irrevocably deposit a portion of the proceeds from the 2013A Bonds with the Escrow Agent, some of which will be used to purchase securities as described on Schedule A hereto (the "Federal Securities"), which Federal Securities satisfy the criteria set forth in Section 9.1 of the Indenture, and

WHEREAS, the moneys deposited with the Escrow Agent, including interest earnings thereon, will be sufficient, along with certain other moneys deposited with the Escrow Agent at the same time pursuant to this agreement, to redeem and discharge the Refunded Bonds;

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District and the Escrow Agent agree as follows:

SECTION 1. Deposit of Moneys. The District hereby instructs the Escrow Agent to deposit \$ _____ received from the Trustee from the net proceeds of the sale of the 2013A Bonds in the Escrow Fund established hereunder. The District hereby further instructs the Trustee to transfer to the Escrow Agent the amount of \$ _____ constituting moneys on deposit in the funds and accounts relating to the Refunded Bonds established under the Indenture, and instructs the Escrow Agent to deposit such amount in the Escrow Fund established hereunder. The Escrow Agent shall hold all such amounts in irrevocable escrow separate and apart from other funds of the District and the Escrow Agent in a fund hereby created and established to be known as the "Escrow Fund" and to be applied solely as provided in this Agreement. The District represents that the moneys set

forth above are at least equal to an amount sufficient to purchase the Federal Securities listed in Schedule A hereto, and to hold \$ _____ uninvested as cash.

SECTION 2. Investment of Moneys. The Escrow Agent acknowledges receipt of the moneys described in Section 1 and agrees immediately to invest such moneys in the Federal Securities listed on Schedule A hereto and to deposit such Federal Securities in the Escrow Fund. The Escrow Agent shall be entitled to rely upon the conclusion of [Grant Thornton, LLP] (the "Verification Agent"), that the Federal Securities listed on Schedule A hereto mature and bear interest payable in such amounts and at such times as, together with cash on deposit in the Escrow Fund, will be sufficient to pay when due all regularly scheduled payments of principal of and interest on the Refunded Bonds on and prior to September 1, 2013, and to pay on September 1, 2013 the Redemption Price of the Refunded Bonds maturing after September 1, 2013.

SECTION 3. Investment of Any Remaining Moneys. At the written direction of the District, the Escrow Agent shall reinvest any other amount of principal and interest, or any portion thereof, received from the Federal Securities prior to the date on which such payment is required for the purposes set forth herein, in noncallable Federal Securities maturing not later than the date on which such payment or portion thereof is required for the purposes set forth in Section 5, at the written direction of the District, as verified in a report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of political subdivisions to the effect that the reinvestment described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay when due all regularly scheduled payments of principal of and interest on the Refunded Bonds on and prior to September 1, 2013, and to pay on September 1, 2013 the Redemption Price of the Refunded Bonds maturing after September 1, 2013, and provided that the District has obtained and delivered to the Escrow Agent an unqualified opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, that such reinvestment will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Refunded Bonds or interest on the 2013A Bonds. Any interest income resulting from investment or reinvestment of moneys pursuant to this Section 3 which are not required for the purposes set forth in Section 5, as verified in the letter of the Verification Agent originally obtained by the District with respect to the refunding of the Refunded Bonds or in any other report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of tax-exempt obligations of political subdivisions, shall be paid to the District promptly upon the receipt of such interest income by the Escrow Agent. The determination of the District as to whether an accountant qualifies under this 2002 Escrow Agreement shall be conclusive.

SECTION 4. Substitution of Securities. Upon the written request of the District, and subject to the conditions and limitations herein set forth and applicable governmental rules and regulations, the Escrow Agent shall sell, redeem or otherwise dispose of the Federal Securities, provided that there are substituted therefor from the proceeds of the Federal Securities other Federal Securities, but only after the District has obtained and delivered to the Escrow Agent: (i) an unqualified opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, to the effect that the refunding of the Refunded Bonds will not cause the interest on the Refunded Bonds to be includable in gross income for federal income tax purposes; and (ii) a report by a firm of independent certified public accountants to the effect that the reinvestment described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay when due all regularly scheduled payments of principal of and interest on the Refunded Bonds on and prior to September 1, 2013, and to pay on September 1, 2013 the Redemption Price of

the Refunded Bonds maturing after September 1, 2013. The Escrow Agent shall not be liable or responsible for any loss resulting from any reinvestment made pursuant to this Agreement and in full compliance with the provisions hereof.

SECTION 5. Payment of Refunded Bonds.

(a) Payment. From the maturing principal of the Federal Securities and the investment income and other earnings thereon and other moneys on deposit in the Escrow Fund, the Escrow Agent shall, on September 1, 2013, apply the amounts on deposit in the Escrow Fund to pay the regularly scheduled payments of principal of and interest on the Refunded Bonds due on September 1, 2013, and pay on September 1, 2013 the Redemption Price of the Refunded Bonds maturing after September 1, 2013.

(b) Irrevocable Instructions to Provide Notice. The forms of the notice required to be mailed pursuant to Sections 4.3 and 9.1 of the Indenture are substantially in the forms attached hereto as Exhibits A and B. The District hereby irrevocably instructs the Escrow Agent to mail a notice of redemption and a notice of defeasance of the Refunded Bonds in accordance with Sections 4.3 and 9.1, respectively, of the Indenture, as required to provide for the redemption of the Refunded Bonds in accordance with this Section 5.

(c) Unclaimed Moneys. Any moneys which remain unclaimed for two years after September 1, 2013 shall be repaid by the Escrow Agent to the District.

(d) Priority of Payments. The owners of the Refunded Bonds shall have a first and exclusive lien on all moneys and securities in the Escrow Fund until such moneys and such securities are used and applied as provided in this Agreement.

(e) Termination of Obligation. As provided in the Indenture, upon deposit of moneys with the Escrow Agent in the Escrow Fund as set forth in Section 1 hereof and the purchase of the various Federal Securities as provided in Section 2 hereof, all obligations of the District under the Indenture with respect to the Refunded Bonds shall cease, terminate and become void except as set forth in the Indenture.

SECTION 6. Application of Certain Terms of the Indenture. All of the terms of the Indenture relating to the making of payments of principal of and interest on the Refunded Bonds and relating to the exchange or transfer of the Refunded Bonds are incorporated in this Agreement as if set forth in full herein. The procedures set forth in Article VII of the Indenture relating to the resignation and removal and merger of the Trustee under the Indenture are also incorporated in this Agreement as if set forth in full herein and shall be the procedures to be followed with respect to any resignation or removal of the Escrow Agent hereunder.

SECTION 7. Performance of Duties. The Escrow Agent agrees to perform only the duties set forth herein and shall have no responsibility to take any action or omit to take any action not set forth herein.

SECTION 8. Escrow Agent's Authority to Make Investments. Except as provided in Section 2 hereof, the Escrow Agent shall have no power or duty to invest any funds held under this Agreement or to sell, transfer or otherwise dispose of the moneys or Federal Securities held hereunder.

SECTION 9. Indemnity. The District hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its respective successors, assigns, agents, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the District or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds and securities deposited therein, the retention of the proceeds thereof and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Agreement; provided, however, that the District shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligence or willful misconduct of the Escrow Agent's respective employees or the willful breach by the Escrow Agent of the terms of this Agreement. In no event shall the District or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Agreement.

SECTION 10. Responsibilities of Escrow Agent. The Escrow Agent and its agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Agreement, the establishment of the Escrow Fund, the acceptance of the moneys or securities deposited therein, the retention of the Federal Securities or the proceeds thereof, the sufficiency of the Federal Securities to pay or redeem the Refunded Bonds, as the case may be, or any payment, transfer or other application of moneys or obligations by the Escrow Agent in accordance with the provisions of this Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Agent made in good faith in the conduct of its duties. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the District, and the Escrow Agent assumes no responsibility for the correctness thereof. The Escrow Agent makes no representation as to the sufficiency of the proceeds to accomplish the refunding of the Refunded Bonds or to the validity of this Agreement as to the District and, except as otherwise provided herein, the Escrow Agent shall incur no liability in respect thereof. The Escrow Agent shall not be liable in connection with the performance of its duties under this Agreement except for its own negligence, willful misconduct or default, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Agreement. The Escrow Agent may consult with counsel, who may or may not be counsel to the District, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Agreement, such matter may be deemed to be conclusively established by a certificate signed by an officer of the District.

SECTION 11. Amendments. This Agreement is made for the benefit of the District and the owners from time to time of the Refunded Bonds and it shall not be repealed, revoked, altered or amended without the written consent of all such owners, the Escrow Agent and the District; provided, however, that the District and the Escrow Agent may, without the consent of, or notice to, such owners, amend this Agreement or enter into such agreements supplemental to this Agreement as shall not adversely affect the rights of such owners and as shall not be inconsistent with the terms and provisions of this Agreement, the Act (as defined in the Indenture), or the Indenture, for any one or

more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Agreement; (ii) to grant to, or confer upon, the Escrow Agent for the benefit of the owners of the Refunded Bonds, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such owners or the Escrow Agent; and (iii) to include under this Agreement additional funds. The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of Stradling Yocca Carlson & Rauth, A Professional Corporation, with respect to compliance with this Section, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the owners of the various Refunded Bonds or that any instrument executed hereunder complies with the conditions and provisions of this Section.

SECTION 12. [Reserved].

SECTION 13. Term. This Agreement shall commence upon its execution and delivery and shall terminate on the later to occur of either: (i) the date upon which the Refunded Bonds have been paid in accordance with this Agreement; or (ii) the date upon which no unclaimed moneys remain on deposit with the Escrow Agent pursuant to Section 5(c) of this Agreement.

SECTION 14. Compensation. The Escrow Agent shall receive its reasonable fees and expenses as previously agreed to by the Escrow Agent and the District and any other reasonable fees and expenses of the Escrow Agent approved by the District; provided, however, that under no circumstances shall the Escrow Agent be entitled to any lien or assert any lien whatsoever on any moneys or obligations in the Escrow Fund for the payment of fees and expenses for services rendered or expenses incurred by the Escrow Agent under this Agreement.

SECTION 15. Severability. If any one or more of the covenants or agreements provided in this Agreement on the part of the District or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement.

SECTION 16. Counterparts. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as an original but all of which shall constitute and be but one and the same instrument.

SECTION 17. Governing Law. THIS AGREEMENT SHALL BE CONSTRUED UNDER THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 18. Insufficient Funds. If at any time the Escrow Agent has actual knowledge that the moneys and investments in the Escrow Fund, including the anticipated proceeds of and earnings thereon, will not be sufficient to make all payments required by this Agreement, the Escrow Agent shall notify the District in writing, of the amount thereof and the reason therefor to the extent known to it. The Escrow Agent shall have no responsibility regarding any such deficiency.

SECTION 19. Notice to District and Escrow Agent. Any notice to or demand upon the Escrow Agent may be served or presented, and such demand may be made, at the principal corporate trust office of the Escrow Agent at 400 South Hope Street, Suite 400, Los Angeles, CA 90071, Attention: Corporate Trust Department. Any notice to or demand upon the District shall be deemed to have been sufficiently given or served for all purposes by being mailed by registered or certified mail, and deposited, postage prepaid, in a post office letter box, addressed to the City of Oceanside at

300 North Coast Highway, 92054, California 92054, Attention: City Manager (or such other address as may have been filed in writing by the District with the Escrow Agent).

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers and attested as of the date first above written.

COMMUNITY FACILITIES DISTRICT NO.
2001-1 OF THE CITY OF OCEANSIDE
(MORRO HILLS DEVELOPMENT)

By: _____
City Manager of the City of Oceanside

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A.,
as Escrow Agent

By: _____
Authorized Officer

SCHEDULE A

Federal Securities

<i>Security</i>	<i>Maturity</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
-----------------	-----------------	-----------------------------	--------------------------

EXHIBIT A

NOTICE OF REDEMPTION

COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE
(MORRO HILLS DEVELOPMENT)
SPECIAL TAX BONDS, SERIES A OF 2002

BASE CUSIP NO.

NOTICE IS HEREBY GIVEN to the owners of the above-captioned Bonds (the "Bonds") of the Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) (the "District"), issued on November 14, 2002 pursuant to a Bond Indenture dated as of November 1, 2002, by and between the District and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), as amended and supplemented by the First Supplemental Bond Indenture, dated as of December 1, 2004, and the Second Supplemental Bond Indenture, dated as of _____ 1, 2013 (collectively, the "Indenture"), that the Bonds in the amount of \$_____ have been called for redemption on September 1, 2013 (the "Redemption Date").

<i>CUSIP</i>	<i>Maturity (September 1)</i>	<i>Rate</i>	<i>Amount</i>	<i>Price</i>
--------------	-----------------------------------	-------------	---------------	--------------

The Bonds will be payable on the Redemption Date at a redemption price of 100% of the principal amount plus accrued interest to such date (the "Redemption Price"). The Redemption Price of the Bonds will become due and payable on the Redemption Date. Interest on the Bonds to be redeemed will cease to accrue and be payable on and after the Redemption Date, and such Bonds will be surrendered to the Trustee.

All Bonds are required to be surrendered to the principal corporate office of the Trustee, on the Redemption Date at the following location. If the Bonds are mailed, the use of registered, insured mail is recommended:

First Class/Registered/Certified
The Bank of New York Mellon
Global Corporate Trust
P.O. Box 2320
Dallas, Texas 75221-2320

Express Delivery Only
The Bank of New York Mellon
Global Corporate Trust
2001 Bryan Street, 9th Floor
Dallas, Texas 75201

By Hand Only
The Bank of New York Mellon
Global Corporate Trust
Corporate Trust Window
101 Barclay Street, 1st Floor East
New York, New York 10286

If the Owner of any Bond subject to optional redemption fails to deliver such Bond to the Trustee on the Redemption Date, such Bond shall nevertheless be deemed redeemed on the Redemption Date and the Owner of such Bond shall have no rights in respect thereof except to receive payment of the Redemption Price from funds held by the Trustee for such payment.

A form W-9 must be submitted with the Bonds. Failure to provide a completed form W-9 will result in 31% backup withholding pursuant to the Interest and Dividend Tax Compliance Act of 1983. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, 28% will be withheld if the tax identification number is not properly certified.

THE BANK OF NEW YORK
MELLON TRUST COMPANY, N.A.,
as Trustee

DATED this 1st day of August, 2013.

EXHIBIT B

NOTICE OF DEFEASANCE

COMMUNITY FACILITIES DISTRICT NO. 2001-1
OF THE CITY OF OCEANSIDE
(MORRO HILLS DEVELOPMENT)
SPECIAL TAX BONDS, SERIES A OF 2002

BASE CUSIP NO.

NOTICE IS HEREBY GIVEN to the owners of the above-captioned bonds of participation (as further defined below, the "Refunded Bonds"), of the Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) (the "District") that the District has deposited with The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") under the Bond Indenture dated as of November 1, 2002, by and between the District and Trustee, as amended and supplemented by the First Supplemental Bond Indenture, dated as of December 1, 2004, and the Second Supplemental Bond Indenture, dated as of _____ 1, 2013 (collectively, the "Indenture"), cash and federal securities, the principal of and interest on which when paid will provide moneys sufficient to pay on and prior to September 1, 2013 the regularly scheduled payments of principal of and interest on the Refunded Bonds, and to redeem on September 1, 2013, the principal of the Refunded Bonds maturing after September 1, 2013.

The Refunded Bonds to be defeased are as follows:

<i>CUSIP</i>	<i>Maturity (September 1)</i>	<i>Rate</i>	<i>Amount</i>
--------------	-----------------------------------	-------------	---------------

In accordance with the Indenture, the Refunded Bonds are deemed to have been paid in accordance with Section 9.1 thereof and the obligations of the District under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied.

THE BANK OF NEW YORK
MELLON TRUST COMPANY, N.A.,
as Trustee

DATED this ____ day of _____, 2013.

Exhibit B-1

ATTACHMENT 7

BOND COUNSEL AGREEMENT

CITY OF OCEANSIDE

(Morro Hills Development Community Facilities District)

THIS AGREEMENT, made as of this 1st day of May, 2013, by and between the CITY OF OCEANSIDE, a charter city organized and existing under the Constitution of the State of California (herein "City"), and STRADLING YOCCA CARLSON & RAUTH, a Professional Corporation (herein "Bond Counsel"):

RECITALS:

A. The City desires to refund the \$9,915,000 Special Tax Bonds, Series A of 2002 (the "2002 Bonds") of the Community Facilities District No. 2001-1 of the City of Oceanside (Morro Hills Development) ("CFD No. 2001-1") and, assuming the achievement of certain net present value savings, may additionally refund the \$16,085,000 Special Tax Bonds, Series A of 2004 (the "2004 Bonds") of CFD No. 2001-1; and

B. The City desires to retain Bond Counsel to do the necessary legal work hereinafter outlined, upon the terms and conditions hereinafter set forth, to assist in the issuance of refunding bonds for CFD No. 2001-1; and

C. Bond Counsel represents that it is ready, willing and able to perform said legal work;

NOW, THEREFORE, in consideration of the premises, and the mutual covenants, terms and conditions herein contained, the parties agree as follows:

1. SCOPE OF SERVICES

A. BOND COUNSEL SERVICES

The City retains Bond Counsel to provide, and Bond Counsel agrees to provide, legal services in connection with the issuance by CFD No. 2001-1 of refunding bonds (the "Refunding Bonds"). Such services shall include the rendering of legal opinions (hereinafter called the "opinions") pertaining to the issuance of Refunding Bonds to the effect that:

1. The Refunding Bonds have been properly authorized and issued and are valid and binding obligations; and
2. The essential sources of security for the Refunding Bonds have been legally provided; and
3. Interest on the Refunding Bonds is exempt from California personal income taxation and is excluded from gross income for purposes of federal income taxes.

Bond Counsel's services will also include:

- i. Researching applicable laws and ordinances relating to the issuance of the Refunding Bonds;
- ii. Attending conferences and consulting with City staff and the City Attorney regarding such laws, and the need for amendments thereto, or additional legislation;
- iii. Participating in meetings, conferences or discussions with any financial advisors, underwriters or other experts retained by the City with respect to the issuance of the Refunding Bonds;
- iv. Supervising and preparing documentation of the steps to be taken with respect to the issuance of the Refunding Bonds, including:
 - a. Drafting all resolutions and other legal documents required for the issuance of the Refunding Bonds, and all other documents relating to the security of the Refunding Bonds, in consultation with the City, the City Attorney, the City's financial advisor, underwriter and other experts;
 - b. Preparing the record of proceedings for the authorization, sale and issuance of the Refunding Bonds;
 - c. Assisting in the preparation of the portions of the official statement or placement memorandum for the sale of the Refunding Bonds which relate to the terms of the Refunding Bonds (the "Official Statement") and the firm's legal opinion delivered with respect to the Refunding Bonds;
 - d. Reviewing the purchase contracts or the bidding documents relating to the sale of the Refunding Bonds and participating in the related negotiations;
 - e. Participating in meetings and other conferences scheduled by the City, the City's financial advisor or the underwriter;
 - f. Consulting with prospective purchasers, their legal counsel and rating agencies;
 - g. Consulting with counsel to the City concerning any legislation or litigation which may effect the Refunding Bonds, the security for the Refunding Bonds, or any other matter related to the issuance of the Refunding Bonds;
 - h. Consulting with any trustee or fiscal agent for the Refunding Bonds and their counsel;

- i. Preparing the form of the Refunding Bonds, and supervising their production or printing, signing, authentication and delivery;
- j. Rendering the final approving opinion as to the validity of the Refunding Bonds for use and distribution upon their issuance; and
- k. Rendering a legal opinion to the underwriter or purchaser of the Refunding Bonds as to the applicability of the registration requirements of federal securities laws and the fair and accurate nature of those portions of the Official Statement described in (c) above.

B. DISCLOSURE COUNSEL SERVICES

In addition to the services set forth in Section A above, Bond Counsel agrees to prepare the Official Statement for the Refunding Bonds.

C. SPECIAL SERVICES

“Special Services” are defined for purposes of this Agreement as services in addition to the services outlined in Sections A and B above. Special Services will include, but not be limited to, any work after a bond closing related to the amendment of bond documents or agreements and special studies or analyses. Special Services must be authorized in writing by the City Manager, or his designee.

2. COMPENSATION

The City agrees to pay Bond Counsel, but only from the sources of funds specified below, the following amounts as compensation for services rendered by Bond Counsel under this Agreement:

A. For the services to be rendered under Sections 1.A and 1.B above, Bond Counsel will be paid the fee of \$75,000, which will be payable only from Refunding Bond proceeds provided that if the 2004 Bonds are also refunded such fee shall be increased by an additional \$7,500.

The fees referenced in this Section 2.A assume that the Refunding Bonds will be issued in calendar year 2013 and that if the 2004 Bonds are refunded that they are refunded pursuant to the same Official Statement pursuant to which the 2002 Bonds are issued. In the event the Refunding Bonds are not issued within that time, Bond Counsel reserves the right to make such modifications to the foregoing fees as the City and Bond Counsel agree, as justified by reason of increased cost to Bond Counsel and the then prevailing fees for disclosure counsel and bond counsel services for bonds such as the Refunding Bonds.

B. In the event Bond Counsel is requested to perform Special Services as set forth in Section 1.C above, Bond Counsel will be paid fees at the hourly rates set forth in Exhibit A, or in such other manner as is mutually acceptable to the City and Bond Counsel. Such fees will be billed monthly and shall be payable exclusively from funds of CFD No. 2001-1 within thirty (30) days following the receipt of each invoice.

C. In addition to the fees set forth in paragraphs A and B above, Bond Counsel shall be reimbursed for the actual cost of any out-of-pocket expenses reasonably incurred by Bond Counsel in the course of its employment, such as document reproduction, telecommunications charges, printing costs, filing fees, long-distance telephone calls, messenger services, overnight delivery services, travel and similar items of expense. All expenses incurred in connection with services rendered under Sections 1.A and 1.B above will be billed upon the issuance of the series of the Refunding Bonds.

3. PERSONNEL AND CONTRACT ADMINISTRATION

City agrees to accept and Bond Counsel agrees to provide the aforementioned services primarily through Brian Forbath, Carol L. Lew and Reed T.C. Glycer. If any one of the above attorneys is unable to provide such services due to death, disability or similar event, Bond Counsel reserves the right to substitute another of its attorneys, upon approval by the City Manager, or his designee, to provide such services; and such substitution shall not alter or affect in any way Bond Counsel's or the City's other obligations under this Agreement.

This Agreement will be administered by the City Manager, or his designee.

4. CONFLICTS OF INTEREST

Bond Counsel represents many of the underwriting firms, including Stifel, Nicolaus & Company, Incorporated, active in the issuance of bonds for community facilities districts and other municipal financings. The City hereby provides its informed written consent to Bond Counsel's representation of such underwriting firms on matters unrelated to CFD No. 2001-1.

5. TERMINATION

A. This Agreement may be terminated without cause by the City or Bond Counsel upon thirty (30) days' advance written notice to the other party. Such notification shall state the effective date of the termination of this Agreement.

B. Bond Counsel reserves the absolute right to withdraw from representing the City if, among other things, the City fails to honor the terms of this Agreement, the City fails to cooperate fully or follow Bond Counsel's advice on a material matter, or any fact or circumstance occurs that would, in Bond Counsel's view, render its continuing representation unlawful or unethical. If Bond Counsel elects to withdraw, the City will take all steps necessary to free Bond Counsel of any obligation to perform further services, including the execution of any documents necessary to complete such withdrawal, and Bond Counsel will be entitled to be paid at the time of withdrawal for all services rendered and costs and expenses paid or incurred on the City's behalf in accordance with the payment terms set forth in Section 2 above. If necessary in connection with litigation, Bond Counsel would request leave of court to withdraw.

C. Bond Counsel's representation of the City will be considered terminated at the earlier of (i) the City's termination of its representation, (ii) Bond Counsel's withdrawal from its representation of the City, or (iii) the substantial completion by Bond Counsel of its substantive work for the City. Unless Bond Counsel has been specifically engaged to perform Special Services related

to the Bonds after their execution and delivery, Bond Counsel's representation of City with respect to CFD No. 2001-1 shall terminate on the date of execution and delivery of the Refunding Bonds.

6. DISPUTE RESOLUTION

IN THE EVENT OF A DISPUTE REGARDING FEES, COSTS, OR ANY OTHER MATTER ARISING OUT OF OR RELATED IN ANY WAY WHATSOEVER TO BOND COUNSEL'S RELATIONSHIP WITH THE CITY, OR BOND COUNSEL'S OR THE CITY'S PERFORMANCE OF THIS AGREEMENT, INCLUDING THE QUALITY OF THE SERVICES WHICH BOND COUNSEL RENDERS, SUCH DISPUTE SHALL BE FIRST SUBMITTED TO MEDIATION, THE COST OF WHICH SHALL BE BORNE EQUALLY BY THE PARTIES, AND RESOLVED BY CONFIDENTIAL ARBITRATION IN THE COUNTY OF ORANGE, CALIFORNIA.

7. INDEMNIFICATION AND INSURANCE

The Firm agrees to defend, indemnify and hold the City and its officers, agents, and employees harmless from any and all claims which arise from or are directly connected with the Bond Counsel's negligence or failure to perform the work or other obligations under this Agreement, and all expenses of investigating and defending against same; provided, however, that this duty to defend, indemnify, and hold harmless shall not include any claim based upon the alleged errors or omissions of Bond Counsel related to the rendering of or the failure to render professional services hereunder so long as Bond Counsel maintains in effect errors and omissions insurance as required by this paragraph, or arising from the sole negligence or willful misconduct of the City, its officers, agents or employees. Bond Counsel agrees to maintain errors omissions insurance in an amount not less than twenty-five million dollars (\$25,000,000) per claim throughout the term of this Agreement.

8. MISCELLANEOUS

A. Bond Counsel and the employees of Bond Counsel, in performance of the Agreement, shall act in an independent capacity and not as officers or agents of the City.

B. Without the written consent of the City, this Agreement is not assignable by Bond Counsel in whole or in part.

C. No alteration or variation of the terms of this Agreement shall be valid unless in writing and signed by the parties hereto, and no oral understanding or agreement not incorporated herein shall be binding on any of the parties hereto.

D. In accordance with the requirements of California Business and Professions Code § 6148, Bond Counsel advises you that the firm maintains professional errors and omissions insurance coverage applicable to the services to be rendered to the City.

CITY OF OCEANSIDE

By: _____
City Manager

STRADLING YOCCA CARLSON & RAUTH
a Professional Corporation

By: _____
Brian Forbath

EXHIBIT A

Shareholders	\$465
Associates	\$250
Paralegals	\$125