

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 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. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond constitutes original issue discount. See “CONCLUDING INFORMATION-Tax Exemption” herein.

STATE OF CALIFORNIA

IMPERIAL COUNTY

\$14,710,000
COMMUNITY FACILITIES DISTRICT NO. 2005-1
OF THE CITY OF CALEXICO
(HEARTHSTONE)
2006 SPECIAL TAX BONDS

Dated: Date of Delivery

Due: September 1, as shown on the inside front cover hereof

The Community Facilities District No. 2005-1 of the City of Calexico (Hearthstone) 2006 Special Tax Bonds (the “Bonds”) are being issued by the Community Facilities District No. 2005-1 of the City of Calexico (Hearthstone) (the “District”), which was established by the City of Calexico (the “City”), pursuant to a Bond Indenture, dated as of July 1, 2006 (the “Indenture”), by and between the District and U.S. Bank National Association, as trustee (the “Trustee”), and will be secured as described herein. The Bonds are being issued to (i) finance certain public facilities and capital impact fees relating to a residential development within the District, (ii) fund an escrow fund, (iii) fund a reserve account for the Bonds, (iv) fund 18 months of capitalized interest on the Bonds, and (v) pay the costs of issuance of the Bonds. See “THE FINANCING PLAN” and “SECURITY FOR THE BONDS – Escrow Fund” herein.

The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, shall mature on September 1 in each of the years and in the amounts, and shall bear interest as shown on the inside front cover hereof. Interest on the Bonds shall be payable on each March 1 and September 1, commencing March 1, 2007 (the “Interest Payment Dates”) to the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, by check mailed on such Interest Payment Date or by wire transfer to an account in the United States of America made upon instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of and interest and premium, if any, on the Bonds will be payable by DTC through the DTC participants. See “THE BONDS -- Book-Entry System” herein. Purchasers of the Bonds will not receive physical delivery of the Bonds purchased by them.

The Bonds are subject to optional redemption, mandatory sinking fund redemption, extraordinary redemption from Special Tax prepayments and mandatory redemption from escrow fund transfer prior to maturity as set forth herein. See “THE BONDS - Redemption” herein.

The Bonds are limited obligations of the District. The Bonds are payable solely from the Net Taxes (as defined herein), comprised of Special Taxes (as defined herein) to be levied on and collected from the owners of the 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 a Rate and Method of Apportionment approved by the qualified electors within the District on September 20, 2005.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE CITY, THE COUNTY OF IMPERIAL, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN. EXCEPT FOR THE NET TAXES OF THE DISTRICT, NO OTHER REVENUES OR 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 NET TAXES OF THE DISTRICT AND AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

SEE THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED “SPECIAL RISK FACTORS” FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN CONSIDERING THE INVESTMENT QUALITY OF THE BONDS.

This cover page contains certain information for quick reference only. It is *not* a complete summary of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by McDougal, Love, Eckis, Smith, Boehmer & Foley, El Cajon, California, and by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel to the City with respect to the issuance of the Bonds. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about July 12, 2006.



Dated: June 28, 2006

\$14,710,000
COMMUNITY FACILITIES DISTRICT NO. 2005-1
OF THE CITY OF CALEXICO
(HEARTHSTONE)
2006 SPECIAL TAX BONDS

Maturity Dates, Principal Amounts, Interest Rates and Yields

(Base CUSIP† 129515)

\$1,900,000 Serial Bonds

<u>Maturity Date</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Reoffering</u> <u>Yield</u>	<u>CUSIP†</u>
2008	\$240,000	4.000%	4.250%	AA0
2009	180,000	4.400	@100	AB8
2010	185,000	4.350	4.500%	AC6
2011	195,000	4.500	4.650%	AD4
2012	200,000	4.600	4.750%	AE2
2013	210,000	4.700	4.850%	AF9
2014	220,000	4.800	4.950%	AG7
2015	230,000	4.900	5.050%	AH5
2016	240,000	5.000	5.150%	AJ1

\$1,390,000 5.150% Term Bonds due September 1, 2021, @98 CUSIP: 129515 AK8

\$1,770,000 5.250% Term Bonds due September 1, 2026, @98 CUSIP: 129515 AL6

\$2,740,000 5.350% Term Bonds due September 1, 2036, @98 CUSIP: 129515 AN2

\$2,500,000 5.500% Term Bonds due September 1, 2036, @100 CUSIP: 129515 AM4

\$705,000 5.000% Escrow Term Bonds due September 1, 2016, Yield 5.150% CUSIP: 129515 AP7

\$1,380,000 5.250% Escrow Term Bonds due September 1, 2026, @98 CUSIP: 129515 AQ5

\$2,325,000 5.550% Escrow Term Bonds due September 1, 2036, @100 CUSIP: 129515 AR3

†Copyright 2006, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., for convenience of reference only. Neither the City, the Underwriter nor the Financial Advisor assumes any responsibility for the accuracy of this CUSIP data.

CITY OF CALEXICO, CALIFORNIA

MAYOR, CITY COUNCIL AND OTHER ELECTED OFFICIALS

Alex Perrone, *Mayor*
Lewis Pacheco, *Mayor Pro Tem*
Carmen Durazo, *Councilmember*
John R. Renison, *Councilmember*
David B. Ouzan, *Councilmember*
Rodolfo L. Moreno, *City Treasurer*
Lourdes Cordova, *City Clerk*

CITY STAFF

Marlene D. Best, *City Manager/RDA Executive Director*
Rosalind Guerrero, *Redevelopment and Economic Development Manager*

PROFESSIONAL SERVICES

Financial Advisor

Urban Futures, Inc.
Orange, California

Bond Counsel

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

Special Tax Consultant

MuniFinancial
Temecula, California

Counsel for the City

McDougal, Love, Eckis, Smith, Boehmer & Foley
El Cajon, California

Appraiser

McNamara & Associates
Laguna Hills, California

Disclosure Counsel

Fulbright & Jaworski L.L.P.
Los Angeles, California

Trustee

U.S. Bank National Association
Los Angeles, California

Underwriter

Kinsell, Newcomb & De Dios, Inc.
Solana Beach, California

Dissemination Agent

Urban Futures, Inc.
Orange, California

(THIS PAGE INTENTIONALLY LEFT BLANK)

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT	1
General	1
Use of Proceeds	1
Security for the Bonds	2
The City	2
The District and the Development	2
The Special Tax	3
Foreclosure Covenant	3
Limited Obligations	3
Further Information.....	3
Forward Looking Statements	4
CONTINUING DISCLOSURE	4
ESTIMATED SOURCES AND USES OF FUNDS	5
THE FINANCING PLAN	6
THE BONDS	6
Description of the Bonds	6
Redemption	7
The Trustee	12
Book-Entry System.....	12
Debt Service Schedule	13
SECURITY FOR THE BONDS	13
General	13
The Special Taxes	14
Special Tax Fund	15
Reserve Account	16
Escrow Fund	17
Rate and Method of Apportionment	18
Covenant for Superior Court Foreclosure	19
No Obligation of the City Upon Delinquency	20
Estimated Effective Tax Rate	21
Appraisal	22
Assigned Special Tax Coverage	22
No Parity Bonds	24
THE DISTRICT	24
THE DEVELOPMENT	24
General	25
Entitlement Status and Projected Development Schedule	26
Financing Plan	27
THE DEVELOPER	28
SPECIAL RISK FACTORS	29
Concentration of Ownership	29
Risks of Real Estate Secured Investments Generally	29
Land Development Costs	29
Future Land Use Regulations and Growth Control Initiatives.....	30
Adjustable Rate and Non-Conventional Mortgages	30
Failure to Develop Properties	31
Disclosure to Future Homebuyers	32
Parity Taxes and Special Assessments.....	32
Appraised Value; Land Value.....	32
Value to Lien Ratios	33
Insufficiency of Special Taxes.....	33

TABLE OF CONTENTS
(continued)

	<u>Page</u>
Tax Delinquencies	34
Future Indebtedness	34
Natural Disasters	34
Endangered and Threatened Species.....	34
Hazardous Substances.....	35
Bankruptcy and Foreclosure	35
Property Controlled by FDIC.....	36
Billing of Special Taxes.....	37
Collection of Special Taxes	38
Maximum Special Tax Rates	38
Exempt Properties.....	38
California Constitution Article XIIC and Article XIID	39
Ballot Initiatives and Legislative Measures	40
No Acceleration	40
Loss of Tax Exemption	40
Limitations on Remedies	40
Limited Secondary Market	41
CONCLUDING INFORMATION	41
Underwriting.....	41
Legal Opinion	41
Tax Exemption.....	41
No Litigation.....	43
No Rating on the Bonds.....	43
Miscellaneous	43
APPENDIX A – RATE AND METHOD OF APPORTIONMENT.....	A-1
APPENDIX B – CITY OF CALEXICO SUPPLEMENTAL INFORMATION	B-1
APPENDIX C – SUMMARY OF INDENTURE.....	C-1
APPENDIX D – APPRAISAL REPORT	D-1
APPENDIX E – FORM OF BOND COUNSEL OPINION.....	E-1
APPENDIX F – FORMS OF CONTINUING DISCLOSURE AGREEMENTS	F-1
APPENDIX G – BOOK-ENTRY ONLY SYSTEM.....	G-1

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations in connection with the offer or sale of the Bonds described herein, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City, the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the City, the District, and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of such by the City, the District or the Underwriter. 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 its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the affairs of the City, the District or any major property owner within the District since the date hereof. The Official Statement is submitted in connection with the sale of Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 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 ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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 LAW OF ANY STATE.

(THIS PAGE INTENTIONALLY LEFT BLANK)

OFFICIAL STATEMENT

\$14,710,000
COMMUNITY FACILITIES DISTRICT NO. 2005-1
OF THE CITY OF CALEXICO
(HEARTHSTONE)
2006 SPECIAL TAX BONDS

INTRODUCTORY STATEMENT

General

This Official Statement, including the cover page, the inside cover page and the appendices hereto, is provided to furnish certain information in connection with the issuance and sale by the Community Facilities District No. 2005-1 of the City of Calexico (Hearthstone) (the “District”) of its 2006 Special Tax Bonds (the “Bonds”) in the aggregate principal amount of \$14,710,000 being issued in connection with the financing of certain public facilities and capital impact fees relating to a residential development within the District. The Bonds will be issued pursuant to the provisions of a Bond Indenture, dated as of July 1, 2006 (the “Indenture”), by and between the District and U.S. Bank National Association, as trustee (the “Trustee”), and 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”).

The Act was enacted by the California Legislature to provide an alternate method of financing certain public facilities and services, especially in developing areas. Once duly established, a community facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and/or services relating to property within defined boundaries. Subject to approval by a two-thirds vote of the qualified electors within a community facilities district and compliance with the provisions of the Act, a community facilities district may issue bonds and levy and collect special taxes to repay its bonds.

The Bonds will be issued in denominations of \$5,000 each or any integral multiple thereof and will be dated and bear interest from the date of their delivery, at the rates set forth on the inside cover page hereof. See “THE BONDS.” The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of and interest and premium, if any, on the Bonds will be payable by DTC through the DTC participants. See “THE BONDS – Book-Entry System” herein. Purchasers of the Bonds will not receive physical delivery of the Bonds purchased by them.

Use of Proceeds

The Bonds are being issued to finance certain public facilities and capital impact fees relating to a residential development within the District, to fund an escrow fund, to fund a reserve account for the Bonds, to fund 18 months of capitalized interest on the Bonds, and to pay the costs of issuance of the Bonds. See “THE FINANCING PLAN” and “SECURITY FOR THE BONDS – Escrow Fund” herein.

Security for the Bonds

The Bonds are secured by the pledge of Net Taxes and other amounts in the Special Tax Fund (other than amounts in the Administrative Expenses Account therein). Net Taxes are defined as Gross Taxes minus amounts set aside to pay Administrative Expenses not to exceed the Administrative Expenses Cap. "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 the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions. Special Taxes means the taxes to be applied toward the Special Tax Requirement For Facilities (as defined in the Rate and Method – see below), authorized to be levied by the District on property within the District in accordance with the Act and the voter approval obtained at the September 20, 2005 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. See "SECURITY FOR THE BONDS – General."

The District has established a Reserve Account pursuant to the Indenture. The Reserve Account will be funded from the proceeds of the Bonds in the initial amount of \$1,016,560.00. The Reserve Requirement as of any date of calculation will be an amount equal to the lesser of (1) 10% of the initial principal amount of the Bonds and Parity Bonds, if any, (2) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any, or (3) 125% of the average Annual Debt Service of the then Outstanding Bonds and Parity Bonds, if any. See "SECURITY FOR THE BONDS – Reserve Account."

A portion of the proceeds of the Bonds will be deposited in the Escrow Fund, which is established and held by the Trustee under the Indenture for the benefit of the District and the Bondowners. Such proceeds will be released from the Escrow Fund to the Project Fund and the Reserve Fund (to the extent necessary to bring the amounts in the Reserve Fund to the Reserve Requirement) when certain conditions are met. See "SECURITY FOR THE BONDS – Escrow Fund" herein.

The City

The City of Calexico (the "City") is located approximately 120 miles east of the City of San Diego and 225 miles southeast of the City of Los Angeles. The City is a general law city incorporated in 1908 with a Council/Manager form of government consisting of five Council members elected to four-year overlapping terms. The City encompasses an area of approximately four square miles with an average elevation at sea level. The population of the City as of January 1, 2005 was estimated to be 36,740. See "APPENDIX B – CITY OF CALEXICO SUPPLEMENTAL INFORMATION" herein.

The District and the Development

The District boundaries are composed of one rectangular area, which is north of Cole Road, south of the central main canal, west of Meadows Road and approximately one quarter of a mile east of State Highway 111. See "THE DISTRICT" herein. PCC – La Jolla Palms, LLC, a California limited liability company, and PCG – La Jolla Palms, L.P., a California limited partnership (collectively, the "Developer"), are the developers of the District and expect to develop 457 single-family units on approximately 142 gross acres known generally as "Hearthstone" (the "Project"). The Project is comprised of two communities called "Somerset" and "Amberwood." Somerset is expected to contain 211 homes and Amberwood is expected to contain 246 homes. See "THE DEVELOPMENT" and "THE DEVELOPER" herein.

The Special Tax

On September 20, 2005, at an election held pursuant to the Act, the landowners who comprised the qualified electors of the District authorized the District to incur bonded indebtedness in the District in an aggregate amount not to exceed \$15,000,000, approved a Rate and Method of Apportionment for the levy and collection of Special Taxes of the District (the “Rate and Method”), approved the levy of the Special Taxes within the District to pay the principal of, and interest on, the authorized bonded indebtedness and approved an appropriations limit for the District equal to the maximum amount of bonded indebtedness authorized to be incurred for the District. See “SECURITY FOR THE BONDS,” “THE DISTRICT” and “APPENDIX A – RATE AND METHOD OF APPORTIONMENT.”

Foreclosure Covenant

The District has covenanted for the benefit of the owners of the Bonds that, under certain circumstances described herein, the District will commence judicial foreclosure proceedings with respect to delinquent Special Taxes on property within the District, and will diligently pursue such proceedings to completion. See “SECURITY FOR THE BONDS – The Special Taxes” and “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure.”

Limited Obligations

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE CITY, THE COUNTY OF IMPERIAL, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN. EXCEPT FOR THE NET TAXES OF THE DISTRICT, NO OTHER REVENUES OR 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 NET TAXES OF THE DISTRICT AND AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

See the section of this Official Statement entitled “SPECIAL RISK FACTORS” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

Further Information

Brief descriptions of the Bonds, the security for the Bonds, special risk factors, the District, the City, the Developer and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Indenture, resolutions and other documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Indenture, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors’ rights. For definitions of certain capitalized terms used herein and not otherwise defined, and a description of certain terms relating to the Bonds, see “APPENDIX C – SUMMARY OF INDENTURE” hereto.

Copies of such documents may be obtained from the office of the City Manager of the City.

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 similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the captions “THE DEVELOPMENT” and “THE DEVELOPER.”

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.

CONTINUING DISCLOSURE

The District and the Developer have covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District (collectively, the “Annual Reports”), and to provide notices of the occurrences of certain enumerated events, if material.

The Annual Reports will be filed with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State information depository, if any. The notices of material events will be filed with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). The specific nature of information to be contained in the Annual Reports or the notice of material events is summarized in “APPENDIX F – FORMS OF CONTINUING DISCLOSURE AGREEMENTS.” These covenants have been made by the District and the Developer in order to assist the Underwriter in complying with the Rule. Neither the City nor the District have failed to comply in all material respects with any previous undertakings with regards to said Rule to provide annual reports or notices of material events. The Developer has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and used of funds relating to the issuance of the Bonds is set forth below:

<u>Sources of Funds</u>	
Principal Amount of the Bonds	\$14,710,000.00
Less: Net Original Issue Discount	(168,560.50)
Less: Underwriter's Discount	<u>(220,650.00)</u>
Total Sources	\$14,320,789.50
<u>Uses of Funds</u>	
Deposit to Acquisition and Construction Fund	\$8,142,295.43
Deposit to Escrow Fund ⁽¹⁾	3,648,064.07
Deposit to Reserve Account ⁽²⁾	1,016,560.00
Deposit to Interest Account ⁽³⁾	1,158,870.00
Deposit to Costs of Issuance Account ⁽⁴⁾	<u>355,000.00</u>
Total Uses	\$14,320,789.50

⁽¹⁾ See SECURITY FOR THE BONDS – Escrow Fund” herein.

⁽²⁾ An amount that represents the Reserve Requirement.

⁽³⁾ Capitalized interest on the Bonds for 18 months.

⁽⁴⁾ Includes fees for Bond Counsel, Disclosure Counsel, Financial Advisor, the Appraiser, legal and financial consultant costs of the Developer, the Trustee and its counsel, costs of printing the Official Statement, and other costs of issuance of the Bonds.

THE FINANCING PLAN

The proceeds of the Bonds will be used to finance public facilities and capital impact fees relating to a residential development within the District. Such eligible public facilities and capital impact fees and estimated costs thereof are set forth below. Any shortfall in financing these costs are the responsibilities of the Developer. The inability of the Developer to finance any shortfall may have an adverse effect on the Developer's ability to complete the development as contemplated.

<u>Description of Fees/Improvements</u>	<u>Estimated Costs</u>
City of Callexico – Fees	
Fire Impact Fee	\$197,074
Police Impact Fee	98,070
Public Impact Fee	249,378
Sewer Impact Fee	700,500
Water Impact Fee	822,854
Traffic Impact Fee	196,140
Park Fee	314,291
Cole Road Corridor Fee	495,825
Lift Station #9 and #11 Fee	<u>282,377</u>
Total City Fees	\$3,356,509
City of Callexico – Improvements	
Cole Road Improvements	\$697,329
Meadows Road Improvements	758,288
Off-site Sewer Improvements	255,338
Sewer Lift Station	500,000
Retention Basin	227,637
Contingency (20%)	<u>487,718</u>
Total City Improvements	\$2,926,310
Callexico Unified School District Fees	\$6,547,649
Total:	<u>\$12,830,469</u>

Source: The Developer.

THE BONDS

Description of the Bonds

The Bonds will be issued as fully registered bonds, in denominations of \$5,000 each or any integral multiple thereof within a single maturity and will be dated and bear interest from the date of their delivery (the "Dated Date"), at the rates set forth on the inside cover page hereof. The Bonds will be issued in fully registered form, without coupons.

Interest on the Bonds will be paid in lawful money of the United States of America semiannually on March 1 and September 1 of each year (each, an “Interest Payment Date”), commencing on March 1, 2007. Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Bonds shall be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) such 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 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 occurring after the issuance of such Bond, in which event interest shall be payable from the dated date of such Bond; provided, however, that if at the time of authentication of such Bond, interest is in default, interest on that 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 on that Bond, interest on that Bond shall be payable from its dated date.

The Bonds will mature on September 1 in the principal amounts and years as shown on the inside cover page hereof and are subject to optional redemption, mandatory sinking fund redemption, extraordinary redemption from Special Tax prepayments and mandatory redemption from escrow fund transfer as described below.

Redemption

Optional Redemption

Subject to the limitations set forth below, the Bonds maturing on or after September 1, 2015 may be redeemed, at the option of the District from any source of funds on September 1, 2014, or on any Interest Payment Date thereafter prior to maturity, in whole, or in part, from such maturities as are selected by the District and by lot within a maturity, 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:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
September 1, 2014 and March 1, 2015	102%
September 1, 2015 and March 1, 2016	101
September 1, 2016 and thereafter	100

In the event the District elects to redeem Bonds as provided above, the District shall give written notice to the Trustee of its election to so redeem, the redemption date and the principal amount of the Bonds of each maturity to be redeemed. The notice to the Trustee shall be given at least 60 but no more than 90 days prior to the redemption date, or by such later date as shall be acceptable to the Trustee.

Mandatory Sinking Fund Redemption

The Bonds maturing on September 1, 2021, September 1, 2026, September 1, 2036 @5.35% and September 1, 2036 @5.50% (collectively, the “Term Bonds”) shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on September 1, 2017, September 1, 2022, September 1, 2027 and September 1, 2027, respectively, 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:

\$1,390,000 Term Bonds Maturing on September 1, 2021

<u>Redemption Date</u> <u>(September 1)</u>	<u>Principal Amount</u>
2017	\$250,000
2018	265,000
2019	280,000
2020	290,000
2021 (maturity)	305,000

\$1,770,000 Term Bonds Maturing on September 1, 2026

<u>Redemption Date</u> <u>(September 1)</u>	<u>Principal Amount</u>
2022	\$320,000
2023	335,000
2024	355,000
2025	370,000
2026 (maturity)	390,000

\$2,740,000 Term Bonds Maturing on September 1, 2036 @5.35%

<u>Redemption Date</u> <u>(September 1)</u>	<u>Principal Amount</u>
2027	\$150,000
2028	170,000
2029	200,000
2030	220,000
2031	250,000
2032	280,000
2033	315,000
2034	350,000
2035	385,000
2036 (maturity)	420,000

\$2,500,000 Term Bonds Maturing on September 1, 2036 @5.50%

<u>Redemption Date (September 1)</u>	<u>Principal Amount</u>
2027	\$260,000
2028	265,000
2029	255,000
2030	260,000
2031	255,000
2032	250,000
2033	245,000
2034	240,000
2035	235,000
2036 (maturity)	235,000

The Escrow Term Bonds maturing on September 1, 2016, September 1, 2026 and September 1, 2036 shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on September 1, 2009, September 1, 2017 and September 1, 2027, respectively, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Escrow 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 Escrow Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

\$705,000 Escrow Term Bonds Maturing on September 1, 2016

<u>Redemption Date (September 1)</u>	<u>Principal Amount</u>
2009	\$70,000
2010	80,000
2011	80,000
2012	85,000
2013	90,000
2014	95,000
2015	100,000
2016 (maturity)	105,000

\$1,380,000 Escrow Term Bonds Maturing on September 1, 2026

<u>Redemption Date</u> <u>(September 1)</u>	<u>Principal Amount</u>
2017	\$110,000
2018	115,000
2019	115,000
2020	125,000
2021	135,000
2022	140,000
2023	150,000
2024	155,000
2025	165,000
2026 (maturity)	170,000

\$2,325,000 Escrow Term Bonds Maturing on September 1, 2036

<u>Redemption Date</u> <u>(September 1)</u>	<u>Principal Amount</u>
2027	\$180,000
2028	190,000
2029	200,000
2030	210,000
2031	225,000
2032	240,000
2033	250,000
2034	260,000
2035	280,000
2036 (maturity)	290,000

If during the Fiscal Year immediately preceding one of the sinking fund redemption dates specified above the District purchases Term Bonds, at least 45 days prior to the redemption date, the District shall notify the Trustee by Written Request of the District as to the principal amount purchased and the amount of Term Bonds so purchased shall be credited at the time of purchase, to the extent of the full principal amount thereof, to reduce such upcoming Sinking Fund Payment for the applicable maturity of the Bonds. All Term Bonds purchased pursuant to this subsection shall be cancelled pursuant to the Indenture.

In the event of a partial redemption of the Term Bonds pursuant to optional redemption or mandatory redemption from Special Tax prepayments, each of the remaining Sinking Fund Payments for such Term Bonds, as described above, will be reduced, as nearly as practicable, on a pro rata basis.

Mandatory Redemption from Escrow Fund Transfer

The Escrow Term Bonds are subject to a mandatory redemption on September 1, 2008, or such later date allowed under the Indenture, in part, at a redemption price equal to the principal amount thereof

to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from amounts transferred from the Escrow Fund to the Special Tax Fund pursuant to the Indenture.

Extraordinary Redemption from Special Tax Prepayments

The Bonds are subject to extraordinary redemption, in whole or in part on a pro rata basis among maturities, on March 1, 2007 and on any Interest Payment Date thereafter from and to the extent of any prepayment of Special Taxes plus amounts transferred from the Reserve Account 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:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
Interest Payment Dates beginning March 1, 2007 through March 1, 2014	103%
September 1, 2014 and March 1, 2015	102
September 1, 2015 and March 1, 2016	101
September 1, 2016 and thereafter	100

In connection with such redemption, the District may also apply amounts in the Reserve Account which will be in excess of the Reserve Requirement as a result of such Special Tax prepayment to redeem Bonds as set forth above.

Notice of Redemption

When Bonds are due for redemption under the Indenture, the Trustee shall give notice, in the name of the District, of the redemption of such Bonds; provided, however, that a 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. Such notice of redemption shall (a) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds of a maturity are subject to redemption, or all the Bonds of one maturity, are to be redeemed, the bond numbers of such issue need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be redeemed; (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (f) state the date of issue of the Bonds as originally issued; (g) state the rate of interest borne by each Bond being redeemed; and (h) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Trustee. Such notice shall further state that on the date fixed for redemption, there shall become due and payable on each Bond, or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon shall cease to accrue and be payable. At least 30 days but no more than 45 days prior to the redemption date, the Trustee shall mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register, and to the original Purchaser of the Bonds. The actual receipt by the Owner of any Bond or the original purchaser of any Bond of notice of such redemption shall not be a condition precedent to redemption, and neither the failure to receive nor any defect in such notice shall affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date.

Effect of Notice of Redemption

Notice of redemption having been duly given, as described above, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(1) The Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Indenture, anything in the Indenture or in the Bonds to the contrary notwithstanding;

(2) Upon presentation and surrender thereof at the office of the Trustee, the redemption price of such Bonds shall be paid to the Owners thereof;

(3) As of the redemption date the Bonds, or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Bonds, or portions thereof, shall cease to bear further interest; and

(4) As of the date fixed for redemption no Owner of any of the Bonds, or portions thereof so designated for redemption shall be entitled to any of the benefits of the Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

The Trustee

U.S. Bank National Association has been appointed as the Trustee for all of the Bonds under the Indenture. For a further description of the rights and obligations of the Trustee pursuant to the Indenture, see “APPENDIX C – SUMMARY OF INDENTURE” hereto.

Book-Entry System

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Bonds. The Bonds will be registered in the name of Cede & Co. (DTC’s partnership nominee), and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Trustee, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to DTC’s Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC’s Participants and Indirect Participants. See “APPENDIX G – BOOK-ENTRY ONLY SYSTEM.”

Debt Service Schedule

The following is the annual debt service schedule for the Bonds, assuming no redemptions other than mandatory sinking fund redemptions.

<u>Year Ending</u> <u>(September 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Debt Service</u>
2007	-0-	\$877,736.72	\$877,736.72
2008	\$240,000.00	772,580.00	1,012,580.00
2009	250,000.00	762,980.00	1,012,980.00
2010	265,000.00	751,560.00	1,016,560.00
2011	275,000.00	739,512.50	1,014,512.50
2012	285,000.00	726,737.50	1,011,737.50
2013	300,000.00	713,287.50	1,013,287.50
2014	315,000.00	698,917.50	1,013,917.50
2015	330,000.00	683,607.50	1,013,607.50
2016	345,000.00	667,337.50	1,012,337.50
2017	360,000.00	650,087.50	1,010,087.50
2018	380,000.00	631,437.50	1,011,437.50
2019	395,000.00	611,752.50	1,006,752.50
2020	415,000.00	591,295.00	1,006,295.00
2021	440,000.00	569,797.50	1,009,797.50
2022	460,000.00	547,002.50	1,007,002.50
2023	485,000.00	522,852.50	1,007,852.50
2024	510,000.00	497,390.00	1,007,390.00
2025	535,000.00	470,615.00	1,005,615.00
2026	560,000.00	442,527.50	1,002,527.50
2027	590,000.00	413,127.50	1,003,127.50
2028	625,000.00	380,812.50	1,005,812.50
2029	655,000.00	346,597.50	1,001,597.50
2030	690,000.00	310,772.50	1,000,772.50
2031	730,000.00	273,047.50	1,003,047.50
2032	770,000.00	233,160.00	1,003,160.00
2033	810,000.00	191,110.00	1,001,110.00
2034	850,000.00	146,907.50	996,907.50
2035	900,000.00	100,552.50	1,000,552.50
2036	<u>945,000.00</u>	<u>51,490.00</u>	<u>996,490.00</u>
Total	<u>\$14,710,000.00</u>	<u>\$15,376,591.72</u>	<u>\$30,086,591.72</u>

SECURITY FOR THE BONDS

General

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE CITY, THE COUNTY OF IMPERIAL, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN. EXCEPT FOR THE NET TAXES OF THE DISTRICT, NO OTHER REVENUES OR 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 NET TAXES OF THE DISTRICT AND AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

The Bonds are secured by a pledge of Net Taxes of the District and the other amounts in the Special Tax Fund (other than amounts in the Administrative Expenses Account therein). Net Taxes are defined as Gross Taxes minus amounts set aside to pay Administrative Expenses not to exceed the Administrative Expenses Cap. "Gross Taxes" mean 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 the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions. "Special Taxes" the taxes to be applied toward the Special Tax Requirement For Facilities (as defined in the Rate and Method), authorized to be levied by the District on property within the District in accordance with the Act and the voter approval obtained at the September 20, 2005 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.

In the event that delinquencies occur in the receipt of the Special Taxes within the District in any fiscal year, the District may increase its Special Tax levy on property within the District in the following fiscal year up to the maximum amount permitted under the Rate and Method. Under no circumstances, however, will Special Taxes levied against any parcel used for private residential purposes be increased by more than 10 percent as a consequence of delinquency or default by the owner of any other parcel or parcels within the District. Although the Special Tax levy on property within the District may be increased, Special Taxes resulting from the increase may not be available to cure any delinquencies for a period of one year or more. In addition, an increase in the Special Tax levy may adversely affect the ability or willingness of property owners to pay their Special Taxes. See "Rate and Method of Apportionment" below and "APPENDIX A – RATE AND METHOD OF APPORTIONMENT" hereto for a description of the District's procedures for levying Special Taxes within the District, and "SPECIAL RISK FACTORS – Insufficiency of Special Taxes."

OWNERSHIP OF THE BONDS IS SUBJECT TO A SIGNIFICANT DEGREE OF RISK. POTENTIAL INVESTORS ARE ADVISED TO CAREFULLY READ THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "SPECIAL RISK FACTORS."

The Special Taxes

The Special Taxes are to be apportioned, levied and collected according to the Rate and Method for the District. See "– Rate and Method of Apportionment" below and "APPENDIX A – RATE AND METHOD OF APPORTIONMENT" hereto.

Beginning in Fiscal Year 2006-07 and so long as any Bonds issued under the Indenture are Outstanding, the District has covenanted to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and available for such purpose, to pay (1) the Administrative Expenses in an amount up to the Administrative Expenses Cap, (2) the principal of and interest on the Bonds when due, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement. Subject to the maximum special tax rates, the Rate and Method is formulated to result in the levy each year of an amount of such payment of principal and interest, replenishment of the Reserve Account and related administrative expenses; however, see

“SPECIAL RISK FACTORS” for a discussion of certain factors affecting the actual timely collection of such Special Tax levies.

Special Tax Fund

Pursuant to the Indenture, there is established a “Special Tax Fund” to be held and maintained by the Trustee. In the Special Tax Fund there is further established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expenses Account.

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

The District will, on each date on which it receives Special Taxes, transfer the Special Taxes to the Trustee for deposit in the Special Tax Fund in accordance with the terms of the Indenture to be held in trust. The Trustee will transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to:

1. the Administrative Expenses Account of the Special Tax Fund in an amount up to the Administrative Expenses Cap;
2. the Interest Account of the Special Tax Fund;
3. the Principal Account of the Special Tax Fund;
4. the Redemption Account of the Special Tax Fund;
5. the Reserve Account of the Special Tax Fund;
6. the Rebate Fund; and
7. the Surplus Fund.

Administrative Expenses Account. The Trustee will transfer from the Special Tax Fund and deposit in the Administrative Expenses Account an amount necessary to make timely payment of Administrative Expenses as set forth in a Certificate of an Authorized Representative of the District; provided, however, such amount shall not exceed the Administrative Expenses Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Account to the Reserve Requirement. Amounts deposited in the Administrative Expense Fund are not pledged to the repayment on the Bonds.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds until maturity, other than principal due upon redemption including sinking fund redemption, will be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. At least five Business Days prior to each March 1 and September 1, the Trustee will 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, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if

amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

1. To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date will be equal to the installment of interest due on the 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 as the same become due.

2. To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to September 1 of each year, commencing September 1, 2007 shall at least equal the principal payment due on the Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account will be used for the payment of the principal of such Bonds as the same become due at maturity.

Redemption Account of the Special Tax Fund. On 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, the Trustee will next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account five Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding 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 will be made up by an immediate transfer from the Reserve Account. Moneys so deposited in the Redemption Account will be used and applied by the Trustee to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedules set forth in the Indenture and in any Supplemental Indenture for such Term Bonds.

All prepayments of Special Taxes shall be deposited in the Redemption Account to be used to redeem Bonds on the next date for which notice of redemption can timely be given.

Surplus Fund. Moneys deposited in the Surplus Fund shall be transferred by the Trustee (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including mandatory Sinking Fund Payments, premium, if any, and interest on the Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor, (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement, (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) upon the Written Request of the District, may be disbursed to the District to be expended for any other lawful purpose of the District. The amounts in the Surplus Fund are not pledged to the repayment of the Bonds.

Reserve Account

Moneys in the Reserve Account will be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on any Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due. 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 Bonds when due, the Trustee will withdraw from the Reserve Account for

deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

Whenever moneys are withdrawn from the Reserve Account, after making the required transfers under the Indenture, the Trustee will 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 will 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, 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 or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District will include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy for property within the District to the extent of the maximum permitted Special Tax rates; however, Special Taxes on Residential Property may not be increased more than 10% from the prior Fiscal Year.

Anything to the contrary in the Indenture notwithstanding, the District may, at any time, substitute an Alternate Reserve Account Security for cash in the Reserve Account.

Escrow Fund

A portion of the proceeds of the Bonds will be deposited in the Escrow Fund, which is established and held by the Trustee under the Indenture for the benefit of the Bondowners.

Some or all of the moneys set aside in the Escrow Fund shall be transferred by the Trustee to the Project Account and the Reserve Account of the Special Tax Fund (to the extent additional moneys are required in the Reserve Account by such release to bring the amounts in the Reserve Account to the Reserve Requirement resulting from such release) on any Business Day of each year prior to July 1, 2008 as follows:

Upon receipt of a certificate from an MAI appraiser by the District demonstrating an increase in Market Value (as defined in the Appraisal) of the property within the District above \$31,785,000 (the initial Market Value) the District shall promptly authorize the Trustee to transfer funds to the Project Account equal to one-third (1/3) of such increased value, provided however, that all transfers except for the final transfer, shall be in an amount equal to or exceeding \$250,000. Such amounts shall be reduced by an amount needed to ensure that the Reserve Account remains at the Reserve Requirement, and such amount transferred to the Reserve Account.

Notwithstanding anything to the contrary contained in the Indenture, the District may, without the consent of the Bondowners, amend or modify the timing or method of the release of moneys from the Escrow Fund to increase the frequency of releases from the Escrow Fund, provided however, that the value to lien ratio shall be at least three to one or the District has received other security which it believes, in its reasonable judgment, to be adequate.

On July 1, 2008, unless such date is extended as provided below, or upon abandonment of the property, whichever is sooner, the Trustee shall transfer all amounts then on deposit in the Escrow Fund to the Special Tax Fund, to be used to redeem Bonds pursuant to the Indenture. However, if moneys in an amount less than \$100,000 remain in the Escrow Fund on July 1, 2008, unless such date is extended as provided below, then those moneys shall be transferred to the Special Tax Fund and shall be available to

pay interest payments on the Bonds. Upon transfer of all amounts in the Escrow Fund to the Project Account and/or Special Tax Fund, the Escrow Fund shall be closed.

Money remaining in the Escrow Fund may be transferred to the Special Tax Fund later than July 1, 2008, provided, that (i) the District shall have filed with the Trustee on or before June 15, 2008, an opinion of nationally recognized bond counsel to the effect that the postponement of such transfer to such later date will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds; and (ii) there shall be deposited into the Special Tax Fund money sufficient to pay the principal of and interest on the Escrow Term Bonds through and including the date of extension, as confirmed by a certificate of an Independent Financial Consultant provided to the Trustee.

Moneys in the Escrow Fund shall be invested and deposited in accordance with the Indenture. Interest earnings and profits resulting from such investments and deposit shall be retained in the Escrow Fund to be used as set forth in the Indenture.

Rate and Method of Apportionment

The following is a summary of certain provisions of the Rate and Method. This summary does not purport to be comprehensive and reference should be made to the Rate and Method attached hereto as Appendix A. All capitalized terms not defined in this section have the meanings set forth in the Rate and Method.

Each Fiscal Year, commencing with the 2006-07 Fiscal Year, each Assessor's Parcel within the District shall be classified as Taxable Property or Exempt Property. In addition, each Fiscal Year, each Assessor's Parcel of Taxable Property shall be further classified as Developed Property or Undeveloped Property. Lastly, each Fiscal Year, each Assessor's Parcel of Developed Property shall further be classified as Residential Property or Non-Residential Property. Property that is not Exempt Property shall be subject to the levy of Special Taxes in accordance with the Rate and Method of Apportionment. See "APPENDIX A – RATE AND METHOD OF APPORTIONMENT." A parcel is classified as Developed Property in a given Fiscal Year if a building permit was issued with respect to such parcel on or before March 1 of the prior Fiscal Year.

Commencing with Fiscal Year 2006-07 and for each subsequent Fiscal Year, the City Council shall levy the Special Tax for Facilities on all Taxable Property within the District until the amount of Special Taxes for Facilities equals the Special Tax Requirement for Facilities in accordance with the following steps:

First: The Special Tax for Facilities shall be levied Proportionately on each Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax for Facilities rates as needed to satisfy the Special Tax Requirement for Facilities.

Second: If additional moneys are needed to satisfy the Special Tax Requirement for Facilities for the District, after the first step has been completed, the Special Tax for Facilities shall be levied Proportionately on each Parcel of Undeveloped Property, excluding any Undeveloped Property pursuant to Section J of the Rate and Method, at up to 100% of the Assigned Special Tax for Facilities applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement for Facilities.

Third: If additional moneys are needed to satisfy the Special Tax Requirement for Facilities after the first two steps have been completed, then, for each Assessor's Parcel of Developed Property whose Maximum Special Tax for Facilities is the Backup Special Tax shall be increased Proportionately from

the Assigned Special Tax for Facilities up to 100% of the Backup Special Tax for Facilities as needed to satisfy the Special Tax Requirement for Facilities.

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement for Facilities after the first three steps have been completed, the Special Tax for Facilities shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property classified as Undeveloped Property pursuant to Section J of the Rate and Method at up to 100% of the Assigned Special Tax for Facilities applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement for Facilities.

Notwithstanding the above, under no circumstances will the Special Tax for Facilities levied against any Assessor's Parcel used as a private residence be increased as a consequence of delinquency or default by the owner of any other Assessor's Parcel or Parcels within the District by more than 10%.

Covenant for Superior Court Foreclosure

In the event of a delinquency in the payment of any installment of Special Taxes, the District is authorized by the Act to order institution of an action in the Superior Courts of the State to foreclose any lien therefor. In such action, the real property subject to the Special Taxes may be sold at a judicial foreclosure sale. The ability of the District to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the property owner in the event the property is owned by or in receivership of the Federal Deposit Insurance Corporation (the "FDIC") or other similar federal agencies. See "SPECIAL RISK FACTORS – Bankruptcy and Foreclosure" and "SPECIAL RISK FACTORS – Tax Delinquencies." Such judicial foreclosure proceedings are not mandatory. However, in the Indenture, the District has covenanted for the benefit of the Owners of the Bonds that on or about July 1st of each Fiscal Year, it will compare the amount of Special Taxes theretofore levied in the District to the amount of Special Taxes theretofore received by the District, and:

1. Individual Delinquencies. if the District determines that any single parcel subject to the Special Tax in the District is delinquent in the payment of Special Taxes in the aggregate amount of \$5,000 or more, then the District shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the District within 90 days of such determination.

2. Aggregate Delinquencies. if the District determines that (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, or (ii) there are ten (10) or fewer owners of real property within the District, determined by reference to the latest available secured property tax roll of the County, the District shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency. The District may waive delinquency penalties and redemption penalties if it determines that (i) the waivers shall apply only to parcels delinquent at the time of the determination, (ii) the waivers shall only be available with respect to parcels for which all past due and currently due Special Taxes and all other costs are paid in full within a limited period of time specified in the determination, (iii) the waivers shall be available only with respect to parcels sold or otherwise transferred to new owners unrelated to the owner responsible for the delinquency, and (iv) the waivers are in the best interest of the Bondowners.

There could be a default or a delay in payments to the owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the District of foreclosure sale proceeds, if any, and subsequent

transfer of those proceeds to the District. However, up to the maximum amount permitted under the applicable Rate and Method, the District may adjust the Special Taxes levied on all property within the District to provide the amount required to pay debt service on the Bonds, but not more than a 10% increase on a Residential Property from the prior Fiscal Year.

Under current law, a judgment debtor (property owner) has at least 140 days from the date of service of the notice of levy in which to redeem the property to be sold. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action a foreclosure sale is set aside, the judgment is revived, the judgment creditor is entitled to interest on the revised judgment and any liens extinguished by the sale are revised as if the sale had not been made (Section 701.680 of the Code of Civil Procedure of the State of California).

No Obligation of the City Upon Delinquency

The City is under no obligation to transfer any funds of the City into the Special Tax Fund or any other funds or accounts under the Indenture for the payment of the principal of or interest on the Bonds if a delinquency occurs in the payment of any Special Taxes. See “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure” for a discussion of the District’s obligation to foreclose Special Tax liens upon delinquencies.

Estimated Effective Tax Rate

Set forth below is the estimated Fiscal Year 2006-07 tax obligations for a sample developed property within the District.

**ESTIMATED FISCAL YEAR 2006-07 TAX OBLIGATION
FOR A SAMPLE DEVELOPED PROPERTY
(Single Family Residence of Less than 1,750 Sq. Ft.)**

Assessed Valuation and Property Taxes	Percent of Total Assessed Valuation	Amount
<i>Value</i>		
Land plus Improvements		\$304,990.00
less Homeowner's Exemption		<u>\$(7,000.00)</u>
Subtotal Basis for Tax		\$297,990.00
<i>Ad Valorem</i>		
Estimated Existing Ad-Valorem Tax Rate	1.00000%	\$2,979.90
Calexico Unified School District Bonds	0.05750%	\$171.34
Imperial Community College Bonds	<u>0.02500%</u>	<u>\$74.50</u>
Subtotal Ad Valorem Taxes	1.08250%	\$3,225.74
<i>Special Taxes and Assessments</i>		
Mosquito Abatement Assessment		\$9.00
CFD 2005-1 Services Tax		\$420.00
CFD 2005-1 Facilities Tax		<u>\$1,849.00</u>
Subtotal Special Taxes and Assessments		\$2,278.00
Total Taxes		<u>\$5,503.74</u>
Total Tax Rate		<u>1.80%</u>

Based on FY 2005-06 tax rates. Single family residence of 1,693 sq ft priced at \$304,990.

Sources: County of Imperial; DPF; MuniFinancial.

Appraisal

The Bonds are secured by Special Taxes which may include amounts realized upon foreclosure sale of delinquent parcels. Therefore, the ability of the District to meet debt service on the Bonds may depend on the ability of delinquent parcels to generate sufficient proceeds upon foreclosure sale to pay delinquent Special Taxes. The City has commissioned McNamara & Associates, Laguna Hills, California (the “Appraiser”) to perform an appraisal (the “Appraisal”) of the property values of parcels within the District. See “APPENDIX D – APPRAISAL REPORT” hereto. The Appraisal was prepared with a date of value of April 10, 2006. In the opinion of the Appraiser, the fee simple bulk sale value of the properties within the District, as of the date of value stated in the Appraisal, is \$31,785,000, which is approximately 3.01* times the aggregate principal amount of Bonds issued (excluding that portion deposited in the Escrow Fund). See “APPENDIX D – APPRAISAL REPORT” for description of the valuation methodology. There can be no assurance that property values set forth in the Appraisal will not decrease, or that at any time the amount that could be realized upon sale of a particular parcel in a foreclosure sale for nonpayment of Special Taxes will equal that parcel’s appraised value.

Assigned Special Tax Coverage

The following tables show the debt service coverage achieved on the Bonds assuming full build-out of the Project based on the home sizes and product mix currently planned to be constructed by the Developer, with the Special Tax levied at the Assigned Special Tax, and excluding debt service on any overlapping debt.

* Preliminary; subject to change.

**SPECIAL TAXES AND DEBT SERVICE
COMMUNITY FACILITIES DISTRICT NO. 2005-1
OF THE CITY OF CALEXICO
(HEARTHSTONE)**

<u>Bond Year Ending (September 1)</u>	<u>Estimated Assigned Special Taxes</u>	<u>Administrative Expenses Cap</u>	<u>Estimated Net Taxes</u>	<u>Debt Service</u>	<u>Coverage</u>
2007	\$ 318,623 ⁽¹⁾	\$ 25,000	\$ 293,623	\$ - ⁽²⁾	NA
2008	830,091 ⁽³⁾	25,500	804,591	731,447	1.10
2009	1,140,288 ⁽⁴⁾	26,010	1,114,278	1,012,980	1.10
2010	1,144,893 ⁽⁵⁾	26,530	1,118,363	1,016,560	1.10
2011	1,144,893	27,061	1,117,832	1,014,513	1.10
2012	1,144,893	27,602	1,117,291	1,011,738	1.10
2013	1,144,893	28,154	1,116,739	1,013,288	1.10
2014	1,144,893	28,717	1,116,176	1,013,918	1.10
2015	1,144,893	29,291	1,115,602	1,013,608	1.10
2016	1,144,893	29,877	1,115,016	1,012,338	1.10
2017	1,144,893	30,475	1,114,418	1,010,088	1.10
2018	1,144,893	31,084	1,113,809	1,011,438	1.10
2019	1,144,893	31,706	1,113,187	1,006,753	1.11
2020	1,144,893	32,340	1,112,553	1,006,295	1.11
2021	1,144,893	32,987	1,111,906	1,009,798	1.10
2022	1,144,893	33,647	1,111,246	1,007,003	1.10
2023	1,144,893	34,320	1,110,573	1,007,853	1.10
2024	1,144,893	35,006	1,109,887	1,007,390	1.10
2025	1,144,893	35,706	1,109,187	1,005,615	1.10
2026	1,144,893	36,420	1,108,473	1,002,528	1.11
2027	1,144,893	37,149	1,107,744	1,003,128	1.10
2028	1,144,893	37,892	1,107,001	1,005,813	1.10
2029	1,144,893	38,649	1,106,244	1,001,598	1.10
2030	1,144,893	39,422	1,105,471	1,000,773	1.10
2031	1,144,893	40,211	1,104,682	1,003,048	1.10
2032	1,144,893	41,015	1,103,878	1,003,160	1.10
2033	1,144,893	41,835	1,103,058	1,001,110	1.10
2034	1,144,893	42,672	1,102,221	996,908	1.11
2035	1,144,893	43,526	1,101,367	1,000,553	1.10
2036	1,144,893	44,396	1,100,497	996,490	1.10

⁽¹⁾ Amount represents Assigned Special Taxes to be levied on property classified as Developed Property as of March 1, 2006.

⁽²⁾ March 1, 2007 and September 1, 2007 interest payments are capitalized.

⁽³⁾ March 1, 2008 interest payment is capitalized through January 12, 2008. Remaining debt service and administrative expenses are projected to be funded by Assigned Special Taxes of \$648,840 from property anticipated to be classified as Developed Property and \$181,251.70 from property anticipated to be classified as Undeveloped Property.

⁽⁴⁾ Debt service and administrative expenses are projected to be funded by Assigned Special Taxes of \$916,954 from property anticipated to be classified as Developed Property and \$223,334 from property anticipated to be classified as Undeveloped Property.

⁽⁵⁾ Debt service and administrative expenses in 2010 and thereafter are projected to be funded by Assigned Special Taxes based on all 457 lots being classified as Developed Property.

Source: Special Tax Consultant and Underwriter.

No assurance can be given that any of the foregoing ratios can or will be maintained during the period of time that the Bonds are Outstanding. The City and the District have no control over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which is secured by the levy of a tax or an assessment, whether on a parity with or subordinate to the Special Taxes. See “SPECIAL RISK FACTORS – Appraised Value; Land Value.” In addition, the number of units and size of homes can change over the course of the development. The projections are based on home sizes provided by the Developer. If smaller homes are constructed, Special Taxes may be reduced and the Backup Special Tax may have to be levied. See “APPENDIX A – RATE AND METHOD OF APPORTIONMENT” and “ – Estimated Effective Tax Rate” above.

No Parity Bonds

Other than refunding bonds, the District may not issue parity bonds secured by the Net Taxes on a parity with the Bonds.

THE DISTRICT

On January 8, 2005, the City Council adopted a Resolution of Intention to form a community facilities district under the Act, to levy a special tax and to incur bonded indebtedness for the purpose of financing the improvements. After conducting a noticed public hearing, on September 20, 2005, the City Council adopted the Resolution of Formation, which established the District and set forth the Rate and Method of Apportionment for the levy and collection of Special Taxes within the District.

On September 20, 2005, an election was held within the District in which the landowners eligible to vote unanimously approved the incurrence of bonded indebtedness in an amount not to exceed \$15,000,000 and the levy of the Special Tax within the District.

The District boundaries are composed of one rectangular area, which is north of Cole Road, south of the central main canal, west of Meadows Road and approximately one quarter of a mile east of State Highway 111.

THE DEVELOPMENT

Unpaid Special Taxes do not constitute a personal indebtedness of the Developer, its affiliates or any subsequent owners of the parcels within the District and the Developer has made no enforceable commitment to pay the principal of or interest on the Bonds or to support payment of the Bonds in any manner. There is no assurance that the Developer has or any subsequent owners will have the ability to pay the Special Taxes or that, even if they have the ability, they will choose to pay such taxes. An owner may elect not to pay the Special Taxes when due and cannot be legally compelled to do so. Neither the District nor any Bondowner will have the ability at any time to seek payment from the Developer or any subsequent owners of property within the District of any Special Tax or any principal or interest due on the Bonds, or the ability to control who becomes a subsequent owner of any property within the District. See “SECURITY FOR THE BONDS” and “SPECIAL RISK FACTORS” herein.

The Developer has provided the information set forth under the headings “THE DEVELOPMENT” and “THE DEVELOPER.” No assurance can be given that all information is complete. Although the Developer currently owns all of the property within the District, the Developer intends to build and sell the residential properties to individual homeowners. When such sales occur, the ownership of the land within the District will become more diversified. No assurance can be given that

development of the property will be completed, that it will be completed in a timely manner or that it will occur as described herein.

General

The Developer anticipates the development of 457 single-family units on approximately 142 gross acres known generally as “Hearthstone” (the “Project”). The Project is comprised of two communities called “Somerset” and “Amberwood.” Somerset is expected to contain 211 homes and Amberwood is expected to contain 246 homes. The Developer’s current plan of development with respect to the land within the District is to take all actions necessary to obtain necessary entitlements for such land and to construct and sell to individual homebuyers all 457 of the planned single-family residential homes. The Project is expected to be constructed in four tracts referred to as Units 1, 2, 3 and 4. Each Unit includes both Amberwood and Somerset product lines and is expected to have multiple phase releases. The following table sets forth the expected product mix within each community.

**SUMMARY OF PROPOSED NEW HOMES
COMMUNITY FACILITIES DISTRICT NO. 2005-1
OF THE CITY OF CALEXICO
(HEARTHSTONE)**

<u>Community</u>	<u>Home Plan/ Size (sq. ft.)</u>	<u>No. of Units</u>	<u>Est. Base Home Price</u>
<i>Somerset</i> (211 homes)	Plan 1 – 1,693	41	\$304,990
	Plan 2 – 1,819	23	\$315,990
	Plan 3 – 2,350	35	\$350,990
	Plan 4 – 2,659	56	\$368,990
	Plan 5 – 3,852	56	\$450,990
<i>Amberwood</i> (246 homes)	Plan 1 – 2,021	72	\$324,990
	Plan 2 – 3,092	73	\$415,990
	Plan 3 – 3,816	101	\$480,990
Total		457	

Source: The Developer.

The current product mix information provided above is different from that contained in the Appraisal attached hereto as Appendix D, which was prepared as of May 15, 2006. The Appraiser has affirmed the market value of the property within the District as provided in the Appraisal using the current product mix information.

As of June 16, 2006, Unit 1 (133 lots) had 127 building permits issued with 4 model homes completed, 3 production homes completed, 88 homes near completion (40 expected to be completed in late June 2006 and 44 expected to be completed by August 2006), and 35 homes framed (some of which have exterior lathed in stucco). Unit 2 (111 lots) is rough graded and construction of site improvements is expected to commence in late June 2006. Unit 3 (114 lots) and Unit 4 (99 lots) are in raw land condition.

As of June 16, 2006, 3 homes within Unit 1 had closed escrow to individual homeowners and 120 homes were under sales contracts with expected closings between June and October of 2006. The balance of Unit 1, 10 lots, consists of 4 completed models homes and 6 lots reserved for future model or production homes. The first phase release of 12 homes in Unit 2 occurred in March 2006 and as of June 10, 2006 40 homes were under sales contracts with expected closings between February and March of 2007. None of the homes in Unit 2 were under construction.

Entitlement Status and Projected Development Schedule

The Tentative Tract Map for the Project has been approved for 457 single family detached dwelling units. The Developer anticipates processing a specific plan amendment to add 10-12 lots by the end of 2006. The final map for Unit 1 was recorded on April 13, 2005 and the final map for Unit 2 was approved on June 7, 2006 and is expected to record early July 2006. Final Maps for Unit 3 and 4 are expected to record September 2006. The following table sets forth the projected development schedule for the Project as of June 2006.

**PROJECTED DEVELOPMENT SCHEDULE
COMMUNITY FACILITIES DISTRICT NO. 2005-1
OF THE CITY OF CALEXICO
(HEARTHSTONE)**

	Dates (Month/Year)			
	Unit 1	Unit 2	Unit 3	Unit 4
Commencement of Grading	Fall 05	Mar 06	Nov 06 *	May 07 *
Completion of Site Improvements	May 06	Sept 06 *	Jun 07 *	Dec 07 *
1st Phase Sales Release	Aug 05	Mar 06	Dec 06 *	Jul 08 *
Last Phase Sales Release	Mar 06	Nov 06 *	Oct 07 *	Jan 09 *
1st Delivery of Homes	Jun 06	Feb 07 *	Jan 08*	Mar 09 *
Last Home Closing	Oct 06 *	Dec 07 *	Nov 08 *	Nov 09 *

Source: The Developer.

* Estimated date

Financing Plan

The following table sets forth the Developer’s expected costs of completing the Project and the anticipated sources of monies to be spent therefore.

Sources*

1. CFD Bond Improvement Fund Proceeds.....	\$11,780,000
2. Construction Loans.....	<u>128,076,495</u>
Total Sources.....	\$139,856,495

Uses*

1. Fees & Permits ⁽¹⁾	\$12,521,977
2. Direct Costs ⁽²⁾	104,226,082
3. Indirect Costs ⁽³⁾	7,109,281
4. Operating Costs ⁽⁴⁾	<u>15,999,155</u>
Total Uses.....	\$139,856,495

(1) Various fees, including fees related to plan check, building permits, impact fees, school fees, and sewer and water connection.

(2) Includes cost of land, site development (i.e. offsite and in-tract improvements), architecture, and vertical construction.

(3) Includes supervision, overhead, general liability insurance and warranties.

(4) Includes financing costs, marketing costs, and general and administrative costs.

Source: The Developer.

* Estimated

As of April 10, 2006, the total land development budget to bring the Project to finished lot condition is estimated to be \$29,381,549 and the Developer had incurred \$13,835,301 in costs including home construction costs.

To the extent available, costs of the public facilities and the capital impact fees with respect to the Project will be funded from proceeds of the Bonds. The District makes no warranty, express or implied, that the proceeds of the Bonds deposited and held in the applicable funds or any investment earnings thereon, will be sufficient to pay for the necessary public facilities and capital impact fees. Bond proceeds to be deposited in the Acquisition and Construction Fund are expected to be less than the eligible public facilities and capital impact fees. To the extent the backbone infrastructure improvements and capital impact fees are not funded from the proceeds of the Bonds, the Developer is expected to finance such improvements from the Developer’s funding sources.

The Developer has obtained a revolving construction loan from Central Pacific Bank, in Honolulu, Hawaii, in the amount of \$11,300,000 with a maximum funding commitment of \$29,000,000 to finance site development and home construction for Unit 1, and a construction loan from ChinaTrust Bank, in Torrance, California, in the original amount of \$22,814,000 to finance the site development for Unit 2 and construction of the first 68 homes within Unit 2. As of May 31, 2006, outstanding loan balances were 11,178,591 with Central Pacific Bank and \$4,003,591 with ChinaTrust Bank. The Developer has not yet obtained a construction loan for the balance of homes to be constructed within Unit 2, or for construction of homes in, and remaining site development associated with, Unit 3 and Unit 4 of the Project.

There is no assurance that amounts necessary to finance the site development costs within the District or home construction costs will be available from the Developer or any other source, when needed. The Developer is under no legal obligation of any kind to expend funds for the development of the property within the District or for construction of the homes.

THE DEVELOPER

The property comprising the District is currently owned by PCC – La Jolla Palms, LLC, a California limited liability company as to Unit 1, and PCG – La Jolla Palms, L.P., a California limited partnership as to Units 2, 3 and 4 (collectively, the “Developer”), which are both managed by Mr. William W. Lo. Each of these entities comprising the Developer were formed for the sole purpose of acquiring the real property underlying, and developing, the Hearthstone residential subdivision project.

Mr. Lo’s experience in the homebuilding industry spans over thirty years. Mr. Lo holds a Master Business Administration from the University of Southern California. As Chairman and Chief Executive Officer of Pacific Century Homes, Inc. (“Pacific Century”), a California corporation and developer of homes and master planned communities formed by Mr. Lo and a colleague in December 1994, Mr. Lo is responsible for managing and overseeing land acquisition, product conceptualization, steering corporate strategy, and forward planning. In the May 2002 issue of Builder Magazine, Pacific Century Homes was named the “Number One Builder” in the eighth largest market in the country and the largest housing market in the State.

In July 2002, Lennar Corporation (“Lennar”) acquired Pacific Century and all of Pacific Century’s entitled projects. In connection with such acquisition of Pacific Century, which has maintained its corporate existence after the acquisition and continues to operate under the name of Pacific Century Homes, Mr. Lo entered into a consulting agreement with Lennar to assist in the supervision of the development and completion of joint venture projects between Pacific Century and Lennar. Additionally, under his non-compete agreement, Mr. Lo is precluded from pursuing development of residential for-sale projects in the Inland Empire, consisting of the Riverside and San Bernardino Counties, California (whether home sites or completed homes) for 10 years except in conjunction with Lennar. The non-compete agreement does not restrict Mr. Lo from commercial or industrial development or from rental residential development projects. Therefore, the projects which Mr. Lo has developed subsequent to July 2002 reflect the parameters imposed by his non-compete agreement with Lennar.

From 1996 through 2002, Pacific Century completed 33 residential projects, all of which consisted of single family homes except for 3 which consisted of town homes and carriage units. Such projects ranged from 24 to 550 units and typically involved the construction of 100 to 250 single family detached homes. Projects in 2002 consisted of “The Groves” in Loma Linda, California (38 single family detached homes with average square footage and price of 3,056 and \$295,832, respectively), “Oak Valley Greens” in Beaumont, California (550 single family detached homes with average square footage and price of 2,098 sq. ft. and \$182,204, respectively), “Arboretum” in Murrieta, California (204 single family detached homes with average square footage and price of 1,418 and \$202,947, respectively), and “Little Pulsar” in Highland, California (42 single family detached homes with average square footage and price of 3,077 and \$274,050, respectively).

Subsequent to Mr. Lo’s sale of Pacific Century to Lennar, one of his completed commercial projects is the full remodel of the Temecula Professional Center, an office building with 45,955 square feet of building space. Also, Mr. Lo is in the process of developing additional commercial and office properties in the Southern California cities of Rancho Mirage, San Jacinto, Murrieta, Temecula Beaumont, and Corona, and the community of Heber, including “Heber 222” a mixed-use residential

(1,297 units) and commercial development currently in the engineering and land planning stages. Other residential projects under development by Mr. Lo include “Springfield” which had 68 home closings as of April 28, 2006 and is planned for a total of 249 single family units in the City of Imperial, CA; “Heber Meadows” which had 47 home closings as of April 28, 2006 and is planned for a total of 219 single family units in the Heber area of Imperial County, CA; and “Heartland II” which is in the engineering and planning stages and anticipated to consist of 2,508 apartment units in Beaumont, California.

SPECIAL RISK FACTORS

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.

Concentration of Ownership

Currently, all of the property within the District is owned by the Developer. As buildout and market absorption continues within the District, property ownership within the District can be expected to become diversified. Lack of diversity of ownership presents a risk to Bondowners, in that failure of a large taxpayer within the District to pay Special Taxes when due could result in the depletion of the Reserve Account prior to the replenishment thereof from moneys realized upon resale of property from foreclosure or otherwise, or delinquency redemptions after a foreclosure sale.

Risks of Real Estate Secured Investments Generally

The Bondowners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area including development occurring in the District, and the market value of commercial and industrial buildings and/or sites in the event of sale or foreclosure, (ii) changes in real estate tax rate and other operating expenses, government rules (including, without limitation, zoning laws and restrictions relating to threatened and endangered species) and fiscal policies and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses, or natural disasters elsewhere in the country or other parts of the world affecting supply of building materials that may cause delays in construction.

Land Development Costs

The cost of additional improvements plus the public and private in-tract, on-site and off-site improvements would likely increase the public and private debt secured by the land within the District. See “SECURITY FOR THE BONDS – Direct and Overlapping Debt.” This increased debt could reduce the ability or desire of the property owners to pay the annual Special Taxes levied against the property. See “SECURITY FOR THE BONDS – The Special Taxes” and “SECURITY FOR THE BONDS – Appraisal.” In that event there could be a default in the payment of principal of, and interest on, the Bonds.

Future Land Use Regulations and Growth Control Initiatives

In recent years, citizens of a number of local communities in Southern California, including citizens of the County of Riverside, the County of Orange and the County of San Diego, have placed measures on the ballot designed to control the rate of future growth in those areas. It is possible that future initiatives could be enacted and become applicable to the development proposed to be conducted within the District (the “Development”) and could, if applied retroactively, negatively impact the ability of the Developer to complete the proposed Development. Bondowners should assume that any event that impacts the ability to develop land in the District could cause the land values within the District to decrease and could affect the willingness and ability of the owners of land within the District to pay the Special Taxes when due. See “SECURITY FOR THE BONDS – Appraisal.”

In evaluating the investment quality of the Bonds, investors should assume that the possible enactment of more restrictive land use regulations by the City or the County of Imperial, or by voter initiative presents a substantial risk to the timely construction and completion of development, except with respect to units for which building permits have already been issued and substantial work and liabilities have been incurred in good faith reliance thereon prior to the date of adoption of any such land use regulations.

The failure to complete the Development as planned, or substantial delays in the completion of the Development, due to litigation or other causes may reduce the value of the property within the District, and will increase the amount of Special Taxes to be paid by the owners of undeveloped property and may affect the willingness and ability of the owners of land within the District to pay the Special Taxes when due. Depending on the nature of the Development eventually approved and completed, the value of the land within the District may be reduced.

Adjustable Rate and Non-Conventional Mortgages

Since the end of 2002, many persons have financed the purchase of new homes using loans with little or no downpayment and with adjustable interest rates that start low and are subject to being reset at higher rates on a specified date or upon the occurrence of specified conditions. Many of these loans allow the borrower to pay interest only for an initial period, in some cases up to 10 years. Currently, in Southern California, a substantial portion of outstanding home loans are adjustable rate loans at historically low interest rates. In the opinion of some economists, the significant increase in home prices in this time period has been driven, in part, by the ability of home purchasers to access adjustable rate and non-conventional loans. If interest rates on new loans increase and if the interest rates on existing adjustable rate loans are reset (and payments are increased) there could be a decrease in home sales due to the inability of purchasers to qualify for loans with higher interest rates. Such a decrease in home sales could, eventually, result in a decrease in home prices. Such a reduction in home prices could result in recent homebuyers having loan balances that exceed the value of their homes, given their low downpayments and small amount of equity in their homes.

Homeowners in the District who purchase their homes with adjustable rate and non-conventional loans with no or low downpayments may experience difficulty in making their loan payments due to automatic mortgage rate increases and rising interest rates. This could result in an increase in the Special Tax delinquency rate in the District and draws on the Reserve Fund. If there were significant delinquencies in Special Tax collections in the District and the Reserve Fund was fully depleted, there could be a default in the payment of principal of and interest on the Bonds.

If mortgage loan defaults increase, bankruptcy filing by such homeowners could also increase. Bankruptcy filings by homeowners with delinquent Special Taxes would delay the commencement and

completion of foreclosure proceedings to collect delinquent Special Taxes. See “SPECIAL RISK FACTORS – Bankruptcy and Foreclosure” below.

Failure to Develop Properties

Land development operations are 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 on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect land development operations. In addition, there is the risk that lawsuits challenging the City’s approval of the Development will be instituted.

Under current California law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been properly issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on such permits.

Development of certain portions of the land within the District is contingent upon construction or acquisition of major public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities, gas, telephone and electrical facilities, as well as local in-tract improvements including site grading. While certain of these improvements have been or are expected to be constructed with proceeds of the Bonds, there can be no assurance that all of these improvements will be constructed. The cost of these public and private in-tract and off-site improvements could increase the public and private debt for which the land within the District provides security. This increased debt could reduce the willingness and/or ability of the property owners to pay the annual Special Taxes levied against their property.

Moreover, there can be no assurance that the means and incentive to conduct land development operations within the District will not be adversely affected by a future deterioration of the real estate market and economic conditions of 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 property owners 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.

Another risk to the Bondowners involves the value of undeveloped property. The inability or failure to develop property due to adverse regulatory or economic conditions may reduce the value of undeveloped property. The undeveloped property also provides less security to the Bondowners should it be necessary for the District to foreclose on undeveloped property in the District due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within the District as currently proposed will likely reduce the diversity of ownership of land within the District, making the Bondowners dependent upon timely payment of the Special Tax levied on the undeveloped property. Because of the current concentration of ownership of the undeveloped property in the Developer, the timely payment of the Bonds depends upon the willingness and ability of the present owners of the undeveloped property to pay the Special Taxes levied on the undeveloped property when due. See “SPECIAL RISK FACTORS – Concentration of Ownership” above. A slowdown or stoppage in the continued development of the District could reduce the willingness and ability of the Developer to make Special Tax payments on undeveloped property, and could greatly reduce the value of such property in the event it has to be foreclosed upon.

Disclosure to Future Homebuyers

Pursuant to Section 53328.3 of the Act, the District has recorded a Notice of Special Tax Lien in the Office of the Imperial County Recorder. The sellers of property within the District are required to give prospective buyers a Notice of Special Tax in accordance with Sections 53340.2 and 53341.5 of the Act. While title companies normally refer to the Notice of Special Tax Lien in title reports, there can be no guarantee that such reference will be made or the seller's notice given or, if made and given, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a home or the lending of money thereon. Failure to disclose the existence of the Special Taxes may affect the willingness and ability of future owners of land within the District to pay the Special Taxes when due.

Parity Taxes and Special Assessments

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 other agencies and is coequal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property. The District, however, has no control over the ability of other entities and districts to issue indebtedness secured by special 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 District, petition other public agencies to issue public indebtedness secured by special taxes or assessments. Any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes. See "SECURITY FOR THE BONDS – Direct and Overlapping Debt."

Appraised Value; Land Value

The value of land within the District is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in the payment of Special Tax installments, the District's only remedy is to judicially foreclose on that property. Prospective purchasers of the Bonds should not assume that the property within the District could be sold for the assessed or appraised value described in the Official Statement at a foreclosure sale for delinquent Special Tax installments or for an amount adequate to pay delinquent Special Tax installments. Reductions in property values within the District due to a downturn in the economy or the real estate market, events such as earthquakes, droughts, or floods, stricter land use regulations, threatened or endangered species or other events may adversely impact the security underlying the Special Taxes.

The property values set forth herein are the property values determined by the Appraiser. The Appraisal was prepared for the purpose of estimating and confirming the market value of the property in the District as of April 10, 2006 in its as is condition on the basis of certain assumptions. Prospective purchasers of the Bonds should not assume, however, that the land within the District could be sold for the appraised amount described herein at the present time or at a foreclosure sale for delinquent Special Taxes. See the Appraisal included as Appendix D hereto for a brief description of the analysis used and assumptions made by the Appraiser. The actual value of the property is subject to future events that might render invalid the assumptions relied upon by the Appraiser in determining the appraised value.

The actual market value of the property is subject to future events such as a downturn in the economy, and occurrences of certain acts of nature, all of which could adversely impact the value of the land in the District which is the security for the Bonds. As discussed herein, many factors could adversely affect property values or prevent or delay land development within the District. Furthermore, the estimated value-to-lien ratio of individual parcels may vary. No assurance can be given that, should a

parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes.

Value to Lien Ratios

Value-to-lien ratios have traditionally been used in land-secured bond issues as a measure of the “collateral” supporting the willingness of property owners to pay their special taxes and assessments (and, in effect, their general property taxes as well). The value-to-lien ratio is mathematically a fraction, the numerator of which is the value of the property (usually a market value as determined by an appraiser) and the denominator of which is the “lien” of the assessments or special taxes. A value to lien ratio should not, however, be viewed as a guarantee for credit-worthiness. Land values are more volatile in the early stages of a development, and are especially sensitive to economic cycles. A downturn of the economy or other market factors such as increase in building materials cost or labor cost to construct homes may depress land values and hence the value-to-lien ratios, by increasing risk to investors and lenders, and lengthening the absorption period for new development projects. Further, the value-to-lien ratio cited for a bond issue is an average. Individual parcels in a community facilities district may fall above or below the average, sometimes even below a 1:1 ratio. (With a ratio below 1:1, the land is worth less than the debt on it.) If property ownership in a community facilities district is highly concentrated during the early stages of development, the delinquency of a major property owner can deplete the bond’s reserve fund and threaten the timely payment of the debt service, even though the value-to-lien ratio is adequate. Although judicial foreclosure proceedings can be initiated rapidly, the process can take several years to complete, and the bankruptcy courts may impede the foreclosure action. No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. Finally, local agencies may form overlapping community facilities districts or assessment districts because they typically do not coordinate their bond issuances. Debt issuance by another entity can dilute value-to-lien ratios, as set forth in the table in the section above entitled “SECURITY FOR THE BONDS - Direct and Overlapping Debt.” See “SECURITY FOR THE BONDS – Estimated Appraised Value-to-Lien Ratios.”

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 be based primarily on whether such parcel is developed or not and, for detached developed property on the square footage, and for undeveloped property on the acreage of the Assessor’s Parcel. See “APPENDIX A – RATE AND METHOD OF APPORTIONMENT” and “SECURITY FOR THE BONDS – Rate and Method of Apportionment.” Accordingly, to the extent property is not developed, collection of the Special Taxes will be dependent on the willingness and ability of the owners of undeveloped property to pay such Special Taxes when due. See “SPECIAL RISK FACTORS – Future Land Use Regulations and Growth Control Initiatives” and “–Failure to Develop Properties” above for a discussion of the risks associated with undeveloped property.

The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by a gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. 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 ACREAGE 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.

Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, 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 to the County Tax Collector 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.

See “SECURITY FOR THE BONDS – Reserve Fund” and “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure,” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Indenture, in the event of delinquency in the payment of Special Tax installments.

Future Indebtedness

At the present time part of the land within the District has not been improved. The cost of any additional improvements may well increase the public and private debt for which the land in the District provide security, and such increased debt could reduce the ability or desire of property owners to pay the Special Taxes levied against the land in the District. In addition, in the event any additional improvements or fees are financed pursuant to the establishment of an assessment district or another district formed pursuant to the Act, any taxes or assessments levied to finance such improvements may have a lien on a parity with the lien of the Special Taxes. See “SECURITY FOR THE BONDS – Direct and Overlapping Debt.”

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the event of significant rainfall. According to the seismic safety element of the City’s General Plan, the City is located in a seismically active region. As a result, the District could be impacted by a major earthquake from the numerous faults in the area. Seismic hazards encompass both potential surface rupture and ground shaking. The occurrence of seismic activity, fires or flooding in or around the District could result in substantial damage to properties in the District, which, in turn, could substantially reduce the value of such properties. As a result of the occurrence of such an event, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due, and the reserve fund for the Bonds may become depleted. In addition, the value of land in the District could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

Endangered and Threatened Species

On a regular basis, new species are proposed to be added to the State and federal protected species lists. Any action by the State or federal governments to protect species located on or adjacent to

the property within the District could negatively affect the Developer's ability to complete the development of the properties within the District as planned. This, in turn, could reduce the ability or willingness of the property owners to pay the Special Taxes when due and would likely reduce the value of the land and the potential revenues available at a foreclosure sale for delinquent Special Taxes. All mitigation fees required to be paid with respect to endangered or threatened species in the District have been paid.

Hazardous Substances

A serious risk in terms of the potential reduction in the value of a parcel within the District is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel within the District may be required by law to remedy conditions of such parcel relating to release 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 similarly stringent. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of the property whether or not the owner or operator had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the District be affected by a hazardous substance, will be to reduce the marketability and value of such parcel by the costs of remedying the condition, because the prospective purchaser, upon becoming the owner, will become obligated to remedy the condition just as the seller is.

Further it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the current existence on the parcel of a substance currently 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 current existence 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 in which it is handled. All of these possibilities could significantly affect the value of a parcel within the District that is realizable upon a delinquency.

Bankruptcy and Foreclosure

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 "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure." In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

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.

In addition, bankruptcy of a property owner (or a property owner's partner or equity owner) would likely result in a delay in procuring Superior Court foreclosure proceedings unless the bankruptcy court consented to permit such foreclosure action to proceed. Such delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full.

Under 11 U.S.C. Section 362(b)(18), in the event of a bankruptcy petition filed on or after October 22, 1994, the lien for *ad valorem* taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. Bondowners should be aware that the potential effect of 11 U.S.C. Section 362(b)(18) on the Special Taxes depends upon whether a court were to determine that the Special Taxes should be treated like *ad valorem* taxes for this purpose.

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.

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. However, pursuant to the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, enacted by Congress on April 14, 2005, the lien for special taxes established after the filing of a petition in bankruptcy will be treated thereafter as liens for *ad valorem* taxes.

Property Controlled by FDIC

The District’s ability to collect interest and penalties specified by State law and to foreclose the lien of delinquent Special Tax payments may be limited in certain respects with regard to properties in which the Internal Revenue Service, the Drug Enforcement Agency, the Federal Deposit Insurance Corporation (the “FDIC”) or other similar federal agencies has or obtains an interest. The District is not aware of any such interest of a federal agency in the land within the District. On June 4, 1991 the FDIC issued a Statement of Policy Regarding the Payment of State and Local Real Property Taxes. The 1991 Policy Statement was revised and superseded by a new Policy Statement effective January 9, 1997 (the “Policy Statement”). The Policy Statement provides that real 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 proper 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 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 FDIC has filed claims against one California county in United States Bankruptcy Court contending, among other things, that special taxes authorized under the Act are not ad valorem taxes and therefore not payable by the FDIC, and seeking a refund of any special taxes previously paid by the FDIC. The FDIC is also seeking a ruling that special taxes may not be imposed on properties while they are in FDIC receivership. The Bankruptcy Court ruled in favor of the FDIC's positions and, on August 28, 2001, the United States Court of Appeals for the Ninth Circuit affirmed the decision of the Bankruptcy Court, holding that the FDIC, as an entity of the federal government, is exempt from post-receivership special taxes levied under the Act. This is consistent with provision in the Law that the federal government is exempt from special taxes.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to a parcel in which the FDIC has an interest, although prohibiting the lien of the FDIC to be foreclosed on at a judicial foreclosure sale would likely reduce the number of or eliminate the persons willing to purchase such a parcel at a foreclosure sale. Owners of the Bonds should assume that the District will be unable to foreclose on any parcel owned by the FDIC. Such an outcome would cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment of the Bonds. The District has not undertaken to determine whether the FDIC or any FDIC-insured lending institution currently has, or is likely to acquire, any interest in any of the parcels, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

Billing of Special Taxes

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn, along with various other factors, can lead to problems in the collection of the special tax. In some community facilities districts, taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by the District.

Under provisions of the Act, the Special Taxes are billed to the properties within the District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous Fiscal Year 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. Ordinarily, these 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 installment payments of Special Taxes in the future. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

Collection of Special Taxes

In order to pay debt service on the Bonds, it is necessary that the Special Tax levied against land within the District be paid in a timely manner. It is possible that delays in the payment of debt service may be the result of the County processing subdivisions or by the transfer of ownership of property within the District. The District has covenanted in the Indenture under certain conditions to institute foreclosure proceedings against property with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Taxes to protect its security interest. In the event such superior court foreclosure is necessary, there could be a delay in principal and interest payments to the owners of the Bonds pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. 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 Taxes installment. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the District with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure.”

Maximum Special Tax Rates

Within the limits of the Rate and Method, the District may adjust the Special Taxes levied on all property within the District to provide the amount required each year to pay annual debt service on the Bonds and to replenish the Reserve Account to an amount equal to the Reserve Requirement. However, the amount of Special Taxes that may be levied against particular categories of property is subject to the maximum tax rates set forth in the applicable Rate and Method. In the event of significant Special Tax delinquencies, there is no assurance that the maximum tax rates for property in the District would be sufficient to meet debt service obligations on the Bonds. See “SECURITY FOR THE BONDS – The Special Taxes” and “APPENDIX A – RATE AND METHOD OF APPORTIONMENT.”

Exempt Properties

So long as certain conditions are met, each Rate and Method provides that the District shall not levy a Special Tax on Property classified as Exempt Property. Under the Rate and Method, the Board will not levy Special Taxes on public property, Property Owner’s Association property within the District as well as certain other parcels specified in the District. Exempt Property status will be assigned in the chronological order in which property in the District becomes included in such categories of Exempt Property.

In addition, the Act provides that properties or entities of the State, federal or local government are exempt from the Special Taxes; provided, however, the property within the District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Taxes, will continue to be subject to the Special Taxes. The Act further provides that if property subject to the Special Taxes is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Taxes with respect to that property is to be treated as if it were a special assessment. The constitutionality and operation of these provisions of the Act have not been tested. In particular, insofar as the Act requires payment of the Special Taxes by a federal entity acquiring property within the District, it may be unconstitutional.

If for any reason property within the District becomes exempt from taxation by reason of its status under the Rate and Method, or by reason of its ownership by a nontaxable entity such as the federal

government or another public agency, subject to the limitation of the maximum authorized rates, the Special Taxes 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 Taxes and could have an adverse impact upon the timely payment of the Special Taxes.

California Constitution Article XIIC and Article XIID

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID to the State Constitution, which articles contain a number of provisions affecting the ability of the District to levy and collect both existing and future taxes, assessments, fees and charges. According to the "Official Title and Summary" of Proposition 218 prepared by the California State Attorney General, Proposition 218 limits the "authority of local governments to impose taxes and property-related assessments, fees and charges." On July 1, 1997 California State Senate Bill 919 ("SB 919") was signed into law. SB 919 enacted the "Proposition 218 Omnibus Implementation Act," which implements and clarifies Proposition 218 and prescribes specific procedures and parameters for local jurisdictions in complying with Articles XIIC and XIID.

Article XIID of the State Constitution reaffirms that the proceedings for the levy of any Special Taxes by the District under the Act must be conducted in conformity with the provisions of Section 4 of Article XIII A. The District has completed its proceedings for the levy of Special Taxes in accordance with the provisions of Section 4 of Article XIII A. Under Section 53358 of the California Government Code, any action or proceeding to review, set aside, void, or annul the levy of a special tax or an increase in a Special Tax (including any constitutional challenge) must be commenced within 30 days after the Special Tax is approved by the voters.

Article XIIC removes certain limitations on the initiative power in matters of local taxes, assessments, fees and charges. 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 a resolution to reduce the rate of any special tax if the proceeds of that tax are being utilized to retire any debt incurred pursuant to the Act unless such legislative body determines that the reduction of that tax would not interfere with the timely retirement of that debt. Although the matter is not free from doubt, it is likely that exercise by the voters of the initiative power referred to in Article XIIC to reduce or terminate the Special Tax is subject to the same restrictions as are applicable to the Board, as the legislative body of the District, pursuant to the Act. Accordingly, although the matter is not free from doubt, it is likely that Proposition 218 has not conferred on the voters the power to repeal or reduce the Special Taxes if such repeal or reduction would interfere with the timely retirement of the Bonds.

It may be possible, however, for voters or the Board, 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.

Proposition 218 and the implementing legislation have yet to be extensively interpreted by the courts; however, the California Court of Appeal in April 1998 upheld the constitutionality of Proposition 218's balloting procedures as a condition to the validity and collectibility of local governmental assessments. A number of validation actions for and challenges to various local governmental taxes, fees and assessments have been filed in Superior Court throughout the State, which could result in additional interpretations of Proposition 218. The interpretation and application of

Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and the outcome of such determination cannot be predicted at this time with any certainty.

Ballot Initiatives and Legislative Measures

Proposition 218 was adopted pursuant to a measure qualified for the ballot pursuant to California's constitutional initiative process; and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the District or other local districts to increase revenues or to increase appropriations or on the ability of a landowner to complete the development of property. See "SPECIAL RISK FACTORS – Future Land Use Regulations and Growth Control Initiatives" above.

No Acceleration

The Bonds do not contain a provision allowing for their acceleration in the event of a payment default or other default under the terms of the Bonds or the Indenture or upon any adverse change in the tax status of interest on the Bonds. There is no provision in the Act or the Indenture for acceleration of the Special Taxes in the event of a payment default by an owner of a parcel within the District. Pursuant to the Indenture, a Bond Owner is given the right for the equal benefit and protection of all Bond Owners to pursue certain remedies described in "APPENDIX C – SUMMARY OF INDENTURE."

Loss of Tax Exemption

As discussed under the caption "CONCLUDING INFORMATION – Tax Exemption," in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the District has covenanted in the Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Interest on the Bonds could become includable in gross income for purposes of Federal income taxation retroactive to the date the Bonds were issued, as a result of acts or omissions of the City or the District in violation of the Code. 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 optional redemption or mandatory sinking fund redemption provisions of the Indenture.

Limitations on Remedies

Remedies available to the Bond Owners 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 and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. 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 Bond Owners.

Enforceability of the rights and remedies of the Bond Owners, and the obligations incurred by the District, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency,

reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against joint powers authorities in the State. See "SPECIAL RISK FACTORS – Bankruptcy and Foreclosure."

Limited Secondary Market

As stated herein, investment in the Bonds poses certain economic risks which may not be appropriate for certain investors, and only persons with substantial financial resources who understand the risk of investment in the Bonds should consider such investment. There can be no guarantee that there will be a secondary market for purchase or sale of the Bonds or, if a secondary market exists, that the Bonds can or could be sold for any particular price. No application has been made for a credit rating for the Bonds, and it is not known whether a credit rating could be secured either now or in the future for the Bonds.

CONCLUDING INFORMATION

Underwriting

The Underwriter purchased the Bonds at a purchase price of \$14,320,789.50, representing the principal amount of the Bonds of \$14,710,000 less an Underwriter's discount of \$220,650.00 and less an Original Issue Discount of \$168,560.50. The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may realow any such discounts on sales to other dealers.

Legal Opinion

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, approving the validity of the Bonds, in substantially the form set forth in APPENDIX E hereto, will be made available to purchasers of the Bonds at the time of original delivery. A copy of the legal opinion for the Bonds will be provided with each definitive bond. Bond Counsel has not undertaken on behalf of the Owners or the Beneficial Owners of the Bonds to review the Official Statement and assumes no responsibility to such Owners and Beneficial Owners for the accuracy of the information contained herein. Certain legal matters will be passed upon for the City by McDougal, Love, Eckis, Smith, Boehmer & Foley, El Cajon, California and by Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel to the City with respect to the issuance of the Bonds.

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, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes, and

is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest (and original issue discount) on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 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 owner of the Bond is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

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

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). 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.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update

the matters set forth in its opinion. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any Bond as to which any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

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

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

No Litigation

A certificate of the District to the effect that no litigation is pending or threatened concerning the validity of the Bonds will be furnished to the Underwriter at the time of the original delivery of the Bonds. Neither the City nor the District are aware of any litigation pending or threatened which questions the existence of the District or the City or contests the authority of the District to levy and collect the Special Taxes or to issue the Bonds.

No Rating on the Bonds

The Bonds are not rated and the District does not anticipate applying for a rating on the Bonds.

Miscellaneous

All of the preceding summaries of the Indenture, other applicable legislation, agreements and other documents are made subject to the provisions of such documents and do not purport to be complete documents of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Bonds.

APPENDIX A
RATE AND METHOD OF APPORTIONMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

**RATE AND METHOD OF APPORTIONMENT
CITY OF CALEXICO
COMMUNITY FACILITIES DISTRICT NO. 2005-1
(Hearthstone)**

The following sets forth the Rate and Method of Apportionment for the levy and collection of Special Taxes of the City of Calexico ("City") Community Facilities District No. 2005-1 (Hearthstone) ("CFD No. 2005-1"). The Special Tax shall be levied on and collected in CFD No. 2005-1 each Fiscal Year, in an amount determined through the application of the Rate and Method of Apportionment described below. All of the real property in CFD No. 2005-1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

"Act" means the Mello-Roos Communities 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 any ordinary and necessary expense incurred by the City on behalf of CFD No. 2005-1 related to the determination of the amount of the levy of Special Taxes, the collection of Special Taxes including the expenses of collecting delinquencies, the administration of Bonds, the payment of salaries and benefits of any City employee whose duties are directly related to the administration of CFD No. 2005-1, and costs otherwise incurred in order to carry out the authorized purposes of CFD No. 2005-1.

"Assessor's Parcel" means a lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number within the boundaries of CFD No. 2005-1.

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

"Assessor's Parcel Number" means that number assigned to an Assessor's Parcel by the County for purposes of identification.

"Assigned Special Tax for Facilities" means the Special Tax of that name described in Section D below.

"Backup Special Tax for Facilities" means the Special Tax of that name described in Section E below.

"Bonds" means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to which Special Taxes for Facilities have been pledged.

"Building Permit" means a permit for new construction for a residential dwelling. For purposes of this definition, "Building Permit" shall not include permits for construction or installation of, retaining walls, utility improvements, or other such improvements not intended for human habitation.

"Building Square Footage" or "BSF" means the square footage of assessable internal living space, exclusive of garages or other structures not used as living space, as determined by reference to the building permit application for such Assessor's Parcel.

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

"CFD No. 2005-1" means Community Facilities District No. 2005-1 (La Jolla Palms) established by the City under the Act.

"City" means the City of Calexico.

"City Council" means the City Council of City of Calexico, acting as the legislative body of CFD No. 2005-1, or its designee.

"Consumer Price Index" means the index published monthly by the U.S. Department of Labor Statistics for all urban consumers in the Los Angeles–Riverside–Orange County area.

"County" means the County of Imperial.

"Developed Property" means all Assessor's Parcels for which Building Permits were issued on or before March 1 of the prior Fiscal Year, provided that such Assessor's Parcels were included in a Final Map that was recorded on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as reasonably determined by the City.

"Exempt Property" means all Assessors' Parcels designated as being exempt from Special Taxes in Section J.

"Final Map" means a subdivision of property evidenced by the recordation of a final map, parcel map, or lot line adjustment, pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) or the recordation of a condominium plan pursuant to California Civil Code

1352 that creates individual lots for which Building Permits may be issued without further subdivision.

"Fiscal Year" means the period commencing on July 1 of any year and ending the following June 30.

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

"Lot" means an individual legal lot created by a Final Map, identified by an Assessor's Parcel Number, for which a Building Permit could be issued.

"Maximum Special Tax" means the Maximum Special Tax for Facilities and Maximum Special Tax for Services.

"Maximum Special Tax for Facilities" means the maximum Special Tax, determined in accordance with Section C.1.a. that can be levied by CFD No. 2005-1 in any Fiscal Year on any Assessor's Parcel.

"Maximum Special Tax for Services" means the maximum Special Tax, determined in accordance with Section C.1.b. that can be levied by CFD No. 2005-1 in any Fiscal Year on any Assessor's Parcel.

"Non-Residential Property" means all Assessor's Parcels of a Final Map designated for any type of non-residential use.

"Operating Fund" means a fund that shall be maintained for CFD No. 2005-1 for any Fiscal Year to pay for the actual Public Safety Services Costs, and applicable share of Administrative Expenses.

"Operating Fund Balance" means the amount of funds in the Operating Fund at the end of the preceding Fiscal Year.

"Partial Prepayment Amount" means the amount required to prepay a portion of the Special Tax for Facilities obligation for an Assessor's Parcel, as described in Section H.

"Prepayment Amount" means the amount required to prepay the Special Tax for Facilities obligation in full for an Assessor's Parcel, as described in Section G.

"Proportionately" means that i) the ratio of the actual Special Tax for Facilities levy to the applicable Assigned Special Tax for Facilities is equal for all applicable Assessor's Parcels and ii) the ratio of the actual Special Tax for Services levy to the applicable Maximum Special Tax for Services is equal for all applicable Assessor's Parcels. In case of Developed Property subject to the apportionment of the Special Tax for Facilities under step three of Section F.1., "Proportionately" in step three means that the quotient of (a) the actual Special Tax for Facilities levy less the Assigned Special Tax for Facilities divided by (b) the Backup Special Tax for Facilities less the Assigned Special Tax for Facilities, is equal for all applicable Assessor's Parcels.

“Public Safety Services Costs” means CFD No. 2005-1’s fair share of the estimated and reasonable costs of providing police services and fire protection and suppression services, including but not limited to the allocable share of (i) the costs of contracting services, (ii) related facilities, equipment, vehicles, ambulances and paramedics, fire apparatus, supplies, (iii) salaries and benefits of City and Fire District staff that directly provide police services and fire protection and suppression services, respectively, and (iv) City and Fire District overhead costs associated with providing such services within the District..

“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 Special Tax for Facilities and Special Tax for Services.

“Special Tax for Facilities” means any of the special taxes authorized to be levied by CFD No. 2005-1 pursuant to the Act to fund the Special Tax Requirement for Facilities.

“Special Tax for Services” means any of the special taxes authorized to be levied by CFD No. 2005-1 pursuant to the Act to fund the Special Tax Requirement for Services.

“Special Tax Requirement” means Special Tax Requirement for Facilities and Special Tax Requirement for Services.

“Special Tax Requirement for Facilities” means for CFD No. 2005-1 that amount required in any Fiscal Year to pay: (i) the debt service or the periodic costs on all outstanding Bonds due in the Calendar Year that commences in such Fiscal Year, (ii) Administrative Expenses (iii) the costs associated with the release of funds from an escrow account, and (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds, (v) the collection or accumulation of funds for the acquisition or construction of facilities authorized by CFD No. 2005-1 provided that the inclusion of such amount does not cause an increase in the levy of Special Tax for Facilities on Undeveloped Property, less (vi) any amount available to pay debt service or other periodic costs on the Bonds pursuant to the Indenture.

“Special Tax Requirement for Services” means the amount determined in any Fiscal Year for CFD No. 2005-1 equal to (i) the budgeted Public Safety Services Costs (ii) Administrative Expenses, and (iii) anticipated delinquent Special Taxes for Services based on the delinquency rate in CFD No. 2005-1 for the previous Fiscal Year, less (iv) the Operating Fund Balance.

“Taxable Property” means all Assessor’s Parcels within CFD No. 2005-1 which are not Exempt Property.

“Undeveloped Property” means all Assessor’s Parcels of Taxable Property which are not Developed Property.

**SECTION B
CLASSIFICATION OF ASSESSOR'S PARCELS**

Each Fiscal Year, beginning with Fiscal Year 2006-07, each Assessor's Parcel within CFD No. 2005-1 shall be classified as Taxable Property or Exempt Property. In addition, each Fiscal Year, each Assessor's Parcel of Taxable Property shall be further classified as Developed Property or Undeveloped Property. Lastly, each Fiscal Year, each Assessor's Parcel of Developed Property shall further be classified as Residential Property or Non-Residential Property.

**SECTION C
MAXIMUM SPECIAL TAXES**

1. Developed Property

- a. The Maximum Special Tax for Facilities for each Assessor's Parcel of Residential Property that is classified as Developed Property in any Fiscal Year shall be the amount determined by the greater of (i) the application of the Assigned Special Tax for Facilities in Table 1 or (ii) the application of the Backup Special Tax for Facilities. The Maximum Special Tax for each Assessor's Parcel of Non-Residential Property that is classified as Developed Property in any Fiscal Year shall be the Assigned Annual Special Tax for Facilities in Table 1.
- b. The Maximum Special Tax for Services for each Assessor's Parcel of Residential Property that is classified as Developed Property for Fiscal Year 2006-07 shall be \$420 per unit. The Maximum Special Tax for Services for each Assessor's Parcel of Non-Residential Property that is classified as Developed Property in any Fiscal Year shall be \$1,680 per Acre. On each July 1, commencing July 1, 2007, the Maximum Special Tax for Services for the prior Fiscal Year shall be adjusted by an amount equal to the percentage change in the Consumer Price Index for the Calendar Year ending in December of the prior Fiscal Year.

2. Undeveloped Property

- a. The Maximum Special Tax for Facilities for each Assessor's Parcel classified as Undeveloped Property in any Fiscal Year shall be the Assigned Special Tax for Facilities in Table 1.
- b. The Maximum Special Tax for Services for each Assessor's Parcel of Undeveloped Property for Fiscal Year 2006-07 shall be \$1,680 per acre. On each July 1, commencing July 1, 2007, the Maximum Special Tax for Services for the prior Fiscal Year shall be adjusted by an amount equal to the percentage change in the Consumer Price Index for the Calendar Year ending in December of the prior Fiscal Year.

**SECTION D
ASSIGNED SPECIAL TAXES FOR FACILITIES**

Each Fiscal Year, each Assessor's Parcel of Developed Property or Undeveloped Property shall be subject to an Assigned Special Tax for Facilities. The Assigned Special Tax for Facilities applicable to an Assessor's Parcel of Developed Property or Undeveloped Property for any Fiscal Year shall be determined pursuant to Table 1 below.

**TABLE 1
ASSIGNED SPECIAL TAX FOR FACILITIES**

Land Use Type	Building Square Footage	Assigned Special Tax for Facilities
Residential Property	Less than or equal to 1,750	\$1,849 per dwelling unit
Residential Property	1,751-2,000	\$2,028 per dwelling unit
Residential Property	2,001-2,250	\$2,117 per dwelling unit
Residential Property	2,251-2,500	\$2,260 per dwelling unit
Residential Property	2,501-2,750	\$2,296 per dwelling unit
Residential Property	2,751-3,000	\$2,439 per dwelling unit
Residential Property	3,001-3,250	\$2,581 per dwelling unit
Residential Property	Greater than 3,250	\$3,019 per dwelling unit
Non-Residential Property	N/A	\$15,590 per Acre
Undeveloped Property	N/A	\$15,590 per Acre

**SECTION E
BACKUP SPECIAL TAX FOR FACILITIES**

When a Final Map is recorded the Backup Special Tax for Facilities for Residential Property, Non-Residential Property, and Undeveloped Property shall be determined as specified below.

Each Fiscal Year, each Assessor's Parcel of Residential Property or Undeveloped Property to be classified as Residential Property upon its development within a Final Map shall be the rate per Lot calculated according to the following formula:

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

The terms above have the following meanings:

- B = Backup Special Tax for Facilities per Lot in each Fiscal Year
- R = Maximum Special Tax for Facilities rate per Acre for Undeveloped Property for the applicable Fiscal Year
- A = Acreage classified or to be classified as Residential Property in such Final Map.

L = Lots in the Final Map which are classified or to be classified as Residential Property.

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 Facilities for each Assessor's Parcel of Developed Property classified or to be classified as Residential Property in such Final Map area that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Special Tax for Facilities anticipated to apply to the changed or modified Final Map area prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Developed Property classified or to be classified as Residential Property which is ultimately expected to exist in such changed or modified Final Map area, as reasonably determined by the City.
3. The result of paragraph 2 above shall be divided by 43,560. The result is the Backup Special Tax for Facilities per square foot of Acreage which shall be applicable to Assessor's Parcels of Developed Property classified as Residential Property in such changed or modified Final Map area for all remaining Fiscal Years in which the Special Tax for Facilities may be levied.

SECTION F
METHOD OF APPORTIONMENT OF THE SPECIAL TAX FOR FACILITIES
AND THE SPECIAL TAX FOR SERVICES

1. Commencing Fiscal Year 2006-07 and for each subsequent Fiscal Year, the City Council shall levy a Special Tax for Facilities on all Taxable Property within CFD No. 2005-1 until the amount of Special Tax for Facilities equals the Special Tax Requirement for Facilities in accordance with the following steps:

Step One: The Special Tax for Facilities shall be levied Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax for Facilities rates in Table 1 as needed to satisfy the Special Tax Requirement for Facilities.

Step Two: If additional moneys are needed to satisfy the Special Tax Requirement for Facilities after the first step has been completed, the Special Tax for Facilities shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property, excluding any Undeveloped Property pursuant to Section J., at up to 100% of the Assigned Special Tax for Facilities applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement for Facilities.

Step Three: If additional moneys are needed to satisfy the Special Tax Requirement for Facilities after the first two steps have been completed, then for each Assessor's

Parcel of Developed Property whose Maximum Special Tax for Facilities is the Backup Special Tax for Facilities shall be increased Proportionately from the Assigned Special Tax for Facilities up to 100% of the Backup Special Tax for Facilities as needed to satisfy the Special Tax Requirement for Facilities.

- Step Four: If additional moneys are needed to satisfy the Special Tax Requirement for Facilities after the first three steps have been completed, the Special Tax for Facilities shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property classified as Undeveloped Property pursuant to Section J. at up to 100% of the Assigned Special Tax for Facilities applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement for Facilities.
2. Commencing Fiscal Year 2006-07 and for each subsequent Fiscal Year, the City Council shall levy a Special Tax for Services on all Taxable Property within CFD No. 2005-1 until the amount of Special Tax for Services equals the Special Tax Requirement for Services in accordance with the following steps:
- Step One: The Maximum Special Tax for Services shall be levied Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Maximum Special Tax for Services as needed to satisfy the Special Tax Requirement for Services.
- Step Two: If additional moneys are needed to satisfy the Special Tax Requirement for Services after the first step has been completed, the Maximum Special Tax for Services shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property within a Final Map, at up to 100% of the Maximum Special Tax for Services applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement for Services.

Under no circumstances will the Special Tax for Facilities or the Special Tax for Services levied against any Assessor's Parcel used as a private residence be increased as a consequence of delinquency or default by the owner of any other Assessor's Parcel or Parcels within CFD No. 2005-1 by more than ten (10) percent of the Special Tax that would be levied in that Fiscal Year, if there were no delinquencies, pursuant to California Government Code Section 53321(d), as in effect on the date of formation of CFD No. 2005-1.

SECTION G PREPAYMENT OF SPECIAL TAX FOR FACILITIES

The following definitions apply to this Section G:

“CFD Public Facilities” means \$12,500,000 expressed in 2005 dollars, which shall increase by the Construction Inflation Index on January 1, 2006, and on each January 1 thereafter, or such lower number as (i) shall be determined by the City as sufficient to provide the public facilities under the authorized bonding program for CFD No. 2005-1, or (ii) shall be determined by the City 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.

“Construction Fund” means an account specifically identified in the Indenture or functionally equivalent to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under CFD No. 2005-1.

“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 City 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 public facility costs available to be funded through existing construction or escrow accounts or funded by the Outstanding Bonds, and minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment.

“Outstanding Bonds” means all previously issued Bonds issued and secured by the levy of Special Tax for Facilities which will remain outstanding after the first interest and/or principal payment date following the current Fiscal Year, excluding Bonds to be redeemed at a later date with the proceeds of prior prepayments of Maximum Special Taxes for Facilities.

The Special Tax for Facilities obligation of an Assessor's Parcel of Developed Property, an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued or an Assessor's Parcel of Undeveloped Property that is classified as Undeveloped Property pursuant to Section J. may be prepaid in full, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Special Tax for Facilities obligation would be prepaid. The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined as described below.

An owner of an Assessor's Parcel intending to prepay the Special Tax for Facilities obligation shall provide the City with written notice of intent to prepay, and within 5 days of receipt of such notice, the City shall notify such owner of the amount of the non-refundable deposit determined to cover the cost to be incurred by CFD No. 2005-1 in calculating the proper amount of a prepayment. Within 15 days of receipt of such non-refundable deposit, the City shall notify such owner of the prepayment amount of such Assessor's Parcel.

The Prepayment Amount for each applicable Assessor's Parcel shall be calculated according to the following formula (capitalized terms defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance

plus	Administrative Fee
less	<u>Reserve Fund Credit</u>
equals	Prepayment Amount

As of the date of prepayment, the Prepayment Amount shall be calculated as follows:

1. For Assessor's Parcels of Developed Property, compute the Assigned Special Tax for Facilities and the Backup Special Tax for Facilities applicable to the Assessor's Parcel. For Assessor's Parcels of Undeveloped Property, excluding any Undeveloped Property pursuant to Section J., compute the Assigned Special Tax for Facilities and the Backup Special Tax for Facilities applicable to the Assessor's Parcel as though it was already designated as Developed Property based upon the Building Permit issued or to be issued for that Assessor's Parcel. For Assessor's Parcels of Undeveloped Property, classified as Undeveloped Property pursuant to Section J., compute the Assigned Special Tax for Facilities.
2. For each Assessor's Parcel of Developed Property, Undeveloped Property or Undeveloped Property pursuant to Section J. to be prepaid, (a) divide the Assigned Special Tax for Facilities computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Assigned Special Tax for Facilities applicable to all Assessor's Parcels of Taxable Property at buildout, as reasonably determined by the City, and (b) divide the Backup Special Tax for Facilities, if any, computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Backup Special Tax for Facilities applicable to all Assessor's Parcels of Taxable Property at buildout, as reasonably determined by the City.
3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by Outstanding Bonds. The product shall be the "Bond Redemption Amount".
4. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."
5. If all the Bonds authorized to be issued by CFD No. 2005-1 have not been issued, compute the Future Facilities Cost.
6. Multiply the larger quotient computed pursuant to paragraph 2 (a) or 2 (b) by the amount determined pursuant to paragraph 5. to determine the Future Facilities Cost to be prepaid (the "Future Facilities Amount").
7. Compute the amount needed to pay interest on the Bond Redemption Amount from the first Bond interest payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.

8. Estimate the amount of interest earnings to be derived from the reinvestment of the Bond Redemption Amount plus the Redemption Premium until the earliest redemption date for the Outstanding Bonds.
9. Subtract the amount computed pursuant to paragraph 8 from the amount computed pursuant to paragraph 7. This difference is the "Defeasance."
10. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."
11. Calculate the "Reserve Fund Credit" as the lesser of: (a) the expected reduction in the applicable reserve requirements, if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement(s) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the applicable reserve funds on the prepayment date. Notwithstanding the foregoing, if the reserve fund requirement is satisfied by a surety bond or other instrument at the time of the prepayment, then no Reserve Fund Credit shall be given. Notwithstanding the foregoing, the Reserve Fund Credit shall in no event be less than 0.
12. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, the Future Facilities Amount, the Defeasance, and the Administrative Fee, less the Reserve Fund Credit.

With respect to a Special Tax for Facilities obligation that is prepaid pursuant to this Section G., the City Council shall indicate in the records of CFD No. 2005-1 that there has been a prepayment of the Special Tax for Facilities obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such prepayment to indicate the prepayment of the Special Tax for Facilities obligation and the release of the Special Tax for Facilities lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Special Taxes for Facilities shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Special Tax for Facilities that may be levied on Taxable Property, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently Outstanding Bonds in each future Fiscal Year.

SECTION H PARTIAL PREPAYMENT OF SPECIAL TAX FOR FACILITIES

The Special Tax for Facilities obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued and will be classified as Developed Property in the next Fiscal Year, as calculated in this Section H. below, may

be partially prepaid, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Special Tax for Facilities obligation would be prepaid.

The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = (P_G - A) \times F + A$$

The terms above have the following meanings:

- PP = the Partial Prepayment Amount.
- P_G = the Prepayment Amount calculated according to Section G.
- F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Special Tax for Facilities obligation.
- A = the Administrative Fee calculated according to Section G.

With respect to any Assessor's Parcel that is partially prepaid, the City Council shall indicate in the records of CFD No. 2005-1 that there has been a partial prepayment of the Special Tax for Facilities obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such partial prepayment of the Special Tax for Facilities obligation, to indicate the partial prepayment of the Special Tax for Facilities obligation and the partial release of the Special Tax for Facilities lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Special Tax for Facilities shall cease.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Special Taxes for Facilities that may be levied on Taxable Property after such partial prepayment, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently Outstanding Bonds in each future Fiscal Year.

SECTION I TERMINATION OF SPECIAL TAX

For each Fiscal Year that any Bonds are outstanding the Special Tax for Facilities shall be levied on all Assessor's Parcels subject to the Special Tax for Facilities. If any delinquent Special Tax for Facilities remain uncollected prior to or after all Bonds are retired, the Special Tax for Facilities may be levied to the extent necessary to reimburse CFD No. 2005-1 for uncollected Special Taxes for Facilities associated with the levy of such Special Tax for Facilities, but not later than the 2046-2047 Fiscal Year. The Special Tax for Services shall be levied as long as it is needed to meet the Special Tax Requirement for Services, as determined at the sole discretion of the City Council.

SECTION J EXEMPTIONS

The City shall classify as Exempt Property (i) Assessor's Parcels owned by the State of California, Federal or other local governments, (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor's Parcels used exclusively by a homeowners' association, or (iv) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement, provided that no such classification would reduce the sum of all Taxable Property to less than 69.87 Acres. Notwithstanding the above, the City Council shall not classify an Assessor's Parcel as Exempt Property if such classification would reduce the sum of all Taxable Property to less than 69.87 Acres. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 69.87 Acres will continue to be classified as Undeveloped Property, and will continue to be subject to Special Taxes accordingly.

SECTION K APPEALS

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the City Council not later than twelve months after having paid the first installment of the Special Tax that is disputed. A representative(s) of CFD No. 2005-1 shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the representative's decision requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

The City Council may interpret this Rate and Method of Apportionment of Special Taxes for purposes of clarifying any ambiguity and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals. Any decision of the City Council shall be binding as to all persons.

SECTION L MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that CFD No. 2005-1 may collect the Special Tax at a different time or in a different manner if necessary to meet its financial obligations.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

CITY OF CALEXICO SUPPLEMENTAL INFORMATION

The following information concerning the City of Calexico is presented as general background data. The Bonds are payable solely from Special Taxes levied by the District as described in the Official Statement. The Bonds are not an obligation of the City, and the taxing power of the City is not pledged to the payment of the Bonds (except to the limited extent described herein).

General Information

The City of Calexico (the “City”) is located approximately 120 miles east of the City of San Diego and 225 miles southeast of the City of Los Angeles. The City is a general law city incorporated in 1908 with a Council/Manager form of government consisting of five Council members elected to four-year overlapping terms. The City encompasses an area of approximately four square miles with an average elevation at sea level. The population of the City as of January 1, 2006 was estimated to be 36,740.

Climate and Topography

The City is situated on the United States-Mexican Border, adjacent to Mexicali, B.C., Mexico. Calexico is the second largest city in the Imperial Valley and has an area of approximately 4.0 square miles.

Calexico is located 225 miles southeast of Los Angeles and 637 miles southeast of San Francisco. It is approximately 120 miles east of the Pacific Coast and 54 miles west of the Colorado River. The City of Calexico is at sea level and its summers are hot and dry, with the winters being mild and generally dry. The average rainfall is 1.75 inches.

Population

A summary of the City's population is shown below.

CITY OF CALEXICO POPULATION

1991.....	19,340	1999.....	26,475
1992.....	20,242	2000.....	27,109
1993.....	22,246	2001.....	28,064
1994.....	23,750	2002.....	29,854
1995.....	24,650	2003.....	32,130
1996.....	24,542	2004.....	34,404
1997.....	25,273	2005.....	36,229
1998.....	25,820	2006.....	36,740

Source: California Department of Finance.

City’s Taxable Valuation

Taxable valuation within the City is established by the Imperial County Assessor (the “County Assessor”), except for utility property, which is assessed by the State Board of Equalization. Article XIII A of the State Constitution provides that, beginning with the 1978-79 fiscal year, property

taxes in California are limited to one percent of full cash value, except for taxes to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and debt service on bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by a two-thirds vote of the people. Article XIII A defines full cash value as the County Assessor's valuation of real property as shown on the 1975-76 tax bill ("base year") except in the case of newly-constructed property or property which undergoes a change in ownership. Yearly taxable value increases following the base year are limited to the growth in the consumer price index, but may not exceed two percent annually.

For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

A ten-year summary of the City's taxable valuation is set forth below. These figures are presented for historical comparison, with reference only to the time frame of the years shown inasmuch as Article XIII A of the State Constitution, discussed previously, will have an effect upon future taxable valuation of the City.

**CITY OF CALEXICO
TAXABLE VALUATION(1)
FOR THE PERIOD 1996-2005**

<i><u>Fiscal Year</u></i> <i><u>Ending June 30</u></i>	<i><u>Secured Property</u></i> <i><u>Valuation</u></i>	<i><u>Unsecured</u></i> <i><u>Property Valuation</u></i>	<i><u>Homeowners</u></i> <i><u>Exemption</u></i>	<i><u>Net Secured</u></i> <i><u>Valuation</u></i>
1996	\$ 518,808,220	\$45,392,473	\$18,545,793	\$ 500,262,427
1997	550,569,748	35,903,776	19,131,176	531,438,572
1998	554,130,664	30,610,390	19,469,147	534,661,517
1999	614,717,398	37,113,427	19,908,224	594,809,174
2000	648,549,458	40,803,016	20,165,049	628,384,409
2001	659,447,864	44,122,158	20,556,642	638,891,222
2002	694,682,029	47,340,197	20,873,382	673,808,647
2003	790,071,025	45,551,014	21,891,467	768,179,558
2004	892,832,477	46,483,442	23,107,967	869,724,510
2005	1,115,402,355	52,014,072	24,781,082	1,090,621,273

(1) Secured Valuation shown at one hundred percent (100%) of cash value.
Source: County of Imperial.

Tax Rate

A typical tax rate in the City of Calexico is made up as follows:

	2005-06 Typical Tax Rate (TRA 2-009)
General	1.0000
Calexico Unified School District Bonds	0.0487
Imperial Community College 2004 Bonds	<u>0.0250</u>
Total	1.0737

Source: County of Imperial.

Construction Activity

The table below summarizes construction activity in Calexico for both single-family and attached living units and commercial units during the last five calendar years.

**CITY OF CALEXICO
BUILDING PERMIT VALUATION
(VALUATION IN THOUSANDS OF DOLLARS)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
No. of New Dwelling Units:					
Single Units	291	430	359	448	332
Multiple Units	411	88	75	98	105
Total Residential Units	<u>702</u>	<u>518</u>	<u>434</u>	<u>546</u>	<u>437</u>
Residential (\$000):					
Single Unit	\$32,996	\$52,159	\$47,783	\$67,028	\$64,717
Multiple Units	3,843	5,944	4,697	6,255	7,734
Total Residential	<u>\$36,839</u>	<u>\$58,103</u>	<u>\$53,731</u>	<u>\$74,919</u>	<u>\$74,642</u>

Source: County of Imperial.

**IMPERIAL COUNTY
BUILDING PERMIT VALUATION
(VALUATION IN THOUSANDS OF DOLLARS)**

	2001	2002	2003	2004	2005
Permit Valuation					
New Single-family	\$65,220.3	\$101,642.6	\$126,111.1	\$214,228.5	\$442,042.7
New Multi-family	7,962.7	14,352.0	11,747.9	52,656.5	14,779.2
Res. Alterations/Additions	4,924.5	6,044.6	6,910.7	5,702.9	9,863.5
Total Residential	\$78,107.5	\$122,039.2	\$144,769.7	\$272,587.9	\$466,685.4
New Commercial	\$4,280.5	\$25,758.9	\$31,859.7	\$74,745.0	\$36,691.9
New Industrial	548.0	-	1,437.4	7,687.9	-
New Other	5,197.4	10,634.6	10,417.0	11,815.9	11,944.3
Com. Alterations/Additions	5,024.1	10,954.8	9,213.4	10,488.1	17,424.1
Total Nonresidential	\$15,050.0	\$47,348.3	\$52,927.5	\$104,736.9	\$66,060.3
New Dwelling Units					
Single Family	588.0	838.0	977.0	1,330.0	2,722.0
Multiple Family	198.0	224.0	234.0	827.0	252.0
Total	786.0	1,062.0	1,211.0	2,157.0	2,974.0

Source: Construction Industry Research Board, Building Permit Summary.

Commerce

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions is presented in the following table.

**CITY OF CALEXICO
TAXABLE RETAIL STORES
NUMBER OF PERMITS AND VALUATION OF TAXABLE TRANSACTIONS**

Year	Retail Stores		Total All Outlets	
	Taxable Permits	Value of Transactions	Taxable Permits	Value of Transactions
2000	870	\$306,715,000	1,957	\$333,136,000
2001	961	315,031,000	2,034	344,267,000
2002	1,103	346,424,000	2,062	378,396,000
2003	1,195	348,765,000	2,124	378,080,000
2004	1,254	358,981,000	2,155	389,055,000

Source: California State Board of Equalization.

**IMPERIAL COUNTY
NUMBER OF PERMITS AND VALUATION OF TAXABLE TRANSACTIONS**

Year	Retail Stores			Total All Outlets		
	No. of Permits	Taxable Transaction	% Change	No. of Permits	Taxable Transaction	% Change
2001	1,898	967,282	2.9%	3,928	1,381,668	-1.6%
2002	2,046	1,037,697	7.3%	3,958	1,462,537	5.9%
2003	2,164	1,106,817	6.7%	4,067	1,528,886	4.5%
2004	2,254	1,216,407	9.9%	4,129	1,689,539	10.5%
2005 ⁽¹⁾	NA	678,087	N/A	NA	949,620	N/A

(1) Represents data through the 2nd Quarter of 2005.
Source: California State Board of Equalization.

Employment and History

The City of Calexico is included in the Imperial labor market area. The following table shows the estimated employment by industry.

	Imperial Market Area ⁽¹⁾			
	2002	2003	2004	2005
Agriculture	10,000	11,900	9,600	11,800
Natural Resources, Mining and Construction	1,800	1,700	1,700	1,900
Manufacturing	2,500	2,300	2,200	2,400
Trade, Transportation and Utilities	9,400	9,900	10,500	10,800
Information	400	400	400	400
Financial Activities	1,400	1,400	1,400	1,300
Professional and Business Services	2,100	2,000	2,100	2,200
Educational and Health Services	2,400	2,500	2,500	2,700
Leisure and Hospitality	2,900	2,900	3,000	3,000
Other Services	1,300	900	900	900
Government	16,600	16,700	16,900	16,800
Total All Industries	50,700	52,600	51,200	54,200
Total Civilian Labor Force ⁽²⁾	55,800	58,400	59,200	61,500
Total Unemployment	10,700	8,600	10,300	9,700
Unemployment Rate ⁽³⁾	19.2%	14.7%	17.4%	15.8%

⁽¹⁾ Average employment reported for the years indicated by place of work excluding self-employed, unpaid families and workers involved in labor disputes. Jobs are counted regardless of the number of hours worked. Individuals who hold more than one job may be counted more than once. Columns may not add due to rounding.

⁽²⁾ Annual average total labor force (and components) by location of residence; includes workers involved in trade disputes.

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

Source: California Employment Development Department.

Personal Income

Personal income information for Imperial County, the State of California and the United States are summarized in below.

MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME (EBI) IMPERIAL COUNTY, CALIFORNIA AND UNITED STATES 2000 – 2004

<u>Year</u>	<u>Imperial County</u>	<u>State of California</u>	<u>United States</u>
2000	\$23,090	\$44,464	\$39,129
2001	24,770	43,532	38,365
2002	30,138	42,484	38,085
2003	30,215	42,924	38,201
2004	31,989	43,915	39,324

Note: Personal income data not available for smaller geographical areas such as the City of Calexico. 2005 data not yet available.

Source: Sales and Marketing Management, "Survey of Buying Power."

PERCENT OF HOUSEHOLDS BY EFFECTIVE BUYING INCOME GROUPS AS OF DECEMBER 31, 2005

<u>EBI Group</u>	<u>Imperial County Households</u>	<u>California Households</u>
\$20,000-34,999	24.6%	20.0%
\$35,000-49,999	18.9%	18.8%
\$50,000 and over	26.7%	42.5%

Source: Sales & Marketing Management, "Survey of Buying Power."

Industrial Development

Because of two pressing factors, high unemployment and a large pool of unskilled labor, Calexico has become a prime target area for manufacturing and assembly plants. Industrial development is on the move with the near future completion and expansion of several properties. Several sites within the City limits are zoned for light industry, the premier development being the 66-acre Industrial Park.

The Industrial Park is being developed by the Calexico Community Action Council, Inc. This Park is in a prime industrial location situated two miles north of the Point of Entry along the State Highway 111. Seven miles to the north is Interstate 8 which provides highway access to all major western markets. Airport and rail services are also available.

There are 410 acres in the city limits zoned for light industry: about 40% is vacant and available in parcels ranging in size from 1 to 10 acres. Included in this acreage total is one industrial park. The terrain is 1% slope. Drainage is generally good.

Subsoil is adobe, and piling is not required. Sizes of water mains range from 2 to 18 inches. Sizes of sewer lines range from 6 to 36 inches. Description of sites zoned for industry outside the City limits in other tracts or districts: approximately 168 acres are zoned light industry and adjoins the City in the North.

Utilities

Water is supplied by the Calexico Water Department. Southern California Gas Company supplies natural gas and electric power is provided by Southern California Edison Company. Telephone service is available through Verizon Communications and trash collection is provided by Newco Company.

Community Service Facilities

Health. Calexico has one general hospital with a 34 total bed capacity. There are seven physician/surgeons, three dentists, five optometrists and two chiropractors.

Education. Six elementary schools, one private elementary parochial school, one public high school, one private parochial high school. Advanced education is available at two colleges: Imperial Valley College (2 year) in Imperial and San Diego State University—Imperial Valley Campus in Calexico, California.

Cultural. The City has ten churches, one library, one daily newspaper, one weekly newspaper, two radio stations, one television station, one television cable system, four banks, one savings and loan, seven parks, two playgrounds and one theater. Other recreational facilities include the International Golf Course and Country Club and a multitude of activities in Mexicali, Baja California, Mexico.

The Calexico Community Center provides entertainment and recreation facilities for the community. A monthly publication "Calexico Today," also serves the City by providing important community information. Police and fire protection is maintained by the City to serve the residents.

Transportation

Rail. Southern Pacific Railroad connects with main line to Portland, Rock Island, Tukumcari, St. Louis and New Orleans.

Truck. There are eighteen common carriers for intrastate and interstate service to Calexico, with a capacity for overnight deliveries to San Diego, Los Angeles, Phoenix, Tucson and intermediate points.

Air. Imperial County Airport (Boley Field), located seventeen miles north of the city limits, has general aviation facilities and provides scheduled passenger service to Los Angeles, Phoenix and other points in Arizona. Calexico International Airport located approximately one half mile west of the City limits also provides Charter Service.

Bus. Greyhound Bus Lines serves the City.

Highway. The City of Calexico is located at the junction of State Highways 98 and 111. Interstate 8, located approximately seven miles north of the City limits, connects the City with San Diego to the west and Yuma, Arizona to the east.

APPENDIX C

SUMMARY OF INDENTURE

The following is a summary of certain provisions of the Indenture and does not purport to be complete. Copies of the Indenture are available from the Agency upon request. All capitalized terms used herein and not otherwise defined shall have the same meaning as used in the Indenture.

DEFINITIONS

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

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

“Acquisition Agreement” means that certain Funding and Acquisition Agreement dated as of July 1, 2006 by and between the City, PCC – La Jolla Palms, LLC and PCG – La Jolla Palms, L.P., 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 under the Indenture.

“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 \$25,000 per Bond Year commencing with the Bond Year beginning on September 2, 2006 and escalating 2% each Bond Year thereafter, or such lesser amount as may be designated in written instructions from an Authorized Representative of the District.

“Alternative 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, there shall be excluded from such calculation any Escrow 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 Trustee, 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); and

(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 the Indenture.

"Authorized Representative of the City" means the City Manager of the City, the Finance Director of the City or the Economic Development Manager of the City or any other person or persons designated by the City Manager, the Finance Director or the Economic Development Manager by a written certificate signed by the City Manager, the Finance Director or the Economic Development Manager and containing the specimen signature of each such person.

"Authorized Representative of the District" means the Mayor of the City or the City Manager of the City or any other person or persons designated by the Mayor or City Manager by a written certificate signed by the Mayor or City Manager and containing the specimen signature of each such person.

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

"Bond Register" means the books which the Trustee shall keep or cause to be kept on which the registration and transfer of the Bonds shall be recorded.

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

"Bonds" means the 2006 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 Calexico, 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 July 1, 2006 between the District and Urban Futures, Inc., as dissemination agent, 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, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and the preliminary and final official statements for the Bonds, fees of financial consultants 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, 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.

“Developer” means PCC – La Jolla Palms, LLC and PCG – La Jolla Palms, L.P. and their successors or assigns.

“Direct Debt for District Property” means that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds which is allocable to the property in the District as described below. For this purpose there will be allocated to the property in the District the largest principal amount of Bonds that results in a Value of District Property at least three (3) times the sum of Direct Debt for Property plus Overlapping Debt allocable to all property in the District subject to the Special Tax.

“District” means Community Facilities District No. 2005–1 of the City of Calexico (Hearthstone) 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.

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

“Escrow Term Bonds” means the 2006 Bonds, the proceeds of which were used to fund the Escrow Fund.

“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).

“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 the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions.

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

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

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

“Interest 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, 2007; provided, however, that, if any such day is not a Business Day, interest due on the Bonds up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

“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 in 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:

(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 Ordinance No. 2005-1 adopted by the legislative body of the District on September 20, 2005, providing for the levying of the Special Tax.

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

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

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

(3) Bonds which have been surrendered to the Trustee for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture.

“Overlapping Debt” means with respect to any property within the District, the sum of (a) the aggregate amount of all unpaid assessments which are a lien on such property and which are pledged to secure the repayment of bonds, plus (b) a portion of the principal amount of any outstanding bonds of other community facilities districts which are payable at least partially from special taxes to be levied on such property (the “Other CFD Bonds”) determined by multiplying the aggregate principal amount of the Other CFD Bonds by a fraction, the numerator of which is the amount of special taxes levied for the Other CFD Bonds on such property and the denominator of which is the total amount of special taxes levied for the Other CFD Bonds on all parcels of property which are subject to the levy of such special taxes, based upon information which is available for the then current Fiscal Year, plus (c) the principal amount of any bonded indebtedness of the District.

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

“Participants” shall mean those broker-dealers, banks and other financial institutions from time to time for which the Depository holds 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 RMA.

“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, including, but not limited to, remarketing, credit enhancement, Trustee and other fees and expenses relating to the issuance of the 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. 2005-62 adopted by the City Council of the City on September 20, 2005 pursuant to which the City formed the District.

“RMA” means the Rate and Method of Apportionment of Special Taxes for the District approved by the qualified electors of the District at the September 20, 2005 election, as amended from time to time.

“School District” means the Calexico Unified School District.

“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 schedules set forth in the Indenture.

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

“Special Tax Administrator” means any person or firm possessing demonstrated experience and expertise in the preparation of special tax formulas and/or the administration of special taxes levied for community facilities districts. Any such person or firm shall be appointed and paid by the District and who, or each of whom-

1. is in fact independent and not under 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 an officer or employee of the District or the City, but who may be regularly retained by the City or other community facilities districts formed by the City to administer the levy of special taxes within such community facilities districts.

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

“Special Taxes” means the taxes to be applied toward the Special Tax Requirement for Facilities (as defined in the RMA) authorized to be levied by the District on property within the District in accordance with the Ordinance, the Resolution of Formation, the Act, the RMA and the voter approval obtained at the September 20, 2005 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 the 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 and the City 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 2006 Bonds designated as term bonds.

“Trustee” means U.S. Bank National Association, 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.

“2006 Bonds” means the District’s 2006 Special Tax Bonds issued pursuant to the Indenture.

“Underwriter” means Kinsell, Newcomb & De Dios, Inc. 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.

“Value of District Property” means for all parcels of property in the District which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, either (i) the fair market value, as of the date of the appraisal provided for below of such parcels, including with respect to such parcels the value of the then existing improvements thereon, as estimated by an appraiser, who shall be a State of California certified general real estate appraiser selected and employed by the District, in an appraisal performed within ninety (90) days preceding the date of such determination based upon a methodology of valuation consistent with the City’s policy for appraisals, provided that a mass appraisal methodology may be applied when valuing Developed Property; (ii) the full cash value of any or all of such parcels, including with respect to such parcels the value of the improvements thereon, as set forth on the last equalized assessment roll of the County Assessor of the County of Imperial; or (iii) any combination of clauses (i) and (ii).

CREATION OF FUNDS

Creation of Funds.

(a) There is created and established by the Indenture and shall be maintained by the Trustee the following funds and accounts:

(1) The Community Facilities District No. 2005–1 of the City of Calexico 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, and an Administrative Expenses Account).

(2) The Community Facilities District No. 2005–1 of the City of Calexico 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. 2005–1 of the City of Calexico Acquisition and Construction Fund (the “Acquisition and Construction Fund”) (in which there shall be established a Costs of Issuance Account, a Project Account, a City Account and a School District Account).

(4) The Community Facilities District No. 2005–1 of the City of Calexico Surplus Fund (the “Surplus Fund”).

(5) The Community Facilities District No. 2005 1 of the City of Calexico Escrow Fund (the “Escrow 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.

Rebate Fund.

(a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternate Penalty Account shall be established for the 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 shall be governed by this section 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 will not be adversely affected if such requirements are not satisfied.

Surplus Fund.

After making the transfers to the Special Tax Fund as 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 of 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 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 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, 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 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 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.

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 and School District 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 to the City, which must be submitted in connection with each requested disbursement. The monies in the City Account of the Acquisition and Construction Fund shall be disbursed by the Trustee as specified in a Request for Disbursement of Project Costs.

(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.

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 deposited therein to 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 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 from which such proceeds were derived, unless in the opinion of Bond Counsel such restriction is not necessary to prevent interest on the 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 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 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 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 shall mature later than the respective final maturity date of the Bonds.

(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 pursuant to the Indenture 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. The Trustee is entitled to rely upon the investment direction of the District as a certification that any investment is a legal investment.

The Trustee shall sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof at least semiannually on or before each Interest Payment Date. In making any valuations under the Indenture, the Trustee may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything in the Indenture to the contrary, the

Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture.

The Trustee or an affiliate may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee for such investment. The Trustee may sell, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited, and, subject to the provisions of the Indenture, the Trustee shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but shall account for each separately.

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

COVENANTS AND WARRANTY

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

Covenants. So long as any of the Bonds issued under the Indenture are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

(a) **Punctual Payment; Against Encumbrances.** The District covenants that it will receive all Special Taxes in trust for the Owners and will 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 covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and in accordance with the Indenture to the extent that Net Taxes 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 and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and of the Bonds issued under the Indenture.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, 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.

(b) Levy of Special Tax. Beginning in Fiscal Year 2006-07 and so long as any 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 and available for such purpose, to pay (1) the principal of and interest on the 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 further covenants 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.

(c) Commence Foreclosure Proceedings.

Pursuant to Section 53356.1 of the Act, the District covenants with and for the benefit of the Owners of Bonds that it will order, and cause to be commenced as provided in the Indenture, and thereafter diligently pursue (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following paragraphs.

On or about July 1st of each Fiscal Year, the District shall compare the amount of Special Taxes theretofore levied in the District to the amount of Special Tax Revenues theretofore received by the District.

(1) Individual Delinquencies. If the District determines that any single parcel subject to the Special Tax in the District is delinquent in the payment of Special Taxes in the aggregate amount of \$5,000 or more, then the District shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the District within 90 days of such determination.

(2) Aggregate Delinquencies. If the District determines that (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, exceed 5% of the total Special Tax due and payable for the prior Fiscal Year, or (ii) there are ten (10) or fewer owners of real property within the District, determined by reference to the latest available secured property tax roll of the County, the District shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency. The District may waive delinquency penalties and redemption penalties if it determines that (i) the waivers shall apply only to parcels delinquent at the time of the determination, (ii) the waivers shall only be available with respect to parcels for which all past due and currently due Special Taxes and all other costs are paid in full within a limited period of time specified in the determination, (iii) the waivers shall be available only with respect to parcels sold or otherwise transferred to new owners unrelated to the owner responsible for the delinquency, and (iv) the waivers are in the best interest of the Owners of the Bonds.

The District covenants 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.

(d) Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Taxes or other

funds in the Special Tax Fund (other than the Administrative Expenses Account therein), or which might impair the security of the 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.

(e) Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the 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 then Outstanding or their representatives authorized in writing.

(f) Federal Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(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 of any other monies or property which would cause the 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 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 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 take or omit to take any action that would cause the 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 other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds issued on a tax-exempt basis for federal income tax purposes to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds;

(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 will comply with the covenants and requirements stated therein 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 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

(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.

(g) Reduction of Maximum Special Taxes. The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in this section would interfere with the timely retirement of the Bonds. The District determines it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the RMA then in effect) in each Bond Year for any Bonds Outstanding will equal at least 110% of the gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, plus the estimated Administrative Expenses, (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds, and (iii) the District is not delinquent in the payment of the principal of or interest on the 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 two percent (2%) in each subsequent Fiscal Year.

(h) Covenants to Defend. The District covenants that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in the section above or to limit the power of the District to levy the Special Taxes for the purposes set forth in the section (b) above, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

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

(j) Continuing Disclosure. The District covenants to comply with the terms of the Continuing Disclosure Agreement to assist the Underwriter in complying with Rule 15(c)2 12 adopted by the Securities and Exchange Commission.

(k) Further Assurances. The District shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

AMENDMENTS TO INDENTURE

Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District 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 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 of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect after the date of the Indenture, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds then Outstanding;

(e) to modify, alter or amend the RMA 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 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 previous section, the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding shall have the right to consent to and approve the 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, (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, (c) a preference or priority of any Bond over any other Bond, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of 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 Outstanding as required by this section. 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 Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Trustee, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds have consented to the adoption of any Supplemental Indenture, Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds in instances where such consent is required pursuant to the provisions of 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.

EVENTS OF DEFAULT; REMEDIES

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

(a) default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) default in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable; or

(c) except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Trustee or the Owners of 25% in aggregate principal amount of the Outstanding Bonds.

The Trustee agrees 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 to enforce any rights of the Trustee under or with respect to the Indenture, including:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;

(b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty five percent (25%) in aggregate principal amount of Outstanding Bonds and if indemnified to its satisfaction, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds.

No remedy in the Indenture conferred 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 existing after the date of the Indenture, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

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

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

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

(a) first to the payment of all installments of interest on the Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing,

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

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

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

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

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

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 the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Indenture 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 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 the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds.

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

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

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expenses Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable; or

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, 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, 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 shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in the Indenture or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee. In connection with a defeasance 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 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 being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture.

Upon a defeasance, the Trustee, upon request of the District, shall release the rights of the Owners of such Bonds which have been defeased under the Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance under the Indenture of all Outstanding Bonds, the Trustee shall pay over or deliver to the District any funds held by the Trustee at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds when due. The Trustee shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

Conditions for the Issuance of Parity Bonds 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 therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture; provided, however, 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 may be issued subject to the following additional specific conditions, which are made conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Trustee; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

(b) The issuance of such Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which shall specify the following:

(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, and 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 a 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 therein 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 Trustee 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;

(6) where the Parity Bonds are being issued to refund a portion of the Bonds or other Parity Bonds, a Certificate of the Special Tax Administrator certifying that (i) the Maximum Special Taxes that may be levied in each Fiscal Year is not less than 110% of the Annual Debt Service in the Bond Year that begins in such Fiscal Year plus the Administrative Expenses Cap; and (ii) the Value of the District Property is not less than three (3) times the sum of Direct Debt for the District Property plus Overlapping Debt allocable to all property in the District subject to the Special Tax. For purposes of the foregoing Certificate of Special Tax Administrator, all calculations shall consider the Parity Bonds proposed to be issued to be Outstanding. If all or any portion of the Parity Bonds are issued as Escrow Bonds, each time that amounts are to be released from the escrow account established under a Supplemental Indenture, as a condition of such release, the Trustee shall have received a Certificate of the Special Tax Administrator certifying that (x) following such release, the requirements of (i), (ii) and (iii) above will be satisfied, and (y) the amount of Special Taxes levied in such Fiscal Year and to be levied in the following Fiscal Year, together with amounts on deposit in the Interest Account, will be sufficient to pay the principal of and interest on all Outstanding Bonds and Parity Bonds (other than the remaining Escrow Bonds).

(7) 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.

APPENDIX D
APPRAISAL REPORT

[THIS PAGE INTENTIONALLY LEFT BLANK]

COMPLETE APPRAISAL - SUMMARY REPORT

City of Calexico
Community Facilities District No. 2005-1 (Hearthstone)
Calexico, California

Date of Value as of April 10, 2006

Date of Report as of May 15, 2006

Prepared for

**Marlene Best, City Manager
City of Calexico
608 Heber Avenue
Calexico, California 92231**

MCNAMARA & ASSOCIATES
25602 Alicia Parkway, Suite 409
Laguna Hills, California 92653

TABLE OF CONTENTS

	Page
LETTER OF TRANSMITTAL	i
CERTIFICATION	iii
EXECUTIVE SUMMARY	iv
ASSUMPTIONS AND LIMITING CONDITIONS.....	v
INTRODUCTION	1
Identification of the Subject.....	1
Legal Description.....	1
Purpose of Appraisal.....	1
Intended Use and Users of the Appraisal.....	2
Qualification of the Appraisers	2
Scope of the Appraisal	2
Record of Ownership	3
SUBJECT DESCRIPTION.....	4
Location	4
Immediate Surroundings.....	4
Size and Shape	4
Topography and Soils	4
Streets and Access.....	4
Utilities	5
Easements, Encumbrances and Exclusions.....	5
Land Use Controls and Entitlements	5
Planned Development	6
Existing Improvements and Current Project Status	9
Real Estate Assessments and Taxation	10
MARKET AREA DESCRIPTION	13
Introduction.....	13
Social Influences.....	13
Economic Influences.....	16
Governmental Influences	18
Environmental Influences	20
Summary	21
RESIDENTIAL MARKET ANALYSIS	23
Introduction.....	23
Current Pricing.....	23
Current Supply and Absorption	25
Future Demand	26
Future Supply.....	27
Summary	27

TABLE OF CONTENTS

HIGHEST AND BEST USE ANALYSIS	28
Introduction.....	28
Highest and Best Use as Vacant	29
Ideal Improvement	29
Highest and Best Use as Improved	29
VALUATION METHODOLOGY AND APPLICABILITY	30
Introduction.....	30
Sales Comparison Approach.....	30
Income Approach.....	30
Cost Approach	31
Summary and Applicability	31
SALES COMPARISON APPROACH.....	32
Unit of Comparison.....	35
Elements of Comparison.....	35
Discussion and Analysis of Land Sales	37
Summary and Estimate of Finished Lot Value	41
DISCOUNTED CASH FLOW ANALYSIS	43
Introduction.....	43
Revenue	43
Land Development Budget to Finished Lots	43
Marketing and Sales Costs.....	44
General and Administrative Costs	44
Real Estate Taxes.....	44
Entrepreneurial Incentive.....	44
Discount Rate.....	45
Costs Spent to Date.....	46
Community Facility District Net Proceeds	46
Summary and Estimate of Bulk Sale Value.....	46
RECONCILIATION AND FINAL OPINION OF VALUE	48
ADDENDA	49
Exhibit A – Tract Maps.....	50
Exhibit B - Qualifications	55

MCNAMARA & ASSOCIATES

International Valuation Consultants

25602 Alicia Parkway, Suite 409

Laguna Hills, California 92653

Telephone (949) 643-3556

Fax (949) 643-5019

May 15, 2006

Ms. Marlene Best, City Manager
City of Calexico
608 Heber Avenue
Calexico, California 92231

C/O: Mr. Marshall Linn, President
Urban Futures, Inc.
3111 North Tustin Avenue, Suite 230
Orange, California 92865

Re: City of Calexico Community Facilities District No. 2005-1 (Hearthstone)
Calexico, California

Dear Ms. Best:

In accordance with your request and authorization, we have made an investigation and appraisal of the real property referenced above. The purpose of this appraisal is to estimate the fee simple bulk sale value of the real property subject to the special tax of City of Calexico Community Facilities District No. 2005-1 (Hearthstone) as of April 10, 2006. The intended use of this appraisal is for underwriting City of Calexico Community Facilities District No. 2005-1 (Hearthstone) bonds. The intended users of this appraisal are The City of Calexico and others specifically identified within the body of this report.

This is a complete appraisal prepared as a summary report in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) Standards Rule 2-2(b), and the Appraisal Standards For Land Secured Financings dated May 1994 and revised July 2004 by the California Debt Advisory Commission.

After completing our investigation and appraisal and subject to the hypothetical condition, general assumptions and limiting conditions contained in this report, it is our opinion that the fee simple bulk sale value of the real property subject to the special tax of City of Calexico Community Facilities District No. 2005-1 (Hearthstone) as of April 10, 2006, is in the amount of:

THIRTY-ONE MILLION SEVEN HUNDRED EIGHTY-FIVE THOUSAND DOLLARS
(\$31,785,000)

The appraised value is subject to the hypothetical condition that an estimated \$8,000,000 of net proceeds for public facilities and fees will be financed through the sale of City of Calexico Community Facilities District No. 2005-1 (Hearthstone) bonds.

MCNAMARA & ASSOCIATES

This letter of transmittal is part of the narrative report that follows which sets forth the identification of the property, property rights appraised, hypothetical condition, assumptions and limiting conditions, pertinent facts about the area and the subject property, comparable data, results of the investigation and analyses and the reasoning leading to the conclusions set forth.

Respectfully submitted,
MCNAMARA & ASSOCIATES

Neal E. Anderson, MAI
Senior Associate

John J. McNamara III
Managing Director

Eric C. Anderson
Senior Associate

Appraisal and Report by:

Neal E. Anderson, MAI, SCREA No. AG007708

Eric C. Anderson, SCREA No. AG 023751

CERTIFICATION

We certify that, to the best of our knowledge and belief:

The statements of fact contained in this report are true and correct.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is our personal, unbiased professional analyses, opinions, and conclusions.

We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.

Our compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

Our analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice and the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

As of the date of this report, Neal E. Anderson has completed the requirements under the continuing education program of the Appraisal Institute.

We have made a personal inspection of the property that is the subject of this report.

The following individuals provided significant professional assistance to the persons signing this report: None.

We certify that we have the appropriate knowledge and experience that was necessary to complete this assignment.

We did not base, either partially or completely, our analysis and/or the estimate of value on race, color, religion, sex, handicap, familial status, health or national origin of either the present or prospective owners, occupants or users of the subject property or of the present or prospective owners, occupants or users of the properties in the vicinity of the subject property.

Neal E. Anderson, MAI
SCREA No. AG007708,
Senior Associate

John J. McNamara III
Managing Director

Eric C. Anderson
SCREA No. AG023751
Senior Associate

EXECUTIVE SUMMARY

Property Appraised:

The subject of this appraisal is the real property subject to the special tax of City of Calexico Community Facilities District No. 2005-1 (Hearthstone), City of Calexico, California.

The subject, 75.37 net taxable acres of residential land, encompasses the La Jolla Palms Subdivision (aka Hearthstone). The subdivision consists of four Units (Tracts) with a total of 457 single-family residential lots. As of the date of value, Unit 1 with 133 lots was undergoing vertical construction. Unit 2 with 111 lots is in rough graded condition. Unit 3 with 114 lots and Unit 4 with 99 lots are raw, but level land. Most off-site and in-tract improvements are not complete. Model homes are under construction.

The developer and owner of record as of the date of value is PCC-La Jolla Palms, LLC as to lots 1 through 133 of Unit 1 and PCG-La Jolla Palms, L.P., as to Units 2, 3 and 4. The two ownership entities are related. As of the date of value, 123 homes of 133 to be constructed in Unit 1 are under sales contract with the first closings anticipated in April/May 2006. The balance of Unit 1, 10 lots, is reserved for model homes with 4 near completion. The first phase release of 12 homes in Unit 2 occurred in March 2006 with 9 homes currently under sales contract. As of the date of value, none of the homes in Unit 2 were under construction.

Date of Value: April 10, 2006

Date of Report: May 15, 2006

Appraisal Purpose: To estimate the fee simple bulk sale value, of the real property subject to the special tax of City of Calexico Community Facilities District No. 2005-1 (Hearthstone) as of the date of value

Intended Use: Underwriting City of Calexico Community Facilities District No. 2005-1 (Hearthstone) bonds

Intended Users: The City of Calexico and others identified in the body of this report

Highest and Best Use:
As Vacant Single-Family Residential
As Improved Single-Family Residential

Fee Simple Bulk Sale Value: \$31,785,000

The fee simple bulk sale value is subject to a hypothetical condition that an estimated \$8,000,000 of net proceeds for public facilities and fees will be financed through the sale of City of Calexico Community Facilities District No. 2005-1 (Hearthstone) bonds.

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal is subject to the following hypothetical condition:

1. \$8,000,000 of net proceeds for public facilities and fees will be financed through the sale of City of Calexico Community Facilities District No. 2005-1 (Hearthstone) bonds.

This appraisal has been made with the following general assumptions:

1. No responsibility is assumed for the legal description provide or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised fee and clear of any and all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy. The land development budget, the vertical construction budget and the costs spent were provided by the developer, Pacific Century Homes. Their cost report is dated March 13, 2006. This appraisal assumes that the cost estimates reasonably reflect the costs necessary to bring the site to a finished lot condition and reasonably reflect improvements invested to the date of value.
5. All engineering studies are assumed to be correct. The plot plans and illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
7. It is assumed that the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described and considered in the appraisal report.
8. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described, and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the opinion of value contained in this report is based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
11. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraisers. The appraisers have

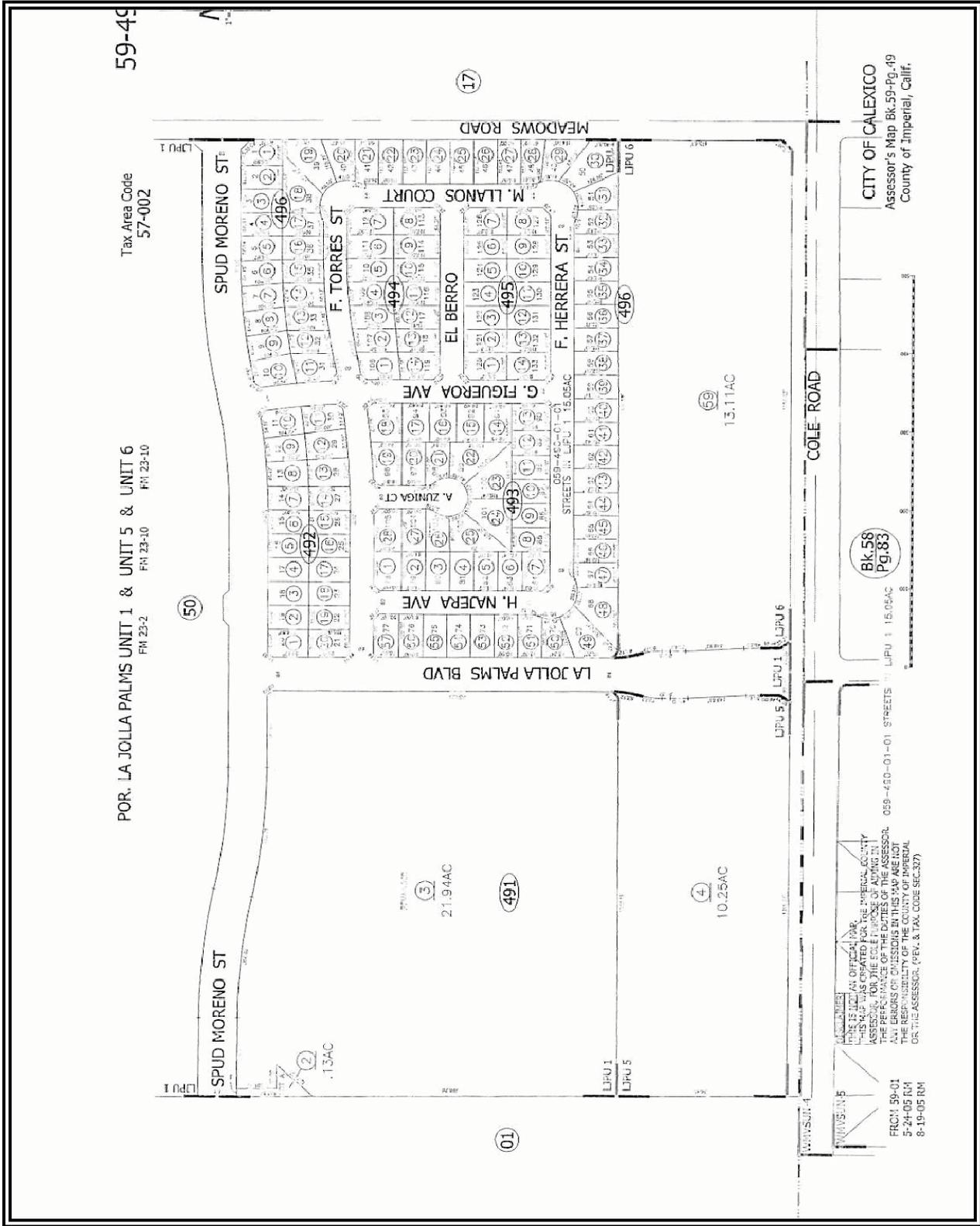
ASSUMPTIONS AND LIMITING CONDITIONS

no knowledge of the existence of such materials on or in the property. The appraisers, however, are not qualified to detect such substances. The presence of potentially hazardous materials may affect the value of the property. The value estimated is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The intended user is urged to retain an expert in this field, if desired.

The use of this appraisal is limited by the following conditions:

1. This report and the values reported therein are under the premise and purpose stated only. They are not represented as being valid for any other use.
2. Any allocation of the total value estimated in this report between the land and the improvements applies only under the stated program of utilization. The separate values allocated to the land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
3. The appraisers, by reason of this appraisal, are not required to give further consultation or testimony or to be in attendance in court with reference to the property in question unless arrangements have been made in a reasonable time in advance.
4. We consent to the publication of our appraisal report in the Official Statement for the City of Calexico Community Facilities District No. 2005-1 (Hearthstone). Possession of this report, or a copy thereof, does not carry with it the right of other publication.

ASSESSOR'S PARCEL MAP



59-49
Tax Area Code
57-002

POR. LA JOLLA PALMS UNIT 1 & UNIT 5 & UNIT 6
FM 23-2 FM 23-10 FM 23-10

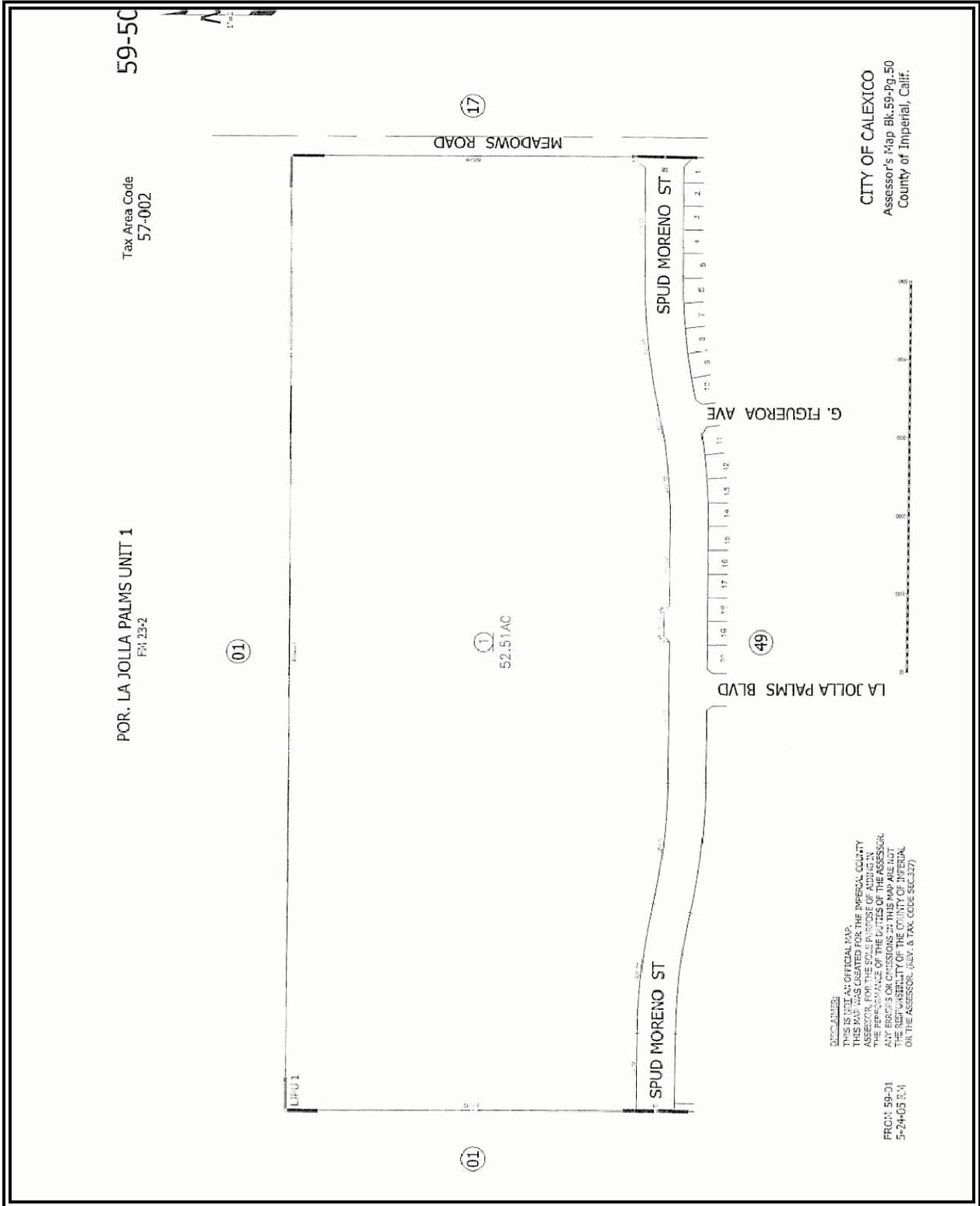
CITY OF CALEXICO
Assessor's Map Bk. 59-Pg. 49
County of Imperial, Calif.

Bk. 58
Pg. 83

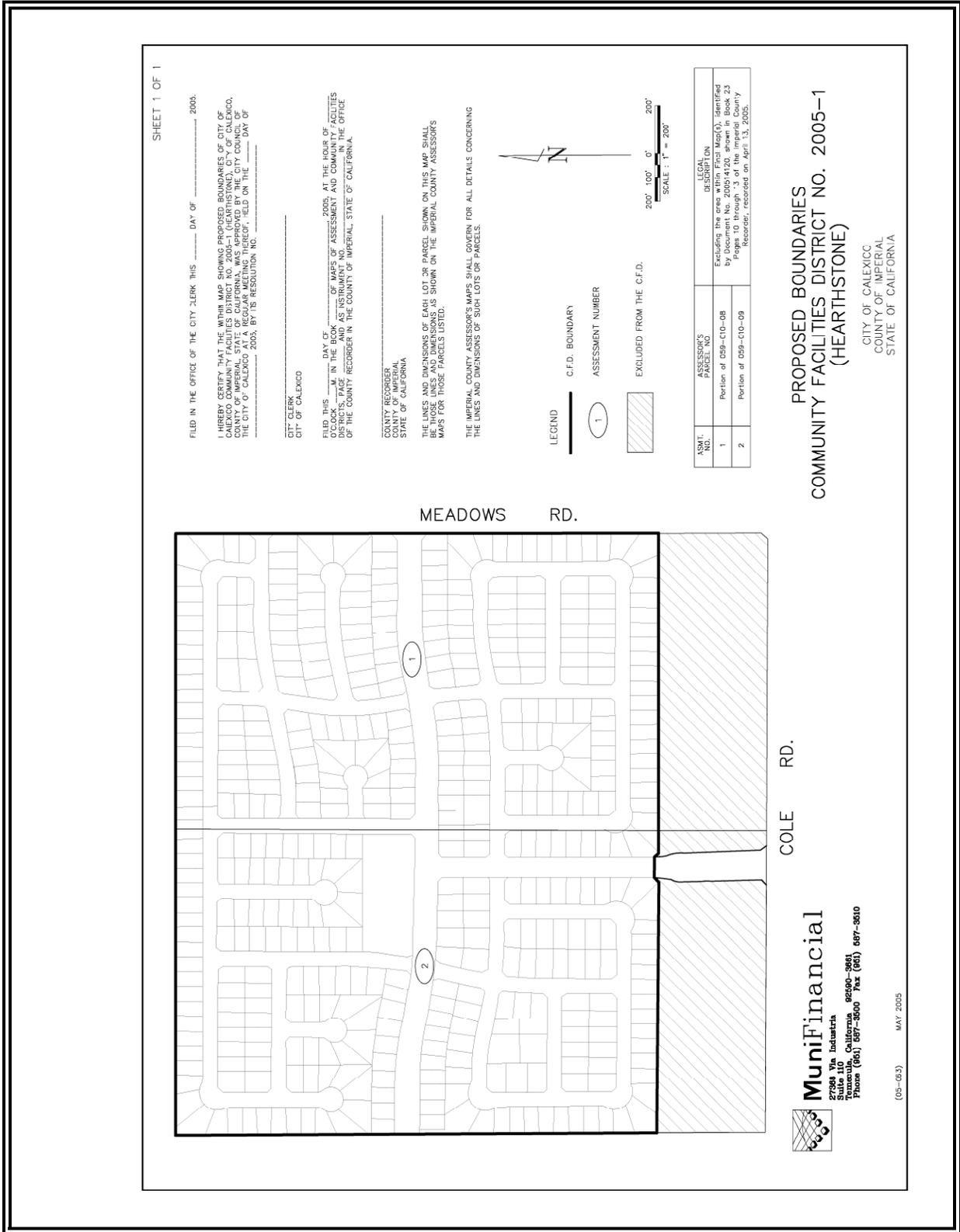
THIS IS NOT AN OFFICIAL MAP.
THIS MAP WAS CREATED FOR THE IMPERIAL COUNTY
ASSESSOR FOR THE EXCLUSIVE PURPOSE OF AIDING IN
THE PERFORMANCE OF THE DUTIES OF THE ASSESSOR.
ANY ERRORS OR OMISSIONS IN THIS MAP ARE NOT
THE RESPONSIBILITY OF THE COUNTY OF IMPERIAL
OR THE ASSESSOR. (PER. & TAX. CODE SEC. 327)

FROM: 59-01
5-24-05 R/M
8-19-05 R/M

ASSESSOR'S PARCEL MAP



COMMUNITY FACILITIES DISTRICT BOUNDARY MAP



SHEET 1 OF 1

FILED IN THE OFFICE OF THE CITY CLERK THIS _____ DAY OF _____, 2005.

I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING PROPOSED BOUNDARIES OF CITY OF CALEICO COMMUNITY FACILITIES DISTRICT NO. 2005-1 (HEARTHSTONE), CITY OF CALEICO, CALIFORNIA, IS IN ACCORDANCE WITH THE CITY OF CALEICO COMMUNITY FACILITIES DISTRICT MAPS ACT, REGULAR MEETINGS THROUGH HELD ON THE _____ DAY OF _____, 2005, BY ITS RESOLUTION NO. _____.

CITY CLERK
CITY OF CALEICO

FILED THIS _____ DAY OF _____, 2005, AT THE HOUR OF _____ M. IN THE _____ OF MAPS OF ASSESSMENT AND COMMUNITY FACILITIES DISTRICTS, PAGE _____ AND AS INSTRUMENT NO. _____ IN THE OFFICE OF THE COUNTY RECORDER IN THE COUNTY OF IMPERIAL, STATE OF CALIFORNIA.

COUNTY RECORDER
STATE OF CALIFORNIA

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

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



- LEGEND
- C.F.D. BOUNDARY
 - 1 ASSESSMENT NUMBER
 - ▨ EXCLUDED FROM THE C.F.D.

200' 100' 0' 200'
SCALE: 1" = 200'

ASMT. NO.	ASSESSOR'S PARCEL NO.	LEGAL DESCRIPTION
1	Portion of 059-010-08	Excluding the area described in Map(s) identified by Document No. 2005-0120, shown in Book 23
2	Portion of 059-010-09	Pages 10 through 13 of the Imperial County Recorder, recorded on April 13, 2005.

COLE RD.

MEADOWS RD.

MuniFinancial
27364 Via Induaria
Teresopolis, California 92590-3681
Phone (951) 687-3600 Fax (951) 687-3610

(05--03) MAY 2005

**PROPOSED BOUNDARIES
COMMUNITY FACILITIES DISTRICT NO. 2005-1
(HEARTHSTONE)**

CITY OF CALEICO
COUNTY OF IMPERIAL
STATE OF CALIFORNIA

INTRODUCTION

Identification of the Subject

The subject of this appraisal is the real property subject to the special tax of City of Calexico Community Facilities District No. 2005-1 (Hearthstone). The subject is located in the City of Calexico, Imperial County, California. As of the date of value of this appraisal, the subject encompasses the following Assessor Parcel Numbers:

059-491-02
059-491-03
059-492-01 through 20
059-493-01 through 28
059-494-01 through 14
059-495-01 through 14
059-496-01 through 59
059-050-01

The identified assessor parcels do not reflect all the subdivision work that has been completed to the date of value. The subject will ultimately be divided into 457 taxable parcels. A copy of the Community Facilities Boundary Map is located on the previous page.

Legal Description

A title report with an identifying legal description of the land within the boundaries of the subject was available for our review. In lieu of a providing the legal description here, the identified Assessor's Parcel portions together with the Assessor's Parcel Map and the Community Facilities District Boundary Map clearly and sufficiently identify the land that is the subject of this appraisal.

Purpose of the Appraisal

The purpose of this appraisal is to estimate the fee simple bulk sale value of the real property subject to the special tax of City of Calexico Community Facilities District No. 2005-1 (Hearthstone) as of April 10, 2006.

Fee Simple is defined as:

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.¹

¹ Dictionary of Real Estate Appraisal, Fourth Edition, Appraisal Institute, Chicago

Bulk Sale Value is defined as:

The most probable price, in a sale of all parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress.

The bulk sale is executed in lieu of the seller proceeding with development and/or marketing of the individual parcels or tracts to end users or merchant builders over a market-oriented absorption period for the type of project.²

Intended Use and Users of the Appraisal

The function of this appraisal is for use in funding City of Calexico Community Facilities District No. 2005-1 (Hearthstone) bonds. Those persons or entities intended to rely on this appraisal include the following:

The City of Calexico as our client and issuer,
Stradling Yocca Carlson & Rauth as bond counsel,
Fulbright & Jaworksi, LLP as disclosure counsel,
McDougal, Love, Eckis, Smith, & Boehmer as city attorney,
Urban Futures, Inc., as financial advisor,
Kinsell, Newcomb & De Dios, Inc., as underwriter,
Munifinancial as special tax consultant,
Trustee to be determined, and the
Ultimate purchaser of the bonds.

Qualification of the Appraisers

McNamara & Associates has appraised or is currently appraising over thirty-nine community facility districts in Southern California, including eight in Imperial County. Qualifications of the appraisers and a list of the community facilities districts appraised are included in the Addenda section as Exhibit B.

Scope of the Appraisal

The scope of this appraisal required collecting data from personal contacts, published information sources, and our files; verifying the data with principles, agents or public records; and reporting all data considered material to the appraisal. A physical inspection of the subject property and the comparables was made by the following appraisers: Eric C. Anderson and Neal E. Anderson, MAI. The valuation

² Appraisal Standards for Land-Secured Financings, Revised July 2004, California Debt and Investment Advisory Commission, Sacramento

process involved utilizes all techniques and procedures considered appropriate to the assignment. The scope of the appraisal has not been limited.

Record of Ownership

The developer and owner of record as of the date of value is PCC-La Jolla Palms, LLC as to lots 1 through 133 of Unit 1 and PCG-La Jolla Palms, L.P., as to Units 2, 3, and 4. The two ownership entities are related. As of the date of value, 123 homes of 133 to be constructed in Unit 1 are under sales contract with the first closings anticipated in April/May 2006. The balance of Unit 1, 10 lots, is reserved for model homes with 4 near completion. The first phase release of 12 homes in Unit 2 occurred in March 2006 with 9 homes currently under sales contract. As of the date of value, none of the homes in Unit 2 were under construction.

PCG-La Jolla Palms, L.P., acquired title to Units 2, 3 & 4 from PCC-La Jolla Palms, LLC via Grant Deed recorded as Document No. 046775 on November 21, 2005. No consideration was made since the two entities are related.

PCC-La Jolla Palms, LLC acquired title to the subject from Scripps Investments & Loans, Inc., a California corporation, as to an undivided 50% interest and AI-Calexico, LLC, a California limited liability company, as to an undivided 50% interest via Grant Deed recorded as Document No. 016026 on April 27, 2005. The sale price was \$7,350,000 with the real property delivered as raw land with an approved tentative tract map for 457 single-family residential lots. Subsequent to the sale, the buyer has significantly improved the property so that the acquisition price no longer reflects the current market value. The owner is currently processing a specific plan amendment to obtain 10 to 12 additional single-family residential lots in place of the recreation area within Unit 3, for a total of 467 to 469 lots. However, this appraisal is based only on the entitled 457 single-family residential lots that exist as of the date of value of this appraisal.

Other than the transactions noted above, we are not aware of any other sales or marketing of the land that is the subject of this appraisal in whole or in part within the last three years.

SUBJECT DESCRIPTION

Location

The subject is located in the City of Calexico, in the southern most portion of Imperial County, California. More specifically, the subject is located along the west side of Meadows Road, north of Cole Road, in the northern portion of the City of Calexico.

Immediate Surroundings

The north side of the subject is bordered by the Central Main Canal of the Imperial Irrigation District. North of the canal is agricultural land. East of the subject, across Meadows Road, is a 156.38 acre parcel owned by the McMillin Companies. This site is planned to be developed with a 483 lot single-family residential subdivision known as El Portal. South of the subject, fronting along the south side of Cole Road, is a single-family residential subdivision known as Meadow Village that was completed in 2003. West of the subject is a 104.01 acre site owned by David King Chee. The land is proposed for development with an approximately 270 lot single-family residential subdivision on 67.69 acres, 15.07 acres of highway commercial uses along Cole Road and 21.25 acres in easements. In summary, the immediate surroundings are in transition from agricultural uses to residential and commercial uses in a northeasterly direction.

Size and Shape

The subject encompasses a land area of approximately 133 gross acres and is rectangular in shape. Based on the relatively large land area and rectangular shape, the site is conducive for development. When development is complete, it will encompass 457 single-family residential lots with a net taxable area of 75.37 acres. Lot sizes are discussed in the forthcoming Planned Development section.

Topography and Soils

The topography of the land is relatively level with no view potential. As of the date of this appraisal, finished grading was complete for Unit 1, rough grading had commenced for Unit 2, while Unit 3 and Unit 4 remain as raw land. Based on the issuance of the grading permit, the subject site is considered suitable for the proposed development.

Streets and Access

As indicated previously, the subject fronts along Meadows Road, which is presently in a graded only condition. However, its intersection with Cole Road to the south is regulated by a 4-way traffic signal. Cole Road, the major east/west arterial corridor, is just south of the subject and is accessible via Meadows Road. Access to State Highway 111, the major north/south arterial corridor in the vicinity, via Cole Road

is one mile to the west. Access to Interstate 8 (Freeway) is 5.5 miles to the north. Overall, the land within the boundaries of the subject has adequate accessibility.

Utilities

The following agencies are identified as the service providers for each utility:

Sewer / Storm Drain	City of Calexico via Imperial Irrigation District
Water	City of Calexico via Imperial Irrigation District
Gas	Southern California Gas Company
Electricity	Imperial Irrigation District

The cost to complete any utility infrastructure improvements necessary for a finished lot condition will be accounted for in the valuation section of this appraisal.

Easements, Encumbrances and Exclusions to Title

A preliminary title report of the land within the boundaries of City of Calexico Community Facilities District No. 2005-1 (Hearthstone) was provided for our review. The preliminary title was prepared by Chicago Title Company and was dated March 3, 2005. The report lists four (4) lettered exceptions and eighteen (18) numbered exceptions to title. The four (4) lettered exceptions relate to real estate assessments and special (Community Facilities District) taxes. The eighteen (18) numbered exceptions include seven (7) for utility easements (most in favor of the Imperial Irrigation District), one (1) water rights, one (1) sub-division surety agreement, three (3) trust deeds and/or assignments, two (2) financial statements, and four (4) general exceptions to title. The exceptions are typical for the area and/or, in our opinion, are not likely to have a negative impact on the marketability of the property.

Land Use Controls and Entitlements

Zoning and General Plan

The City of Calexico designates the land within the subject's boundaries as R1 (Residential Single Family). On September 11, 2002 the City of Calexico Planning Commission approved the La Jolla Palms tentative map based partially on its finding that it was consistent with the City of Calexico General Plan and Specific Plan.

California Environmental Quality Act (CEQA)

On September 11, 2002 the City of Calexico Planning Commission approved the La Jolla Palms tentative map based partially on their finding that the project will result in no direct unmitigated adverse environmental impacts. A mitigated negative declaration was adopted by separate resolution.

Seismic Hazards

The subject is not located within the boundaries of a Special Studies earthquake fault zone as delineated by the State of California, which would restrict development. The nearest known active regional fault traces are the Imperial Fault located approximately five miles to the northeast. The State of California periodically updates its maps; therefore, the property may or may not be included within a Special Studies earthquake fault zone in the future. It should be noted that all of Southern California is subject to the potential impact of periodic seismic activity. This factor does not appear to have any extraordinary effect on the subject's marketability.

The State of California has not surveyed and published maps showing liquefaction hazards in Imperial County. Although soil conditions vary, potential liquefaction hazards do not appear to have any extraordinary effect on the subject's marketability.

Because of the level terrain and distance from significant elevation changes, slope failure or mass wasting is not likely to impact the subject.

Flood Hazards

Based on Federal Emergency Management Agency Flood Insurance Rate Maps for Community 060065 Panel 1025B with an effective date of March 15, 1984, the subject is in Zone C. Zone C is not special flood hazard area and is defined as an area determined to be outside the 500-year floodplain. Therefore, flood insurance is not required.

Tract Maps

The subject encompasses Units 1, 2, 3 and 4 of the La Jolla Palms Subdivision. As of the date of value, only Unit 1 (133 lots) is a recorded map. Unit 2 (111 lots), Unit 3 (114 lots) and Unit 4 (99 lots) are approved tentative tract maps. The developer must submit his building plans and proof of bonds to the City before final tract maps can be recorded. The developer has previously indicated that they intended to submit the building plans for Unit 3 in May 2006 and Unit 4 in February 2007. Plan approval may take three months after submission to the City.

Planned Development

The project under development within the boundaries of the subject is known as Hearthstone. It encompasses a total of 457 detached single-family residential lots to be improved with two product lines, Amberwood and Somerset. The project is to be constructed in four tracts referred to as Units 1, 2, 3 and 4. Each Unit includes both Amberwood and Somerset product lines and is to have multiple phase releases. The following table summarizes lot mix across the four units.

Table 1 – Lot Mix Summary

	Unit 1	Unit 2	Unit 3	Unit 4	Totals
Number of Lots	133	111	114	99	457
Total Net Land Area	930,894	838,037	827,511	686,508	3,282,950
Min	5,894	6,000	5,948	6,012	5,894
Max	12,355	12,355	11,812	12,359	12,359
Mean	6,999	7,550	7,259	6,934	7,186
Median	6,698	7,088	6,690	6,689	6,694

Source: Pacific Century Homes

The typical lot dimensions are 60 feet wide by 110 feet in depth. Both the weighted average lot size and lot dimensions are consistent with new home lots in Imperial Valley.

Since the two product lines are to be marketed and sold jointly within each unit, we have treated the product lines as one entity. The following table summarizes the planned product mix across the four units.

Table 2 – Product Mix Summary

Plan	Size SF	Bd + Ba Mix	Unit 1	Unit 2	Unit 3	Unit 4	Totals
Amberwood 1	2,021	5 bd 2 ba	17	16	16	7	56
Amberwood 2	3,092	5 bd 3 ba	25	9	12	6	52
Amberwood 3	3,816	7 bd 4 ba	29	15	11	6	61
Amberwood 4	3,540	6 bd 3.5 ba	0	21	34	21	76
Somerset 1	1,693	4 bd 2 ba	6	13	9	14	42
Somerset 2	1,819	4 bd 2 ba	13	2	1	3	19
Somerset 3	2,350	6 bd 3 ba	24	0	0	0	24
Somerset 4	2,659	7 bd 3 ba	18	14	11	12	55
Somerset 5	3,852	5 bd 3.5 ba	1	21	20	30	72
Totals			133	111	114	99	457
Wgted. Avg. SF			2,739	3,023	3,115	3,097	2,979

Source: Pacific Century Homes

As of the date of value, none of the model homes or production homes was complete. Amberwood Plan 1 and Somerset Plans 1 and 2 are single story detached single-family residences. The remaining floor plans are two-story detached single-family residences. The floor plans are relatively simple, with perimeter variation occurring only on the structure front. Architectural treatment and decorative fenestration is limited to the street frontages as well. The limited perimeter variation and simple architectural treatment is consistent with new home product offered for sale in Imperial Valley. However, the weighted average home size is somewhat larger than those offered elsewhere in the valley.

The following table summarizes the projected development schedule:

Table 3 – Development Schedule

Category	Unit 1	Unit 2	Unit 3	Unit 4
Grading & Site Improvements to Commence	Fall '05	Dec. '05	Aug. '06	May '07
Completion of Grading & Site Improvements	Apr./May '06	May '06	Dec. '06	Dec '07
1st Phase Sales Release	Aug. '05	Mar. '06	Nov. '06	Oct. '07
Last Phase Sales Release	Mar. '06	Nov. '06	Oct. '07	Jul. '08
1st Delivery of Homes	Apr./May '06	Jul. '06	Mar. '07	Feb. '08

Source: Pacific Century Homes

The developer provided a detailed land development budget with a revised date of January 16, 2006 which we have summarized in the following table:

Table 4 – Land Development Budget to Finished Lot Condition

Category	Unit 1	Unit 2	Unit 3	Unit 4	Total
Land Planning and Engineering	\$229,550.00	\$191,475.00	\$213,900.00	\$170,874.00	\$805,799.00
Bonds	77,123.00	64,366.00	71,904.00	57,407.00	270,800.00
Earthwork and Grading	520,531.00	434,428.00	485,307.00	387,463.00	1,827,729.00
Erosion Control	36,088.00	30,119.00	33,646.00	26,862.00	126,715.00
Storm Drain Improvements	650,042.00	237,365.00	163,567.00	81,006.00	1,131,980.00
Sewer Improvements	812,897.00	193,171.00	181,417.00	405,579.00	1,593,064.00
Water Improvements	401,416.00	229,608.00	231,582.00	397,272.00	1,259,878.00
Street Improvements	1,645,831.00	924,928.00	917,019.00	1,294,599.00	4,782,377.00
Utilities	535,338.00	446,786.00	499,112.00	398,485.00	1,879,721.00
Walls & Fences	71,861.00	0.00	0.00	56,218.00	128,079.00
Landscaping	68,792.00	79,544.00	60,674.00	161,900.00	370,910.00
Subdivision Repairs	0.00	0.00	0.00	0.00	0.00
Reimbursements	0.00	0.00	0.00	0.00	0.00
Retention Basin	227,637.00	0.00	0.00	0.00	227,637.00
Recreation Lot	0.00	0.00	384,470.00	0.00	384,470.00
Commercial Lot	81,556.00	0.00	0.00	0.00	81,556.00
Offsite Cole Road	0.00	0.00	0.00	1,798,162.00	1,798,162.00
Offsite Meadows Road	586,358.00	0.00	0.00	0.00	586,358.00
Offsite Sewer Improvements	255,338.00	0.00	0.00	0.00	255,338.00
Contingency	213,597.00	178,266.00	199,143.00	158,994.00	750,000.00
Fees and Permits	3,004,327.00	2,507,370.00	2,801,026.00	2,236,303.00	10,549,026.00
Developer Fees	162,889.00	135,945.00	151,867.00	121,249.00	571,950.00
Totals	\$9,581,171.00	\$5,653,371.00	\$6,394,634.00	\$7,752,373.00	\$29,381,549.00
Lots	133	111	114	99	457
Per Lot	\$72,038.88	\$50,931.27	\$56,093.28	\$78,306.80	\$64,292.23

Source: Pacific Century Homes

The total land development budget to finished lot condition is \$29,381,549 or \$64,292.23 per lot. The amount budgeted per lot is consistent with other single-family residential projects we have appraised in Imperial Valley. The fees and permits category includes school fees, but excludes building permit fees.

Existing Improvements and Current Project Status

As of the date of value of this appraisal, the subject was in various stages of improvement. The following table summarizes the lot status of the subject:

Table 5 – Development Status

Lot Status	Unit 1	Unit 2	Unit 3	Unit 4	Sub-totals
Raw Land (Level)			114	99	213
Rough Graded		111			111
Finish Graded	6				6
Trenched					0
Slabs Poured	40				40
Underground Utilities In					0
Walls Framed					0
Roofs Trussed & Sheeted	73				73
Roofing Complete	1				1
Exterior Lathed	9				9
Drywall Complete					0
Cabinets In					0
Paint Complete					0
Finish Trades					0
Drywall Paint Pickup	4				4
Carpet In					0
Final Inspection					0
Walk Through					0
Totals	133	111	114	99	457

Source: Pacific Century Homes

Off-site improvements are not complete, particularly Cole Road and Meadows Road. Unit 1 has 127 building permits pulled with 40 lots having slabs poured, 73 lots have roofs trussed and sheeted, 1 additional home has roofing complete and 9 more have the exterior lathed in stucco. Unit 1 also has 4 model homes near completion. Unit 2 is rough graded and construction of site improvements has not commenced. Units 3 and 4 are raw land.

As of the date of value, 123 homes of 133 to be constructed in Unit 1 are under sales contract with the first closings anticipated in April/May 2006. The balance of Unit 1, 10 lots, is reserved for model homes and as indicated, 4 are near completion. The first phase release of 12 homes in Unit 2 occurred in March 2006 with 9 homes currently under sales contract. As of the date of value, none of the homes in Unit 2 were under construction.

The table on the following page summarizes all development costs (predevelopment, land improvements, vertical improvements and others), paid through April 10, 2006 as furnished by the developer, Pacific Century Homes.

Table 6 – Costs Paid through April 10, 2006

Cost Category	Amount
Fees and Permits	\$2,146,848.51
Land Engineering and Development	3,867,985.30
Architectural and Vertical Engineering	87,490.66
Vertical Improvements	4,398,780.02
Overhead, Supervision, Field Office	522,342.71
Construction Loan Interest, Insurance, Taxes, Bonds	2,381,100.22
Sales and Marketing	<u>430,753.47</u>
Total	\$13,835,300.89
Rounded	\$13,835,301

Source: Pacific Century Homes

The total costs paid through April 10, 2006 are \$13,835,301. The developer did not provide the costs paid to date applicable to the individual units. However, based on the physical improvement to the land, the majority of all costs paid to date, with the exception of predevelopment (not shown separately in the above table) are attributable to Unit 1.

The following table summarizes the current base pricing for the various available product:

Table 7 – Product Base Pricing

Plan	Size SF	Bd + Ba Mix	Current Base Price	\$ / SF
Amberwood 1	2,021	5 bd 2 ba	319,990	158.33
Amberwood 2	3,092	5 bd 3 ba	410,990	132.92
Amberwood 3	3,816	7 bd 4 ba	475,990	124.74
Amberwood 4	3,540	6 bd 3.5 ba	n/av	n/av
Somerset 1	1,693	4 bd 2 ba	304,990	180.15
Somerset 2	1,819	4 bd 2 ba	315,990	173.72
Somerset 3	2,350	6 bd 3 ba	350,990	149.36
Somerset 4	2,659	7 bd 3 ba	368,990	138.77
Somerset 5	3,852	5 bd 3.5 ba	n/av	n/av

Source: Pacific Century Homes

Real Estate Assessments and Taxation

The estimated overall tax rate including the ad-valorem tax rate of 1.0% per \$100 of assessed value, CSUD Bond Debt Service of 0.0575% per \$100 of assessed value, City of Calexico Community Facilities District No. 2005-1 (Hearthstone) special taxes, and a \$9.06 mosquito abatement direct assessment will be approximately 1.79% to 1.83% depending upon the house plan involved. The weighted average overall tax rate is projected to be 1.80% per \$100 of assessed value. This amount is typical of rates encountered in the market on similarly encumbered projects. The following sections summarize the subject's real estate tax burden.

Current Real Estate Assessments and Taxation

The current assessed values for the Assessor Parcel Numbers identified at the beginning of this report do not reflect all the subdivision, land development and vertical improvements existing as of the date of value. The subject will ultimately be divided into 457 taxable parcels. The current tax rate, excluding City of Calexico Community Facilities District No. 2005-1 (Hearthstone) and \$9.06 mosquito abatement direct assessment, is 1.0575% per \$100 of assessed value.

City of Calexico Community Facilities District No. 2005-1 (Hearthstone)

The authorized facilities to be funded through the sale of City of Calexico Community Facilities District No. 2005-1 (Hearthstone) bonds include following:

- City of Calexico Fees
- City of Calexico Improvements
- Calexico Unified School District Fees

The amount of eligible facilities that is supported by this appraisal is estimated to be \$8,000,000. This amount will be relied on for use in the Valuation section. As of the date of value, \$1,584,695 in eligible facilities has been paid by the developer.

Other Overlapping Community Facility District Debt

No other overlapping Community Facility District special tax impacts the subject.

MARKET AREA DESCRIPTION

Introduction

The purpose of the Market Area Description is to summarize the underlying influences on real property values within the subject's market area. These influences are important to understand the context of the Residential Market Analysis section that follows later. The four influences on real property values are social, economic, governmental and environmental. The importance of each of these relative to the subject's market area is discussed in the following sections.

Based on the size, conformity and location, the subject's market area is determined to be the Imperial Valley in Imperial County. As general background, Imperial County is located in the southeast corner of the State of California. Imperial County is bordered by Riverside County on the north, the Colorado River and the State of Arizona on the east, the Republic of Mexico on the south and San Diego County on the west. Imperial County covers an area of 4,597 square miles of which approximately 50% is undeveloped and under federal ownership. Located in the northwestern portion of the county is the Salton Sea which covers about 7% of the land area. Approximately 20% of the county is irrigated for agricultural purposes. This area, known as the Imperial Valley, is located in the south central portion of the county and extends from the Salton Sea on the north to the border with the Republic of Mexico on the south. The majority of development in Imperial County is situated within Imperial Valley. In order of size, the cities and unincorporated communities within the valley are: El Centro, Calexico, Imperial, Brawley, Heber, Niland, Westmoreland, Holtville and Calipatria. A map delineating the subject's market area is shown on page 22.

Although the city of Mexicali, Republic of Mexico, is located just across the border from Calexico, California, we have not included it in the subject's market area. This is because it is subject to Mexican laws and customs in regards to residential real estate. For example, much of the housing stock in Mexicali is owner-built while financing through mortgages, as in the United States of America, is not common.

Social Influences

The primary social influences on real property values in the Imperial Valley are population growth and income levels.

Population Growth

Population growth is a primary component of demand for housing. The following chart summarizes population statistics for the State, Imperial County, and the various cities in the county from January 1, 2001 through January 1, 2005. Population estimates through January 1, 2006 will not be available until approximately May 2006.

Table 8 - Historical Population Trends

Area	01/01/2001	01/01/2002	01/01/2003	01/01/2004	01/01/2005
Brawley	22,379	22,553	22,811	23,513	24,042
Calexico	28,066	29,857	32,128	34,420	36,274
Calipatria	7,282	7,620	7,663	7,808	7,904
El Centro	38,499	38,833	39,496	40,047	41,030
Holtville	5,678	5,708	5,730	5,753	5,745
Imperial	7,771	8,132	8,554	9,326	9,567
Westmorland	2,176	2,200	2,209	2,221	2,444
Unincorporated	33,063	33,181	33,720	33,976	34,794
Imperial County	144,914	148,084	152,311	157,064	161,800
California	34,441,561	35,088,671	35,691,442	36,271,091	36,810,358

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2005, with 2000 DRU Benchmark. Sacramento, California, May 2005.

The data shows that between January 1, 2001 and January 1, 2005, the State of California's population grew by an estimated 2,368,797 or 1.7% compounded annually. During this same period Imperial County gained 16,886 people or an increase of 2.8% compounded annually. The State Department of Finance has projected that the population in Imperial County will reach 178,201 by the year 2010. This equates to a 1.9% compound future annual growth rate.

Due to the significant growth and increase in pricing of the San Diego County housing market, it is possible that some of the Imperial Valley population growth is attributable to movement of the population from San Diego to Imperial Valley. However, California Center for Border and Regional Economic Studies (CCRBES) indicated in their *CCBRES Bulletin* March 2005, Vol.6, No.3 the following:

In trying to ascertain if there has been an increase in San Diego residents moving to the Imperial Valley to take advantage of the lower housing costs, a small analysis was done by the San Diego Association of Governments (SANDAG) on traffic patterns between the two counties.

The following table shows average daily traffic volumes between the San Diego and Imperial Counties on Interstate 8.

Table 9 – Average Daily Traffic Volume 2000 - 2003

Category	2000	2001	2002	2003
Average Daily Traffic Volume	12,400	13,400	14,300	14,600

Source: CCBRES Bulletin, Vol. 5, No.11, San Diego State University, Imperial Valley Campus, November 2004

CCBRES went on to say that:

According to the SANDAG report, slightly more than 400 people commuted from Imperial to San Diego County for work, while nearly 800 commuted in the opposite direction, from San Diego to Imperial County.

Instead, the source for most of the population growth and demand for housing in Imperial Valley is attributed to foreign immigration as shown in the following table.

Table 10 – Imperial County Immigration

Year (July 1)	Population	Numeric			
		Change From Prior Year	Natural Increase	Net Foreign Immigration	Net Domestic Migration
2000	143,595	2,773	1,722	2,995	-1,944
2001	146,230	2,635	1,713	2,814	-1,892
2002	149,948	3,718	1,717	2,396	-395
2003	154,751	4,803	1,927	2,412	464
2004	159,479	4,728	2,214	2,446	68

Source: State of California, Department of Finance, E-2 California County Population Estimates and Components of Change by Year, July 1, 2000-2004, Sacramento, California, February 2005.

Net foreign immigration has accounted for more than 50% of the population growth during each of the past five years. Natural increase (births less deaths) has been 40% or more of the growth. Between 2000 and 2002 net domestic migration was negative each of the three years. In 2003 the trend was reversed, but in 2004 there was a net positive migration into the county of only 68 people. From this it can be deduced that the most likely buyers of homes in the Imperial Valley in the near future will be from foreign immigrants.

The California Center for Border and Regional Economic Studies (CCBRES), San Diego State University, Imperial Valley Campus indicated in their *CCBRES Bulletin* March 2005, Vol.6, No.3 that “Discussions of new growth have been a dominant part of local conversation for the past few years in the Imperial Valley. The source of this growth though has not been completely clear.” CCBRES went on to state the following:

Imperial County therefore is growing through the natural increase of local residents and net foreign immigration. There are still unanswered questions regarding the reasons for these migration patterns, the point of origin for the migrants, and the birth place of these migrants. For example, an individual born in Argentina could have moved to the [sic] Mexicali and lived in this city for a number of years, and then moved to Calexico. The point of origin for this immigration would be Mexicali but the birth place for this person is Argentina.³

Mexicali is located immediately across the border from Calexico, California. The most recent population estimates available for the city of Mexicali are summarized in the following table:

³ CCBRES Bulletin, March 2005, Vol.6, No.3, San Diego State University, Imperial Valley Campus

Table 11 – Mexicali Population Estimates

Area	2000	2001	2002	2003
Mexicali	549,873	567,473	585,340	601,835

Source: CCBRES Bulletin, Vol. 5, No.11, San Diego State University, Imperial Valley Campus, November 2004

In 2003, Mexicali was reported to have a population of 601,835 persons compared to the 152,311 to 157,064 in all of Imperial County for the same period. Due to its immediate proximity and significantly larger population base, it is reasonable to assume that Mexicali is the most likely origination of the net foreign immigration into Imperial Valley.

Income Levels

Income levels dictate what a household can afford to spend on a monthly mortgage payment. The following table summarizes median income levels per capita and per household for Imperial County and the State of California:

Table 12 – Per Capita and Median Household Income, Census 2000

Area	Per Capita Income	Median Household Income
Imperial County	\$13,239	\$31,870
State of California	\$22,711	\$47,493

Source: U.S. Census Bureau, Census 2000

More recent data on median income levels is not yet available. Conventional lending practice suggests that a household not contribute more than 30 percent of its income toward the mortgage payment. This would indicate a median monthly mortgage payment of \$796.75 for Imperial County.

Economic Influences

The primary economic influences on residential real property values are employment and the availability of financing.

Employment

Employment provides an indication as to the viability of a market area. Historically, agriculture has been the largest industry in Imperial County in terms of employment followed by government which became the largest employer in 2000. The following table summarizes employment by industry sector.

Table 13 – Labor Market Statistics El Centro MSA (Imperial County)

Employment Sector	Feb. 2005	Feb. 2006	Change
Total All Industries	52,500	58,000	10.5%
Total Farm	10,800	14,100	30.6%
Total Non-farm	41,700	43,900	5.3%
Goods Producing	4,100	4,500	9.8%
Natural Resources, Mining, and Construction	1,800	2,000	11.1%
Manufacturing	2,300	2,500	8.7%
Service Providing	37,600	39,400	4.8%
Trade, Transportation and Utilities	10,300	11,600	12.6%
Information	400	400	0.0%
Financial Activities	1,300	1,300	0.0%
Professional and Business Services	2,300	2,200	-4.3%
Educational and Health Services	2,600	2,800	7.7%
Leisure and Hospitality	3,000	3,100	3.3%
Other Services	900	900	0.0%
Government	16,800	17,100	1.8%

Source: State of California, Employment Development Department, Industry Employment & Labor Force March 2005 Benchmark, El Centro MSA, Imperial County, March 24, 2006.

The following table shows the labor force, employment and unemployment from 2000 through the most recent posted data.

Table 14 – Imperial County Labor Force, Employment and Unemployment

Item	Average	Average	Average	Average	Average	Average	Feb.
	Annual	Annual	Annual	Annual	Annual	Annual	
	2000	2001	2002	2003	2004	2005	2006
Civilian Labor Force	55,400	54,900	56,800	58,400	59,200	61,500	61,800
Civilian Employment	45,600	46,000	48,100	49,100	48,900	51,800	54,000
Civilian Unemployment	9,800	8,900	8,700	9,300	10,300	9,700	7,700
Civilian Unemployment Rate	17.7%	16.2%	15.3%	15.9%	17.4%	15.8%	12.5%
State Unemployment Rate	5.0%	5.4%	6.7%	6.8%	6.2%	5.4%	5.4%

Source: State of California, Employment Development Department, Report 400 C Monthly Labor Force Data for Counties, Annual Average 2000, 2001, 2002, 2003, 2004, 2005 and February 2006, Not Seasonally Adjusted

Although there has been a general upward trend in employment in the county, over the past several years the unemployment rate in Imperial County has been quite high. The farm economy has been blamed for this situation since agricultural employment in the county is seasonal and depends on the schedule of planting and harvesting.

Financing

One of the most significant influences on residential real property values is the availability of financing. The following table summarizes average commitment rates as reported by the Federal Home Loan Mortgage Corporation (Freddie Mac) both nationally and for the western states.

Table 15 – Average Commitment Rates, as of March 30, 2006

Loan Vehicle	United States			West		
	Average Commitment	Fees & Points	ARM Margin	Average Commitment	Fees & Points	ARM Margin
Conventional 30-Year Fixed Rate	6.35%	0.5%	n/ap	6.30%	0.6%	n/ap
Conventional 15-Year Fixed Rate	6.00%	0.5%	n/ap	5.96%	0.6%	n/ap
5 / 1-Year ARM Initial Rate	6.02%	0.6%	2.78%	6.07%	0.5%	2.76%
1-Year ARM Initial Rate	5.51%	0.8%	2.77%	5.50%	1.0%	2.76%

Source: Federal Home Loan Mortgage Corporation (Freddie Mac), March 30, 2006

The use of adjustable-rate mortgages for home purchases has declined significantly in California during the past three months, the result of more caution among buyers and lenders in a market that is seeing slowing increases in home values. In February, 51.9 percent of all home buyers financed their purchases with an ARM, down from 63.7 percent in January, 68.7 percent in December, and 70.9 percent in November. The use of ARMs, which are easier to get, and are considered by many to be an indication that buyers are stretching their finances, peaked in May of 2005 at 73.7 percent. Peak usage during the prior real estate cycle was in September 1988 when ARMs accounted for 66.1 percent of all home purchases loans.⁴

Governmental Influences

Government influences residential real property values through the land entitlement process, and real estate taxation, as well as the quality of public school districts and individual schools.

Land Entitlement Process

The land entitlement process in California influences real property values by constricting supply. The constriction occurs due to the lengthy, costly and in many instances risky entitlement process. The risk is created by unforeseen expenses in time and money to get through the process. Because of the risk associated with attaining each successive layer of entitlement, entitled land is worth more than un-entitled land. The final level of entitlement is the final approved tentative tract map (ready to record) with grading permit in hand. Land development costs in the Imperial Valley are increasing as jurisdictions add fees and require additional off-site infrastructure improvements during the entitlement process. Thus, final finished lot costs frequently tend to be significantly higher than initial budgeted finished lot costs.

⁴ Press Release, March 30, 2006, DQ News, DataQuick Information Services

Real Estate Taxes and Special Assessments

Under provisions of Proposition 13, approved by voters in 1978, properties are assessed based on their value as of March 1, 1975. This value may increase no more than 2% per year until such time as the property is sold, substantial new construction takes place, or the use of the property is substantially altered.

In addition to general real estate taxes, land may also be burdened by direct assessments including Community Facility Districts (CFD's) special taxes. CFD's allow the financing of infrastructure improvements and fees through the sale of bonds. The bond debt is retired through the levy of a special tax on the affected property. The influence of CFD financing on real estate values varies depending on the stage of development and level of ownership involved. The advantages to the developer include off-balance sheet financing, a lower cost of funds, and transfer of the debt obligation to the home owner. The disadvantages to the developer include market reaction, public disclosure of financial information, and staff time for formation and issuance of the bonds. The advantages for the home buyer may include a lower initial sale price, a lower down payment needed and potentially more infrastructure in place sooner. The disadvantage to the homebuyer is higher taxes until the bond debt is retired. This last disadvantage permeates the initial pricing of the home as well as the resale value.

Schools

Some homebuyers consider the relative performance of schools when considering a home purchase. In general, younger families with children prefer better performing school districts and schools over less performing ones. To a smaller degree, persons without children may choose neighborhoods with better performing schools due to the superior resale potential. Although school performance can be based on many factors, one measure easily obtainable is based on the Academic Performance Index (API), a statewide ranking of schools according to test scores. The index numbers range from 200 to 1000 with the upper end of the range superior. The following table summarizes the various schools in the Imperial Valley market area based on API scores:

Table 16 – 2003/2004 Imperial County School District Comparison

City or Locale Served	School District	Number of Students Included in 2005 API Base	2005 API Base
Brawley	Brawley Elementary	2,768	702
Brawley	Brawley Union High	1,392	660
Imperial	Imperial Unified	2,133	770
Central El Centro	El Centro Elementary	4,556	700
Central El Centro	Central Union High School	2,919	674
Central and East Heber	Heber Elementary	534	646
West El Centro and West Heber	McCabe Union Elementary	469	821
East El Centro	Meadows Union Elementary	363	649
Calexico	Calexico Unified	7,109	623

Source: State of California, Department of Education

The various school districts area arranged by location within Imperial Valley. The largest school district is the Calexico Unified which is adjacent to the border with Mexico. This school district has the lowest API base in the valley at 623. By comparison, the overall API base for California during the same period is 709.

Environmental Influences

Significant environmental influences on real property values in the Imperial Valley include climate, topography, water and regional transportation linkages.

Climate

Imperial County has a desert type climate which features exceptionally hot summers with temperatures reaching the 120's degrees Fahrenheit. Winters are short and mild. Temperatures slightly lower than freezing occur occasionally from December through February. Rainfall is very low averaging about 3.12 inches per year and there is a rapid rate of evaporation. The average growing season is 302 days per year.

Topography

The Imperial Valley is a uniform plain sloping gently down from the south to the north, broken only by the New and Alamo Rivers which carry agricultural drainage water to the Salton Sea at the northern end of the valley. Both the western and eastern boundaries of the Imperial Valley are characterized by desert and low mountains. The Imperial Sand Dune Recreation Area is located along the eastern border of the county. The majority of the Imperial Valley is below mean sea level. Because of the level plain, view premiums are not a component of the Imperial Valley market area.

Water

There is no potable underground water supply in the Imperial Valley. All water, whether domestic, industrial or for irrigation uses, is imported by the Imperial Irrigation District (IID) from the Colorado River approximately 60 miles to the east. The IID's allotment from the Colorado River is considered adequate for current needs.

Transportation Linkages

Although the Imperial Valley is served by rail, municipal airfields and bus service, the most significant transportation influence on residential real property values is proximity to highway and freeway linkages. A majority of the cities and unincorporated communities within Imperial Valley are strung along State Routes 86 and 111 in a north-south axis. Interstate 8 intersects these highways in an east-west axis providing the only direct link to San Diego, approximately 120 miles to the west. The following table shows the distances from the Civic Center or center of each unincorporated community to Interstate 8. The table is arranged so that each city or community is in arranged along a north-south axis with north at the top.

Table 17 – Distances to Interstate 8

Location	Miles
Niland	32
Calipatria	24
Westmoreland	18
Brawley	14
Imperial	5
Holtville	2.5 (+10 miles east)
El Centro	1
Interstate 8	-
Heber	3
Calxico	6.5

Summary

Social influences on the Imperial Valley residential market include a population growth rate above that of the State of California, but median income levels well below the State. Economic influences include a growing dependence on government employment as well as continued heavy reliance on seasonal agriculture. The other significant economic influence are relatively low, but rising, interest rates for home mortgages as well as decreased use of adjustable rate mortgages and interest only loans. The primary governmental influences on residential real property values include the constriction of supply through the land entitlement process. Other governmental influences include real estate tax rates as well as the quality of schools. Environmental influences include the relative isolation of the Imperial Valley from the rest of Southern California and its desert climate. Lastly and perhaps most significantly, is the immigration influence the city of Mexicali, Republic of Mexico has on Imperial Valley. These influences should be kept in mind for a better understanding of the Residential Market Analysis section that follows.

MARKET AREA MAP



RESIDENTIAL MARKET ANALYSIS

Introduction

The residential market analysis provides a basis for the conclusions to be drawn in the Highest and Best Use section of this appraisal report. It also provides support for the valuation methodologies relied on. Lastly, the market data is used to verify the reasonableness of the developer's product, pricing and absorption.

Current Pricing

The following table summarizes pricing and product sizes of the active new attached single-family housing developments in the Imperial Valley market area during the 1st Quarter of 2006:

Table 18 – Imperial Valley New Attached Single-Family Pricing 1st Quarter 2006

Project	Builder	Locale	Min Lot SF	Range Bldg SF	Range Base \$	Weighted Averages Based on Sales		
						\$	SF	\$/SF
Rancho Frontera	Harold Incorporated	Calexico	Flats	850 – 850	180,000 - 180,000	180,000	850	211.76
The Cottages	Pacific Century Homes	Imperial	Duplexes	941 - 1,333	206,990 - 226,990	221,080	1,215	181.96
1 st Qtr '06						218,664	1,194	183.71
4 th Qtr '05						211,880	1,311	162.86
Absolute Change						6,784	(117)	20.85
Percent Change						3.2%	(8.9%)	12.8%

Source: Residential Trends Imperial County 1st Quarter/March 2006, MarketPointe Realty Advisors

At present there are only two attached single-family housing projects actively selling in Imperial Valley. Each represents a different product type; flats (single-floor condominiums) and duplexes (attached homes on separate lots). Based on sales, the weighted average price for a new attached single-family dwelling unit was \$218,664 which is 3.2% higher than the prior quarter. At the same time the weighted average livable area decreased by 117 square feet to 1,194 square feet. This increased the weighted average price ratio to \$183.71 per square foot, up \$20.85 per square foot from the prior quarter.

The following table summarizes pricing and product sizes of the active new detached single-family housing developments in the Imperial Valley market area during the 1st Quarter of 2006:

Table 19 – Imperial Valley New Single-Family Detached Pricing 1st Quarter 2006

Project	Builder	Locale	Min Lot SF	Range Bldg SF	Range Base \$	Weighted Averages Based on Sales		
						\$	SF	\$/SF
La Valencia Estates	Western Communities	Brawley	7,500	2,168 - 3,300	355,000 - 435,000	\$0	0	\$0.00
Carissa Ranch	D.R. Horton	Brawley	7,000	2,085 - 2,860	376,495 - 401,025	386,226	2,448	157.77
The Park Collection	Garrett Development	Brawley	6,075	1,067 - 1,883	269,990 - 316,990	289,990	1,528	189.78
The Villas Collection	Garrett Development	Brawley	7,000	1,634 - 2,740	314,990 - 375,990	327,490	1,745	187.67
Cielo Azul	McMillin Homes	Imperial	7,200	1,861 - 2,613	329,288 - 388,050	376,967	2,389	157.79
Paseo Del Sol II	Pacific Trades	Imperial	6,000	1,425 - 2,328	269,900 - 339,900	289,900	1,741	166.51
Savanna Ranch	Pulte Homes	Imperial	4,500	2,027 - 3,397	292,000 - 399,000	343,153	2,722	126.07
The Willows	Pacific Century Homes	Imperial	6,000	1,693 - 3,092	283,990 - 391,990	337,990	2,392	141.30
The Park Collection	Victoria Homes	Imperial	6,000	1,067 - 1,883	249,990 - 289,990	0	0	0.00
The Village Collection	Victoria Homes	Imperial	5,000	1,056 - 1,664	244,990 - 279,990	244,990	1,056	232.00
The Villas Collection	Victoria Homes	Imperial	7,000	1,634 - 2,746	309,990 - 365,990	345,990	2,194	157.70
Ventanas	McMillin Homes	Imperial	7,200	1,551 - 2,267	296,990 - 347,990	323,240	1,967	164.33
Countryside Estates II	Pulte Homes	El Centro	6,000	1,560 - 2,977	299,000 - 406,000	343,642	2,071	165.93
Renaissance II	G-Mac Development Co.	El Centro	8,000	2,718 - 3,400	475,000 - 495,000	485,714	3,015	161.10
Sienna Trails	KB Home	El Centro	6,200	1,740 - 2,873	323,990 - 385,990	0	0	0.00
Wildflower West	Dick-Con	El Centro	6,000	1,806 - 2,670	330,350 - 396,350	382,516	2,354	162.50
Estancia at Sevilla	D.R. Horton	Heber	6,000	2,010 - 3,324	297,900 - 398,720	357,945	2,881	124.24
Hacienda at Sevilla	D.R. Horton	Heber	5,000	1,971 - 2,787	287,350 - 344,580	311,614	2,340	133.17
Heber Meadows	Pacific Century Homes	Heber	6,000	1,693 - 2,123	274,990 - 316,990	284,740	1,774	160.51
Loreto	Centex Homes	Heber	6,000	2,029 - 2,564	299,990 - 355,990	299,990	2,029	147.85
Vista Bella	Centex Homes	Heber	6,000	1,621 - 1,924	274,990 - 294,990	288,323	1,823	158.16
Amberwood	Pacific Century Homes	Calexico	6,000	2,021 - 3,816	319,990 - 475,990	406,440	3,024	134.40
Eastside Park	Victoria Homes	Calexico	6,000	1,067 - 1,528	279,990 - 299,990	281,990	1,112	253.59
Sereno	McMillin Homes	Calexico	7,000	1,551 - 2,477	286,990 - 357,990	337,923	2,162	156.30
Somerset	Pacific Century Homes	Calexico	6,000	1,693 - 2,659	299,990 - 363,990	331,690	2,153	154.06
1 st Qtr '06						343,661	2,355	145.87
4 th Qtr '05						329,358	2,235	147.43
Absolute Change						\$14,303	120	-\$1.56
Percent Change						4.34%	5.37%	-1.06%

Source: Residential Trends Imperial County 1st Quarter/March 2006, MarketPointe Realty Advisors

Based on sales, the weighted average sale price for a new detached single-family home was \$343,661 representing a 4.34% increase over the prior quarter. At the same time the weighted average livable area increased by 120 square feet to 2,355 square feet. The weighted average price ratio decreased by \$1.56 to \$145.87 per square foot, a 1.06% decrease from the prior quarter.

Current Supply and Absorption

The following table summarizes sales of new detached single-family homes by project during the 1st Quarter of 2006:

Table 20 – Imperial Valley New Detached Single-Family Absorption 1st Quarter 2006

Project	Builder	Locale	Sales Started	Total Units	Total Sold	Total Remain	Offered 1 Qtr '06	Sold 1 Qtr '06	Unsold 1 Qtr '06
La Valencia Estates	Western Communities	Brawley	Jan-05	76	43	33	(1)	(10)	9
Carissa Ranch	D.R. Horton	Brawley	Jan-06	59	14	45	59	14	45
The Park Collection	Garrett Development	Brawley	Oct-05	178	5	173	5	2	3
The Villas Collection	Garrett Development	Brawley	Oct-05	117	20	97	10	2	8
Cielo Azul	McMillin Homes	Imperial	Jul-05	208	59	149	13	3	10
Paseo Del Sol II	Pacific Trades	Imperial	Jun-04	205	109	96	42	(1)	43
Savanna Ranch	Pulte Homes	Imperial	Aug-05	374	133	241	44	39	5
The Willows	Pacific Century Homes	Imperial	Jun-05	85	46	39	14	(1)	15
The Park Collection	Victoria Homes	Imperial	Jan-05	200	79	121	0	0	0
The Village Collection	Victoria Homes	Imperial	Jan-05	200	105	95	5	(10)	15
The Villas Collection	Victoria Homes	Imperial	Aug-05	175	30	145	17	7	10
Ventanas	McMillin Homes	Imperial	Jul-05	172	50	122	11	2	9
Countryside Estates II	Pulte Homes	El Centro	Feb-06	143	14	129	29	14	15
Renaissance II	G-Mac Development Co.	El Centro	Jan-06	70	14	56	14	14	0
Sienna Trails	KB Home	El Centro	Mar-05	126	114	12	3	(1)	4
Wildflower West	Dick-Con	El Centro	Oct-05	98	34	64	4	3	1
Estancia at Sevilla	D.R. Horton	Heber	Dec-05	173	25	148	42	25	17
Hacienda at Sevilla	D.R. Horton	Heber	Sep-05	131	51	80	52	29	23
Heber Meadows	Pacific Century Homes	Heber	May-05	219	132	87	28	20	8
Loreto	Centex Homes	Heber	Jul-05	200	31	169	4	0	4
Vista Bella	Centex Homes	Heber	Jul-05	225	54	171	29	15	14
Amberwood	Pacific Century Homes	Calexico	Jul-05	235	73	162	20	20	0
Eastside Park	Victoria Homes	Calexico	May-05	98	65	33	43	10	33
Sereno	McMillin Homes	Calexico	Jul-04	214	143	71	16	15	1
Somerset	Pacific Century Homes	Calexico	Jul-05	222	60	162	10	10	0
1 st Qtr '06				4,203	1,503	2,700	513	221	292
4 th Qtr '05				4,428	2,455	1,860	547	434	113
Absolute Change				(225)	(952)	840	(34)	(213)	179
Percent Change							(6.2%)	(49.1%)	158.4%

Source: Residential Trends Imperial County 1st Quarter/March 2006, MarketPointe Realty Advisors

During the 1st Quarter 2006 a total of 513 new detached single-family residences were offered for sale with 221 selling. This compares to the 4th Quarter 2005 when a total of 547 detached single-family units were offered for sale with 434 selling.

The following table summarizes sales of new attached single-family homes by project during the 1st Quarter of 2006:

Table 21 – Imperial Valley New Attached Single-Family Absorption 1st Quarter 2006

Project	Builder	Locale	Sales Started	Total Units	Total Sold	Total Remain	Offered 1 Qtr '06	Sold 1 Qtr '06	Unsold 1 Qtr '06
Rancho Frontera	Harold Incorporated	Calexico	Jan-05	80	79	1	2	1	1
The Cottages	Pacific Century Homes	Imperial	Jun-05	164	87	77	19	16	3
1 st Qtr '06				244	166	78	21	17	4
4 th Qtr '05				330	235	90	52	47	5
Absolute Change				(86)	(69)	(12)	(31)	(30)	(1)
Percent Change							(59.6%)	(63.8%)	(20.0%)

Source: Residential Trends Imperial County 4th Quarter/December 2005, MarketPointe Realty Advisors

During the 1st Quarter 2006 a total of 21 new attached single-family dwelling units were offered for sale with 17 selling. This is a dramatic drop from the 4th Quarter 2005 when total of 52 new attached single-family dwelling units were offered for sale with 47 selling. The largest project, The Cottages, is the only one with a significant number of units remaining for development.

Future Demand

A simple method of calculating demand for new housing takes projected future population growth and divides it by the average household size. As indicated in the previous Market Area Description section, the State of California Department of Finance projects that the population of Imperial County will grow from 161,800 persons in 2005 to 178,201 by the year 2010. This equates to an increase of 16,401 persons, or 3,280 per year. The U.S Census Bureau's Census 2000 indicated that the average household size in Imperial County was 3.33 persons. Thus, approximately 4,925 new housing units will be needed over the next five years in Imperial County, or 985 units per year. This is a rough estimate and does not take into consideration changes in household size, current housing supply and housing type.

Support for our rough estimate of new housing demand is provided by the California Center for Border and Regional Economic Studies, San Diego State University-Imperial Valley Campus which has projected future housing demand in Imperial County. Their report, Imperial Valley Housing Market: A Preliminary Analysis, and dated November 2004 states "it is currently estimated that an average of 644 households will be added each year over the next four years." Although their projection does not directly coincide with our rough estimate, it does show that the number of households is expected to increase over the next several years.

Future Supply

The following table summarizes proposed housing supply in Imperial Valley as of the 1st Quarter of 2006.

Table 22 – Imperial Valley Proposed New Development as of 1st Quarter/March 2006

Locale	Apartment Units	Single-Family Attached Units	Single-family Detached Units	Sub-total Units
Brawley	827	868	2,988	4,683
Calexico	128	2,688	6,181	8,997
Calipatria	162	48	113	323
El Centro	1,628	1,163	7,220	10,011
Heber	413	127	0	540
Holtville	81	0	0	81
Imperial	80	2,683	6,154	8,917
Niland	0	0	244	244
Seeley	0	0	403	403
Totals Units	3,319	7,577	23,303	34,199
No. of Projects	18	21	64	103
Avg. Units per Project	184	361	364	332

Source: Residential Trends Imperial County 1st Quarter/March 2006, MarketPointe Realty Advisors

The survey indicated a total of 34,199 housing units in various stages of pre-planning. Most of the new units are proposed for El Centro, Calexico, Imperial and Brawley. Over two-thirds of the planned units are for single-family detached homes.

Summary

Most of the new single-family residential product selling in Imperial Valley are detached homes. The predominate minimum lot size is 6,000 square feet, but some variety in the minimum exists, ranging from 4,500 up to 8,000 square feet. Livable area of new detached single-family product ranges from 1,056 to 3,816 square feet with base pricing ranging from \$244,990 to \$495,000. The weighted average base price of product actually selling is \$367,623 with a weighted average livable area of 2,258 square feet and a price ratio of \$153.32 per square foot. Absorption over the 25 detached single-family projects ranged from a net loss of 10 homes at the low end up to 29 units selling at the upper end. Most projects exhibited sales in the low 20's. The net loss of sales due to falling out is a new trend in the market. Other observed trends over the prior quarter include an 11.6% increase in the weighted average base price, as well as an increase in livable area for detached single-family residential product. Thus, the price ratio for new detached single-family product increased 4.0% per square foot. In terms of absorption, the number of new detached single-family units offered for sale decreased by 6.2% while the most dramatic change in the market was the number of those sold which decreased by 49.1%.

HIGHEST AND BEST USE ANALYSIS

Introduction

The opinion of value expressed in this appraisal is based on the highest and best use of the land as vacant and as improved. Highest and best use is defined as follows:

The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.⁵

The highest and best use analysis first looks at the land as vacant to determine the ideal improvement. Secondly, the existing improvement is compared to the ideal improvement to determine if the existing improvement should be continued, altered or demolished in order to redevelop the site with the ideal improvement.

Physically Possible

The physical characteristics of the subject were described in the previous Subject Description section. In summary, the subject consists of approximately 133 gross acres. Topography is flat with a shape that is conducive to development. The land is at grade with surrounding streets and properties. Based on the description of the subject, there are no physical limitations to the site. Almost any residential, commercial, industrial, agricultural or public use is physically possible.

Legally Permissible

The City of Calexico designates the land within the subject's boundaries as R1 (Residential Single-Family) which is consistent with the General Plan. The cost to amend the General Plan for another use would likely require an environmental impact report, which would necessitate some time to implement. The cost is not unheard of, but with the availability of other land along more heavily traveled corridors already zoned for alternative uses, this would seem unwarranted.

Financially Feasible

All uses that will produce an income, or return, equal to or greater than the amount needed to satisfy operating expenses, financial obligations, and capital amortization are regarded as financially feasible. At present, residential product, both attached and detached single-family residences are selling at historic price levels. However, the rate of absorption began to taper off in the 3rd Quarter of 2005 and has dramatically dropped in the 1st Quarter 2006. Absorption for most of the projects with national builders is currently in the low 20's per quarter or in the 1 to 2 sales per week range over the entire quarter. Support for this is found in the previous Residential Market Analysis section.

⁵ The Dictionary of Real Estate Appraisal, Fourth Edition, Appraisal Institute, Chicago

Maximally Productive

Ultimately that use among those that are physically possible, legally permissible and financially feasible that maximizes value is the highest and best use as vacant. Although there are several physical possibilities, there is only one legally permitted use that is also financially feasible. Thus, a single family residential development is the most maximally productive.

Highest and Best Use as Vacant

Based on the foregoing analysis the highest and best use as vacant is for development with single-family residences.

Ideal Improvement

Based on the new developments currently offered for sale as summarized in the Residential Market Analysis section, the ideal improvement would be single-family residences with weighted average home sizes ranging from 1,056 to 3,024 square feet.

Highest and Best Use as Improved

At present, the subject is undergoing improvement with detached single-family residences. The final product ranges in size from 1,693 to 3,852 square feet over nine floor plans. The weighted average plan size for the subject is 2,981 square feet, which compares moderately well to the weighted average plan size in the market of 2,558 square feet. Thus, the highest and best use as improved is the proposed use as single-family residential homes.

VALUATION METHODOLOGY AND APPLICABILITY

Introduction

Three approaches can be used to value real property: the Sales Comparison Approach, the Income Approach and the Cost Approach. The methodology and the applicability of each of these approaches to value the subject are discussed in the following sections.

Sales Comparison Approach

The Sales Comparison or Market Approach relies on the principle of substitution which is based on the assumption that a prudent buyer would not pay more for a property than it would cost to acquire a comparable substitute property. This approach involves direct comparison of the property being appraised with other similar properties that have sold or are currently offered for sale. When sufficient sales data of good quality are available, the Sales Comparison Approach offers the best indication of value for non-income producing properties such as finished residential lots.

Income Approach

The Income Approach has two methods of valuation, Yield Capitalization and Direct Capitalization.

Yield Capitalization (Discounted Cash Flow or Subdivision Analysis)

The Yield Capitalization method, also known as Discounted Cash Flow (DCF) or Subdivision Analysis is a valuation method where the estimated sale price of finished lots to merchant builders or completed homes to homeowners, less all direct and indirect costs including developer's incentive, are discounted at a market-derived rate over the development and absorption period to indicate present value.

Although the DCF analysis is commonly used in the valuation of residential subdivisions for construction loans on behalf of traditional lenders, it is not generally favored by the bond investment market for underwriting land-secured debt on smaller subdivisions. The reason is due to the risk associated with assumptions of final product pricing, absorption, developer's incentive and discount rates. Although the DCF analysis is not favored for use on smaller subdivisions, it is favored for larger subdivisions where land sales are less prevalent and the reliability of the Sales Comparison Approach is diminished.

Direct Capitalization

Direct capitalization converts an estimate of a single year's income expectancy into an indication of value by dividing the income estimate by an appropriate rate or by multiplying the income estimate by an appropriate factor. In the case of land, the net income can be derived from ground rent. Since the subject is not leased land and the final product, single-family residences, is not

anticipated to generate a continuous revenue stream, the direct capitalization method is not appropriate for the valuation of the subject.

Cost Approach

The Cost Approach estimates the replacement or reproduction costs of structures and improvements, including an appropriate amount of entrepreneurial incentive, and then makes allowances for an appropriate amount of depreciation. The depreciated cost of the improvements is then added to an estimate of land value. Since little or no depreciation is involved with the valuation of entitled land or projects with recently completed infrastructure improvements, the Cost Approach is not an appropriate method of valuing residential subdivisions whether raw land or finished lots. The Cost Approach is, however, useful when the appraised property is income producing and fully improved with structures. The Cost Approach is also particularly useful when valuing special use properties such as schools and fire stations where a market is not available to derive sales.

The use of costs in the valuation process is not synonymous with the Cost Approach. Costs are only one component of the Cost Approach. Costs can also be used in both the Sales Comparison and Income Approaches.

Summary and Applicability

The use of one or more of the approaches to value is based on its appropriateness to the assignment as determined by the type of project, the availability of supporting data, current appraisal practice and perceptions of market participants, particularly those relying on the indication of value. Based on the availability of recent land sales in Imperial Valley and the quality of the data, the Sales Comparison Approach is relied on in this appraisal for the valuation of the subject. However, the recent sales are limited to tracts of 59 to 304 lots at one take down. This is not directly comparable to the 467 lots of the subject. Thus, the Sales Comparison Approach will be used to establish a finished lot value for the four individual tracts of the subject, which range in size from 99 to 133 lots. Then a Discounted Cash Flow Analysis will be relied on to value the entire subject on a bulk sale basis. The Direct Capitalization method of the Income Approach and the Cost Approach are not considered appropriate for the valuation of the subject. However, costs are useful for adjusting for physical differences between properties in the Sales Comparison Approach.

SALES COMPARISON APPROACH

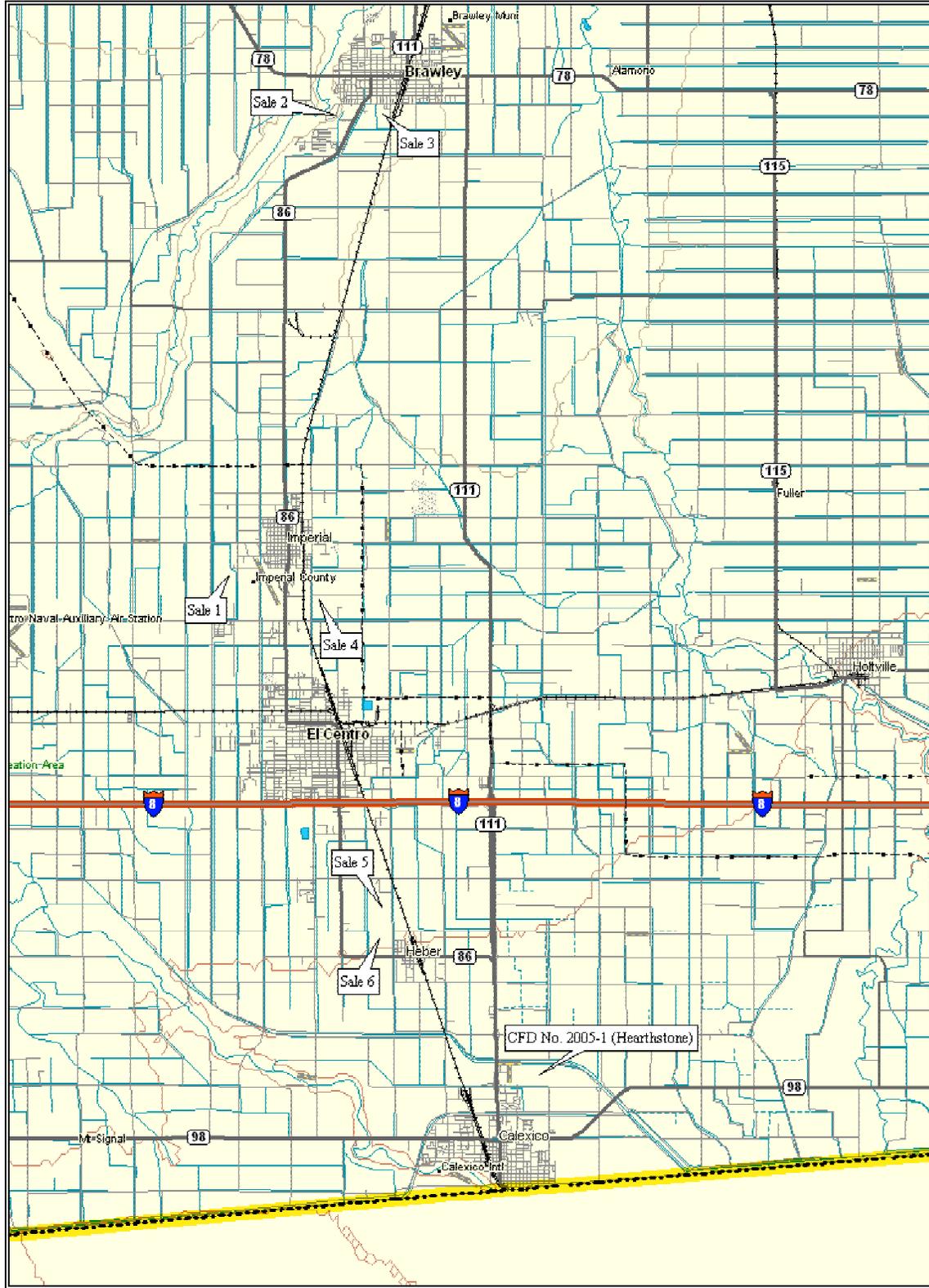
A search for sales of similarly entitled residential land was the Imperial Valley. The search process included surveying the land acquisition officers for the following merchant home-builders active in the area: Pulte Homes, Innovative Communities, Centex Homes, Trimark Pacific Homes, Victoria Homes, D.R. Horton, Pacific Century Homes and McMillan Homes. From our survey of the market a number of sales were investigated, of which a total of six residential land sales were selected for inclusion in this report and are summarized in the table on the following page. The sales are arranged by date when the price was negotiated and established. A map indicating the relative locations of each sale follows the summary. The sales were selected based on their proximity to the subject, timing of the sale and their overall relevance to the analysis. Additional details of each sale including notes from the telephone confirmation of each sale with the principle parties involved are retained in the appraisers' work file.

Table 23 – Detached Single-Family Residential Land Sales

No.	Project / Location	Buyer Seller	Price Neg. Rec Date Doc. No.	Lots	Min. Lot Size Typ. Dimension	Finished Lot \$ Finishing Costs Sale Price / Lot	Product Pricing ATOS*	FLR	Comments
1	Monterrey Park Unit 2 SEC Brewer & Monterrey Park Imperial	K.B. Homes Innovative Communities	Feb. '06 Mar. '06 n/av	157	6,000	\$101,572 \$51,222 \$50,350	n/av n/av	-	CFD in Process Delivered Blue-top w/recorded TM 2 Takedowns; 157 Lots Total
2	Carissa Ranch N/O Panno, W/O Willard Brawley	Continental Residential Carissa Ranch, LLC	Sept. '05 11/21/05 05-045780	59	7,350	\$118,799 \$49,307 \$69,492	2,085 - 3,101 SF High \$300,000's	31%	No CFD Delivered Blue-top
3	Victoria Park Unit 1 S/S Malan, W/S Dogwood Brawley	Five Corners Victoria Place	Jun. '05 07/18/05 -	49 / 68 1st Takedown	6,000 / 7,000 -	\$96,500 \$42,000 \$54,500	1,067 - 2,740 SF \$269,990 - \$390,990	30%	Small CFD Delivered Raw w/Final Map Total Takedown 295 Lots
4	Portion of Bratton Subdivision Wraps NEC Clark & Aten Imperial	Trimark Pacific Rilington Imperial	May '05 06/29/05 05-024799	293	6,000 -	Appx. \$80,000 \$33,000 \$47,000	1,500 - 2,300 SF \$230,000 - \$297,000	30%	In CFD Delivered Raw w/Final Map
5	McCabe Ranch II Units 1 & 2 NWC Dogwood & Correll Heber	Continental Residential Imperial McCabe Home	Jan. '05 04/29/05 05-016371	131 / 173	5,000 / 6,000 -	Low \$80,000's -	2,000 - 3,300 SF n/av	-	Small CFD in Process
6	Vista Bella & Loreto S/S Correll, W/O Dogwood Heber	Centex Homes Danbury/Farmington, LLC	Dec. '04 03/03/05 05-007706	105 1st Takedown	6,000 60 x 100	Appx. \$80,000 \$51,000 \$29,000	1,648 - 2,564 SF \$248,000 - \$326,000	28%	No CFD Total Takedown 425 Lots

- Pricing ATOS (at time of sale) is the buyer's projection when entering escrow or as of recording date. First phase or current pricing is normally higher. Finished Lot Ratio (FLR) calculated off pricing ATOS.

RESIDENTIAL LAND SALES MAP



Unit of Comparison

The land sales are compared to the subject, adjusting for various differences based on a common unit of comparison. The unit of comparison that has been found most useful and prevalent in the market for analyzing tracts of residential land, with the same or similar intended use as the subject, is price per finished lot. Finished lot is defined as follows:

A parcel which has legal entitlements created by a recorded subdivision map, whose physical characteristics are a finished, graded level pad with infrastructure contiguous to each individual lot, asphalt paved road, and the necessary utilities. This term assumes the payment of all applicable development fees with the exception of building permit and other fees due at the issuance of a building permit.⁶

Elements of Comparison

Ten elements of comparison require consideration. They are listed in order of operation.

1. Property Rights Conveyed
2. Financing Terms
3. Conditions of Sale
4. Buyer's Anticipated Expenditures at the Time of Sale
5. Market Conditions
6. Location
7. Physical Characteristics
8. Economic Characteristics
9. Use (Zoning)
10. Non-realty Components of Value

The relevance of each of the elements of comparison is discussed below along with the basis for any adjustment made to the individual sales.

Property Rights Conveyed

All of the sales were for the fee simple interest of the land. Thus, no adjustments for differences in property rights conveyed are warranted.

Financing

Acquisition of raw land intended for large tract residential development is not typically financed but paid in cash or terms equivalent to cash by land developers and merchant builders. This is due to inherent risks associated with land entitlement and timing of development. In the case of the sales relied on for this analysis most were acquired by large nationally recognized land

⁶ Appraisal Standards for Land-Secured Financings, Revised July 2004, California Debt and Investment Advisory Commission, Sacramento

developers and/or merchant builders. None reported financing the acquisitions that would necessitate an adjustment.

Conditions of Sale

All of the sales were considered arms length transactions between a willing buyer and willing seller motivated by their own self interest.

Expenditures at the Time of Sale

This accounts for costs the buyer anticipates spending immediately after acquisition and is not otherwise reflected in the sale price. However, the unit of comparison used in this analysis, finished lot, already takes into consideration the buyer’s anticipated expenditures. Thus, no adjustments for expenditures at the time of sale are warranted.

Market Conditions

Changes in market conditions can be measured by the change in the price paid per finished lot using paired sales as well as changes in the amount paid for the weighted average price per square foot in the market.

Change in market conditions is ideally measured by the change in the price paid per finished lot. Due to the lack of paired land sales available to conclusively determine the rate of change, an alternative method was used. We relied on changes in the weighted average price per square foot for new detached single-family homes in the subject’s Imperial Valley market area. The data was derived from MarketPointe Realty Advisors as published in their Residential Trends Imperial County publication. We have excluded data on sales for homes in the Salton City area as this is outside our defined area for the Imperial Valley market. The weighted average price per square foot calculated for the end of each quarter along with the growth rate between each quarter and the last are summarized in the following table.

Table 24 – Weighted Average Price per Square Foot Growth Rate

Quarter	Weighted Average \$ / SF	Absolute Growth Rate to 1st Qtr 2006
4 th Qtr 2004	130.32	11.9%
1 st Qtr 2005	132.46	10.1%
2 nd Qtr 2005	149.33	-2.3%
3 rd Qtr 2005	146.69	-0.6%
4 th Qtr 2005	147.43	-1.1%
1 st Qtr 2006	145.87	0.0%

Source: Residential Trends Imperial County, MarketPointe Realty Advisors

The land sales are adjusted for changes in market conditions based on the weighted average price per square foot absolute growth rate between the quarter in which the sale occurs and the 1st Quarter of 2006.

Location

Location adjustments are based on proximity to freeway access, the quality of schools, nearby detrimental land uses, and proximity to commercial services. Given the limited pool of data on which to draw paired sales, this adjustment is subjective and relies on the experience and judgment of the appraisers. Thus, differences in location for each sale are reported as inferior or superior when compared to the subject.

Physical Characteristics

Physical characteristics relate to lot premiums for views as well as differences in lot sizes. Lot size differences are minimal since all of the sales have at least some 6,000 square foot minimum lots. Differences in lot size are closely related to use (zoning) which regulates density. All of the sales consist of generally level terrain and thus no adjustments for view potential are warranted.

Economic Characteristics (Tax Basis)

Land sales that have CFD special taxes encumbering the final product typically sell for less than similar properties without the same tax basis. Although developments subject to CFD special taxes receive up-front reimbursement for public facilities and fees, the reimbursement is offset by a typically lower retail price for the final product which is needed to overcome resistance to the higher tax basis. Thus no adjustment is made for CFD special taxes.

Use (Zoning)

This element of comparison relates to density permitted (minimum lot size). All of the sales had at least some if not all of the lots similar in size to the subject's minimum lot size. However, where differences exist in lot size, this is discussed individually by sale.

Non-realty Components of Value

Non-realty components of value such as trade fixtures, business, personality and other items that are not real property or are often included in the sale price of real property. None of the sales relied on for this analysis involved non-realty components of value.

Differences in the market conditions, location, and lot sizes when compared to the subject will be discussed individually by sale in the following paragraphs.

Discussion and Analysis of Land Sales

This section discusses each sale individually and applies the appropriate adjustments for differences discussed under the elements of comparison. The adjustment process can be either quantitative or qualitative. Because of the conformity of the sales we have relied mostly on a qualitative analysis where differences are discussed and the sale compared to the subject as either superior or inferior.

Sale 1 – Monterrey Park Unit 2

This transaction involved 157 single-family residential lots located approximately 11 miles northwest of the subject. Specifically, it is situated at the southeast corner of Brewer Road and Monterrey Park Lane in the city of Imperial. The location is at the western periphery of the built-up area of Imperial. The neighborhood is in transition from agricultural uses toward residential with a Pulte project to the north and a McMillin Companies project to the south. Sale 1 is part of a 597 lot project master developed by Innovative Communities. The site is 4 miles northwest of access to Interstate 8 and 12.5 miles north of Mexicali, Republic of Mexico. It is situated in the Imperial Unified School District with an API base of 770 in 2005. The minimum lot size is 6,000 square feet. A CFD is in formation with an anticipated overall tax rate of approximately 1.8%. The seller provided a copy of the fully executed purchase agreement and escrow instructions which indicated a finished lot price of \$101,572. The seller confirmed that the price was negotiated in February of 2006. We were unable to confirm the buyer's planned final product size or the pro-forma base pricing estimated at time of sale.

No adjustment is warranted for changes in market conditions since the sale occurred in the 1st Quarter of 2006. This property is located further from the major population center of the region, Mexicali, Republic of Mexico and only slightly closer to freeway access. The location issue is offset by the superior API Base performance of the Imperial Unified School District when compared to Calexico Unified. In terms of number of lots, it compares well to the subject's four individual units. In addition, the lots themselves have a similar minimum lot size. Lastly this project will have a similar overall tax rate burden. Overall, this sale is considered similar when compared to the subject's four individual units.

Sale 2 – Carissa Ranch

This transaction involved 59 single-family residential lots located approximately 18.5 miles northwest of the subject. Specifically, it is situated on the south side of Malan Street and the west side of Dogwood Road in the city of Brawley. The location is at the southern periphery of the built-up area of Brawley. The neighborhood is in transition from agricultural uses toward residential. The site is 13 miles north of access to Interstate 8 and 20.5 miles north of the border with Mexico. The sale included 49 single-family lots with a 6,000 square foot minimum and 68 single-family lots with a 7,000 square foot minimum. The land acquisition officer for the buyer indicated that they paid a premium for the site since it involved a relatively small number of lots already in blue-top condition. Thus they could get in and out quickly. The project is currently half sold out and vertical construction is underway. The land acquisition officer for the buyer confirmed the finished lot price was \$118,799 and the sale was negotiated in June 2005. It is located in the Brawley Elementary and the Brawley Union High School districts with API bases of 702 and 660 respectively in 2005. The homes will not be subject to CFD special taxes. The planned detached single-family residences range in size from 2,085 to 3,101 square feet while the pro-forma base pricing at the time of the sale was projected to be in the high \$300,000's. This indicates an approximate finished lot ratio of 31%.

Adjusting for differences in market conditions at a rate of -0.6% since the 2nd Quarter of 2005, a price per finished lot of approximately \$118,086 is indicated. In terms of location this property is considered inferior to the subject because of greater distance from freeway access. However, this is more than offset by the significantly fewer number of lots and the larger minimum lot size. The school districts have slightly higher API bases in 2005 than does the subject's school district at 623. Overall, due primarily to the smaller project size and the larger minimum lot sizes, this sale is considered superior when compared to the subject's four individual units.

Sale 3 – Victoria Place Unit 1

This transaction involved 117 single-family residential lots located approximately 18.5 miles north of the subject. Specifically, it is situated on the south side of Malan Street and the west side of Dogwood Road in the city of Brawley. The location is at the southern periphery of the built-up area of Brawley. The neighborhood is in transition from agricultural uses toward residential. The site is 13 miles north of access to Interstate 8 and 20.5 miles north of Mexicali, Republic of Mexico. The sale included 49 single-family lots with a 6,000 square foot minimum and 68 single-family lots with a 7,000 square foot minimum. The seller's project manager confirmed the finished lot price was \$96,500 and that the price was negotiated in June 2005. It is located in the Brawley Elementary and the Brawley Union High School districts with API bases of 702 and 660 respectively in 2005. This project is subject to a small CFD with a lower overall tax rate. The planned detached single-family residences range in size from 1,067 to 2,740 square feet while the first phase base pricing was \$269,990 to \$390,990. This indicates an approximate finished lot ratio of 30%.

Adjusting for differences in market conditions at a rate of -2.3% since the 2nd Quarter of 2005, a price per finished lot of approximately \$94,281 is indicated. In terms of location this property is considered inferior to the subject because it is further from freeway access. However, this is offset by the larger minimum lot sizes of over half the lots. Overall, this sale is considered similar when compared to the subject's four individual units.

Sale 4 – Portion of Bratton Subdivision

This transaction is the resale of 293 lots in the Bratton subdivision located approximately 9.5 miles northwest of the subject at the northeast corner of Aten and Clark Roads in the city of Imperial. The location is toward the eastern periphery of the built-up area of Imperial. The neighborhood is in transition from agricultural uses toward residential. The site is 3.75 miles north of access to Interstate 8. The minimum lot size is 6,000 square feet. The property is subject to CFD special taxes. The buyer's land acquisition officer estimated the finished lot price to be approximately \$80,000 and that the price was agreed upon in May 2005. It is located in the Imperial Unified School District with an API base of 770 in 2005. The project is also located in CFD with a similar overall tax rate. The planned detached single-family residences range in size from 1,500 to 2,300 square feet while the pro-forma base pricing at the time of the sale ranged from \$230,000 to \$297,000. This indicates an approximate finished lot ratio of 30%.

Adjusting for differences in market conditions at a rate of -2.3% since the 2nd Quarter of 2005, a price per finished lot of approximately \$78,160 is indicated. This property is located further from the major population center of the region, Mexicali, Republic of Mexico and only slightly closer to freeway access than the subject. The location issue is offset by the superior API Base performance of the Imperial Unified School District when compared to Calexico Unified. The project has a significantly greater number of lots than the individual units of the subject. The minimum lot sizes are similar and the sale is within a CFD with a similar tax rate. Overall, due to the greater number of lots, this sale is considered inferior when compared to the subject's four individual units.

Sale 5 – McCabe Ranch II Units 1 & 2

This transaction was for 304 single-family residential lots located approximately 4 miles northwest of the subject at the northwest corner of Dogwood Road and Correll Road, in the unincorporated community of Heber. The site is 2.5 miles south of access to Interstate 8. A CFD is in the process of being formed. The sale included 131 lots with a 5,000 square foot minimum lot size and 173 lots with a 6,000 square foot minimum lot size. The land acquisition officer confirmed that the finished lot price was in the low \$80,000s and that the price was negotiated in January 2005. The project is located in the Heber Elementary School District with an API base of 646 in 2005. A CFD is currently in formation. The buyer did not provide an indication of what the pro-forma base pricing was at the time of sale.

Adjusting for differences in market conditions at an absolute rate of 10.1% since the 1st Quarter of 2005, a price per finished lot of approximately \$88,080 is indicated. The project has a significantly greater number of lots than the individual units of the subject and almost half the lots have a smaller minimum lot size. It is closer to freeway access, but further from the border. The school district performance and the CFD tax burden is considered similar. Overall, due to the size of the project and the smaller minimum lot sizes, this sale is considered inferior when compared to the subject's four individual units.

Sale 6 – Vista Bella & Loreto at Heberwood Estates

This was the acquisition of 105 lots located 3.5 miles northwest of the subject in the unincorporated community of Heber. More specifically it is located on the south side of Correll Road and west of Dogwood Road. The property is situated miles 2.5 miles south of access to Interstate 8. The project is not subject to CFD special taxes. The land acquisition officer for the buyer, Centex Homes, indicated that the sale price was established in December 2004 with an estimated finished lot price of approximately \$80,000 per lot. The transaction represents the first takedown of 425 lots over the next year. The project is located in the Heber Elementary School District with an API base of 646 in 2005. The planned detached single-family residences ranged in size from 1,648 to 2,564 square feet while the pro-forma base pricing at the time of sale ranged from \$248,000 to \$297,000. This indicates an approximate finished lot ratio of 28%.

Adjusting for differences in market conditions at an absolute rate of 11.9% since the 4th Quarter of 2004, price per finished lot of approximately \$89,520 is indicated. It is closer to freeway

access, but further from the border than the subject. The school district performance is considered similar. Overall, this sale is considered somewhat similar when compared to the subject's four individual units.

Summary and Estimate of Finished Lot Value

The sales indicate a market condition adjusted finished lot value for the subject's four individual units ranging from approximately \$78,160 to \$118,086 per lot. The two sales at the lower end of the range, Sale 4 at \$78,160 and Sale 5 at \$88,080 per finished lot, represent larger projects and/or smaller lots when compared to the subject's individual units. The upper end of the range, Sale 2 at \$118,086 per finished lot, is a much smaller project with a larger minimum lot size and was already in blue-top condition. The three sales in the middle of the range, Sale 1 at 101,572, Sale 3 at \$94,281 and Sale 6 at \$89,520 per finished lot, were the most similar to the subject in terms of project size and minimum lot size. Thus, it is expected that a finished lot value for the subject's individual units would fall within the range indicated by these three sales.

Support for an indication of finished lot value can be derived from the use of a finished lot ratio analysis. The finished lot ratio analysis assumes that a relationship exists between the finished lot price of the underlying land and the pro-forma or first phase base home price, not including lot premiums and upgrades. Four of the six land sales indicate finished lot ratios ranging from 28% to 31%, a fairly tight range. Applying a 30% finished lot ratio to the subject's Unit 1 base pricing is summarized in the following table.

Table 25 – Finished Lot Ratio Analysis on Unit 1

Plan	Size SF	Bd + Ba Mix	Unit 1 Plan Mix	Base Price	Amount
Amberwood 1	2,021	5 bd 2 ba	17	\$319,990	\$5,439,830
Amberwood 2	3,092	5 bd 3 ba	25	410,990	10,274,750
Amberwood 3	3,816	7 bd 4 ba	29	475,990	13,803,710
Amberwood 4	3,540	6 bd 3.5 ba	0	n/av	0
Somerset 1	1,693	4 bd 2 ba	6	304,990	1,829,940
Somerset 2	1,819	4 bd 2 ba	13	315,990	4,107,870
Somerset 3	2,350	6 bd 3 ba	24	350,990	8,423,760
Somerset 4	2,659	7 bd 3 ba	18	368,990	6,641,820
Somerset 5	3,852	5 bd 3.5 ba	1	\$475,990*	475,990
Totals			133		\$50,997,670
Weighted Average Base Price					\$383,441
Finished Lot Ratio					30%
Indicated Finished Lot Value					\$115,032
*Base Price Estimated Based on Amberwood Plan 3					

Source: Pacific Century Homes

We have based the finished lot ratio analysis on Unit 1 of the subject only since this was the only unit with complete and current base pricing available. The remaining three Units will have a product mix with slightly more of the larger plan sizes. The finished lot ratio analysis indicates a finished lot value of \$115,032 for Unit 1 of the subject. This supports a unit value toward the upper end of the range indicated by the three land sales in the middle of the range. Therefore, we have relied on \$100,000 per lot as the finished lot value for the subject's four individual units.

The following table summarizes the finished lot values for each of the subject's units:

Table 26 – Estimate of Finished Lot Value by Unit

Category	Unit 1	Unit 2	Unit 3	Unit 4
Number of Lots	133	111	114	99
Estimated Finished Lot Value, per Lot	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>
Estimated Finished Lot Value	\$13,300,000	\$11,100,000	\$11,400,000	\$9,900,000

The finished lot values for the subject's four units will be relied on for use in the Discounted Cash Flow Analysis which follows.

DISCOUNTED CASH FLOW ANALYSIS

Introduction

The discounted cash flow analysis is a valuation method where projected revenues from the sale of final product, less all costs remaining are discounted at an appropriate rate over an absorption period to arrive at a net present value. This discounted cash flow analysis considers the following elements:

- Revenue
- Land Development Budget to Finish Lots
- Marketing and Sales Costs
- General and Administrative Costs
- Real Estate Taxes
- Entrepreneurial Incentive
- Discount Rate
- Costs Spent to Date
- Community Facilities District Net Proceeds

The following sections summarize the elements considered in this subdivision analysis.

Revenue

Revenue is derived from the sale of the four individual units of the subject. The price for each unit is based on the finished lot value established in the preceding Sales Comparison Approach. The projected revenue is summarized in the following table:

Table 27 – Estimate of Finished Lot Value by Unit

Category	Unit 1	Unit 2	Unit 3	Unit 4
Number of Lots	133	111	114	99
Estimated Finished Lot Value, per Lot	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>
Estimated Finished Lot Value	\$13,300,000	\$11,100,000	\$11,400,000	\$9,900,000

Based on the Residential Market Analysis section we have not projected any price appreciation. Most residential builders forecast no price appreciation in the short term when analyzing land acquisitions. Sale of individual units, is scheduled to occur based on the developer's construction schedule summarized in the Subject Description section of this report.

Land Development Budget to Finished Lots

The land development budget for each of the four units was shown in greater detail in the Subject Description section of this report. The land development budget for each unit is grown at a cost inflation

rate of 3% annually. The total land development budget for each of the four units is shown in the following table:

Table 28 – Total Land Development Budget to Finished Lot Condition

Category	Unit 1	Unit 2	Unit 3	Unit 4
Land Development Budgets	\$9,581,171	\$5,653,371	\$6,394,634	\$7,752,373
Number of Months	3	6	12	18
3% Annual Cost Inflation Rate	0%*	3%	3%	3%
Projected Land Development Budgets	\$9,581,171	\$5,738,703	\$6,589,133	\$8,108,743

*Unit 1 costs are considered already expended; thus cost inflation is not warranted.

Source: Pacific Century Homes

Marketing and Sales Costs

Marketing and sales costs reflect advertising, commissions to land brokers, and closing costs on the four units being sold. We have projected this amount at 3% of revenue occurring in the period generated.

General and Administrative Costs

Administrative expense covers the various costs associated with managing the overall development. This would include management, legal fees, accounting fees and other professional services not included elsewhere. We have projected general and administrative costs at 3% of total revenue. Since these costs are incurred regardless of whether homes are sold, we have projected this amount evenly over the absorption period.

Real Estate Taxes

Property taxes paid by the developer are estimated on the unsold lots as a holding cost to the property owner/developer. The current assessment is \$48,532. Taxes will decrease based on a pro-rata share of the number of lots in each unit as each unit is sold. In addition, taxes are paid in installments twice yearly, in December and April.

Entrepreneurial Incentive

Entrepreneurial incentive (developer's anticipated profit) is a return to the developer for the time and effort in the development process. It can be estimated either as line item deduction or it can be incorporated into the discount rate. For the purposes of this analysis, entrepreneurial incentive is incorporated in the discount rate.

Discount Rate

The discount rate used in this analysis represents the minimum rate of return necessary to attract investment capital to the subject's development plus an amount for entrepreneurial incentive. This rate must be competitively attractive in terms of alternative investment opportunities plus incorporate a sufficient return to compensate the investor for assuming the risks and burdens of ownership, relative lack of liquidity, and time preference. Financial securities provide an indication of the lower limits attributable to time and risk because of their liquidity. The following table summarizes yield rates as of April 10, 2006.

Table 29 – Financial Securities Yield Rates

Financial Security	Yield at- April 10, 2006
2-Year Treasury Constant Maturity Rate	4.89%
3-Year Treasury Constant Maturity Rate	4.89%
5-Year Treasury Constant Maturity Rate	4.89%
Bank Prime Loan Rate	7.75%
Moody's Seasoned Aaa Corporate Bond Yield	5.82%
Moody's Seasoned Baa Corporate Bond Yield	6.67%

Source: U.S. Financial Data, Federal Reserve Bank of St. Louis

Short term treasury securities provide an indication of the lower limits of yield rates due to negligible risk. Higher yields are provided by corporate bonds which have marginal security and greater risk of default. Thus, a yield rate in the range of 6.67% would likely reflect the lowest rate acceptable to real estate investors given the absorption forecast for the subject. However, due to the illiquidity of real estate an additional 2.0% to 4.0% premium is warranted. This would equate to a yield rate in the 8.67% to 10.67% range for the subject, excluding entrepreneurial incentive.

Entrepreneurial incentive represents the amount the developer anticipates to receive for the efforts of orchestrating the development of a project and bearing the risk. The amount varies based on the status of the project and the perceived risk. Entrepreneurial incentive can typically range from 5% to 20%. The lower end of the range is representative of entitled projects with homes sold and construction underway. The upper end of the range is representative of raw un-entitled land. As described previously, the subject is entitled, with one unit graded and sold, but not completed or closed. The remaining three units are entitled, but grading is not complete. Thus entrepreneurial incentive should be toward the lower end of range. Based on the current status of the subject we have projected entrepreneurial incentive at 8%. Thus, the base discount rate range of plus entrepreneurial incentive in the range of to percent would be appropriate for the subject. Based on the preceding data and our analysis, a discount rate of 16.67% to 18.67% would be reasonable for the subject. This rate is applied to the end-point of each quarterly cash flow.

Support for this rate is found in a recent survey published by The Korpacz Real Estate Investor Survey. This survey indicated discount rates for land development range from 11.00% to 25.00%, with an average of 18.00% during the 4th Quarter of 2005. The survey respondents indicated a preference of including the developer's incentive in the discount rate, versus a separate line item expense. The discount rates are based on a survey that includes residential, office retail, and industrial developments. Participants in the survey indicate the highest expected returns are on large-scale un-entitled developments. The lower end of the range was extracted from projects where development risks had been lessened or mitigated. Several respondents indicated they expect slightly lower returns when entitlements are already in place.

Based on the preceding analysis, we have projected the discount rate at 17.00%. This rate is applied to the end-point of each quarterly cash flow.

Costs Spent to Date

As indicated in the Subject Description section of this report, the developer has spent \$13,835,301 toward land development and vertical improvements through March 2006. This is added to the net present value of the cash flows.

Community Facility District Net Proceeds

The amount of eligible facilities that is supported by this appraisal is estimated to be \$8,000,000. This amount is added to the net present value of the cash flows, consistent with the Hypothetical Condition of this appraisal. However, of this amount, the developer has spent \$1,584,695 in eligible facilities. This amount is deducted from the net present value of the cash flows since it is already reflected in the costs spent to date.

Summary and Estimate of Bulk Sale Value

Based on the foregoing data, analysis and forecasted cash flow assumptions, the estimated bulk sale value of the subject is \$31,783,636 rounded to \$31,785,000. The cash flows are summarized on the following page.

Table 30 – Discounted Cash Flow Analysis

Period		Apr, May, Jun 2006	Jul, Aug, Sep 2006	Oct, Nov, Dec 2006	Jan, Feb, Mar 2007	Apr, May, Jun 2007	Jul, Aug, Sep 2007
Revenue							
Unit 1		\$13,300,000	\$0	\$0	\$0	\$0	\$0
Unit 2		0	11,100,000	0	0	0	0
Unit 3		0	0	0	11,400,000	0	0
Unit 4		0	0	0	0	0	9,900,000
Total Revenue		13,300,000	11,100,000	0	11,400,000	0	9,900,000
Expense							
	Rate						
Land Development Budget to Finished Lots		9,581,171	5,738,703	0	6,589,133	0	8,108,743
Marketing and Sales Costs	3.00%	399,000	333,000	0	342,000	0	297,000
General and Administrative Costs	3.00%	228,500	228,500	228,500	228,500	228,500	228,500
Real Estate Taxes		24,266	0	11,310	0	5,257	0
Total Expense		10,232,937	6,300,203	239,810	7,159,633	233,757	8,634,243
Net Cash Flows		\$3,067,063	\$4,799,797	(\$239,810)	\$4,240,367	(\$233,757)	\$1,265,757
Discount Rate/Factors	17.00%	0.959233	0.920127	0.882616	0.846634	0.812119	0.779011
Present Value of Cash Flows		\$2,942,027	\$4,416,424	(\$211,660)	\$3,590,039	(\$189,839)	\$986,039
Sum of Present Values	\$11,533,030						
Plus All Costs Spent to Date	13,835,301						
Plus CFD Net Proceeds	8,000,000						
Less CFD Public Facilities and Fees Paid to Date	(1,584,695)						
Indicated Bulk Sale Value	31,783,636						
Rounded	\$31,785,000						

RECONCILIATION AND FINAL OPINION OF VALUE

The one appraisal approach considered appropriate for use in this study resulted in the following indication of bulk sale value for the subject:

Discounted Cash Flow Analysis \$31,785,000

The Cost Approach was not used in this analysis since minimal improvements relative to the overall value have been constructed as of the appraisal date. The Income Approach, in the form of a discounted cash flow analysis or subdivision analysis, was warranted since land with a similar number of lots as the subject is not readily acquired in the market in less than one year. The Sales Comparison Approach is a valid method, particularly in valuing the fee simple estate of land where the lots could be sold in a reasonably short period of time. Therefore, we have relied on the Sales Comparison Approach for the valuation of the subject's individual units and not the property as a whole.

After completing our investigation and appraisal and subject to the assumptions and limiting conditions contained in this report, it is our opinion that the fee simple bulk sale value of the real property subject to the special tax of City of Calexico Community Facilities District No. 2005-1 (Hearthstone) as of April 1, 2006, is in the amount of:

**THIRTY-ONE MILLION SEVEN HUNDRED EIGHTY-FIVE THOUSAND DOLLARS
(\$31,785,000)**

The appraised value is subject to the hypothetical condition that an estimated \$8,000,000 of net proceeds for public facilities and fees will be financed through the sale of City of Calexico Community Facilities District No. 2005-1 (Hearthstone) bonds.

EXHIBIT A
TRACT MAPS

FM NO.

**LA JOLLA PALMS
UNIT 4**
IN THE COUNTY OF IMPERIAL, STATE OF CALIFORNIA

BEING A SUBDIVISION OF A PORTION OF THE SOUTH EAST
QUARTER OF SECTION 1, TOWNSHIP 17 SOUTH
RANGE 14 EAST SAN BERNARDINO BASE AND MERIDIAN.

LEGEND

- SUBDIVISION BOUNDARY LINE
- PHASE BOUNDARY
- ROAD RIGHT OF WAY LINE
- - - SECTION TIES
- - - EASEMENT LINE
- ⊙ FOUND MONUMENT AS NOTED (BELOW)
- SET 2" IRON PIPE WITH TAG MKD. R.C.E. 18679
- M MEASURED
- △ INDICATES SET 6" DIA. CONCRETE CYLINDER W/ BRASS TAG STAMPED R.C.E. 18679.
- ① INDEX TO RECORDED MAP DATA (BELOW)
- △ INDEX TO EXISTING EASEMENTS (BELOW)
- ◇ INDICATES MAP SHEET PAGE.

SURVEYOR'S NOTES:

- ① RECORD DATA PER GLO SURVEY PLAT OF T175, R14E DATED NOV. 19, 1880.
- ② RECORD DATA PER FM NO. 9-1.
- ③ RECORD DATA PER FM 17-30.
- ④ RECORD DATA PER FM 20-9.
- ⑤ RECORD DATA PER FM 18-82.
- ⑥ RECORD DATA PER FM 12-84.

1. THE BEGINNING AND ENDING LOT NUMBERS ARE 1 AND 99 RESPECTIVELY.
2. TOTAL NUMBER OF LOTS IS 99.
3. THE TOTAL GROSS AREA, UNIT 4, IS 21.94 ACRES.
4. SEE SHEET 3 FOR MONUMENTATION NOTES.

FOUND MONUMENTATION

- Ⓐ FOUND 2" IRON PIPE WITH R.C.E. 18681 TAG FOR CENTER OF SECTION 1 PER FM 9-1, 0.8' DEEP.
- Ⓒ FOUND 2" IRON PIPE WITH R.C.E. 18681 TAG FOR S1/4 COR. SECTION 1 PER FM 9-1, 1.2' DEEP.
- Ⓓ FOUND 5" DIAMETER CONCRETE CYLINDER WITH 2" DIAMETER BRASS CAP MARKED "NE COR SEC 12", SET OVER 4" X 4" POST BY IMP. CO. SURV. 1975, PER IMP. CO. SURV. TIES, FM 18-82, FM 12-84, FM 16-23, FM 20-9, FM 20-9, 1.2' DEEP.
- Ⓔ FOUND 5" DIAMETER CONCRETE CYLINDER WITH 2" DIAMETER BRASS CAP MARKED "NW COR TR 44", BY IMP. CO. SURV. 1991, SET OVER 4" X 4" POST, PER IMP. CO. SURV. TIES, FM 18-82, FM 12-84, FM 16-23, FM 20-9, 1.0' DEEP.
- Ⓕ FOUND 5" DIAMETER CONCRETE CYLINDER WITH "x" IN SAND STONE ROCK SET BY IMP. CO. SURV. 1989, PER IMP. CO SURV. TIES, FM-9-1, 1.0' DEEP.

EXISTING EASEMENTS:

- △ BOOK 1931, PAGE 1773 OF OFFICIAL RECORDS REC. 5/21/1988.
- △ BOOK 636, PAGE 181 OF OFFICIAL RECORDS REC. 7/2/1945.
- △ BOOK 1006, PAGE 71 OF OFFICIAL RECORDS REC. 10/9/1958.
- △ BOOK 2255, PAGE 1620 OF OFFICIAL RECORDS REC. 11/14/2003.

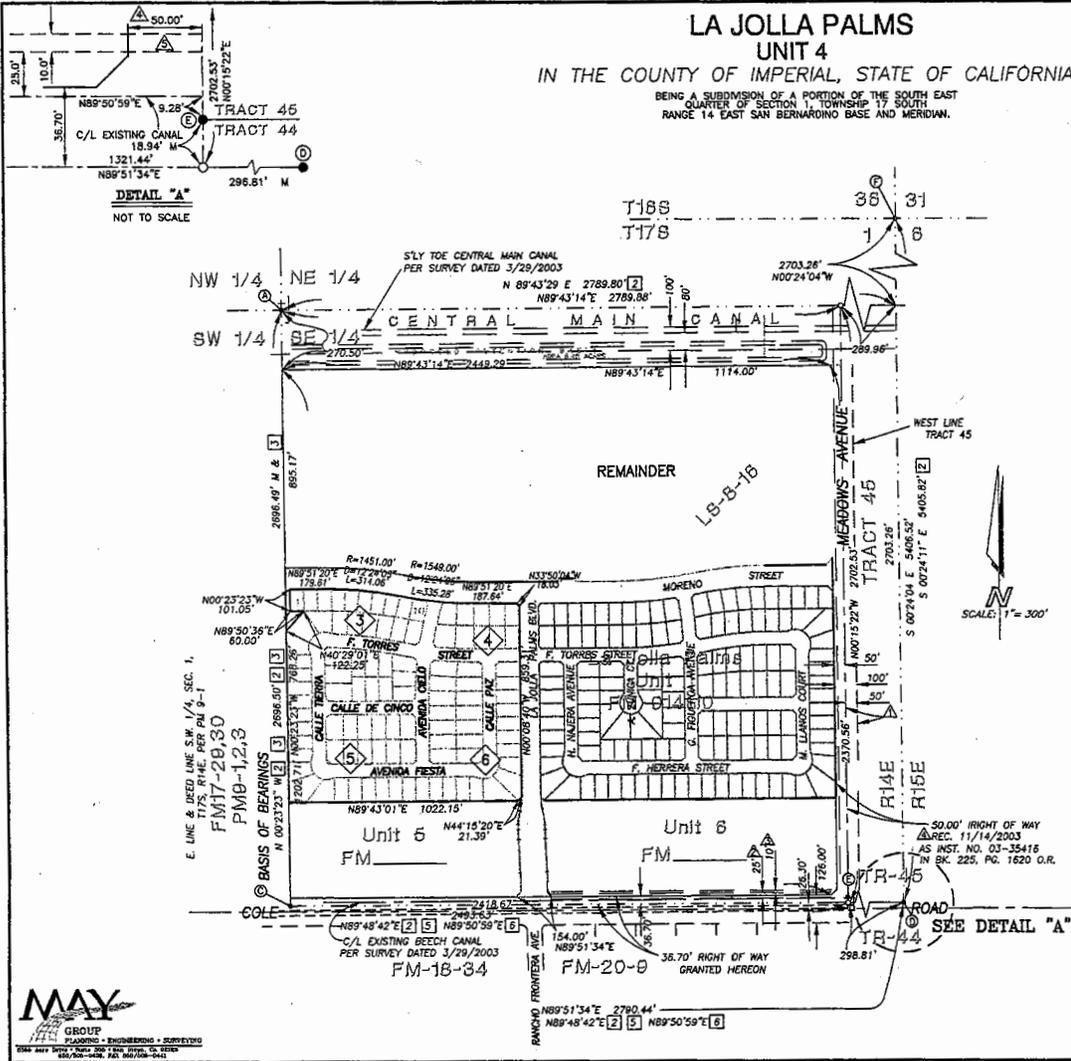


EXHIBIT B
QUALIFICATIONS

NEAL E. ANDERSON, MAI

Senior Associate

APPRAISAL SPECIALIZATION

Mr. Anderson is responsible for complete engagement management of multi-discipline appraisal assignments. He has 42 years of real estate and financial valuation experience. He specializes in the valuation of commercial, industrial and investment real estate. Representative properties include office buildings, large single family development projects, apartments, shopping centers, restaurants, retail stores and light and heavy industrial plants. Appraisal purposes include property tax valuations, Mello-Roos bond financings, purchase and sale negotiations, litigation support, financing and allocation of purchase price. Interests appraised include fee, leased fee and leasehold ownership positions.

Mr. Anderson has performed business appraisals for litigation support purposes, majority and minority stock valuations and for establishing the value of the business for possible sale purposes.

Previously with American Appraisal Associates, Mr. Anderson managed the Real Estate appraisal division and was responsible for the direction, planning, supervision and review of all real estate appraisal engagements in the western region. In that position he also personally conducted and supervised field investigations for the valuation of all types of real estate.

As manager of that firm's Financial Valuation division he directed the development of values for closely held capital stock and intangible assets associated with transfers or reorganizations of operating business enterprises. These studies included the valuation of patents, licenses, sports franchises, contracts, trademarks, software, going concern and goodwill

EXPERIENCE
42
Years

for a variety of industries such as agricultural, oil, paper, aerospace, motion pictures, medical, construction and financial institutions.

EDUCATION

University of Wisconsin, Madison Bachelor of Science-Geology
University of California, Los Angeles-Extension courses.
American Institute of Real Estate Appraisers-Variou courses, seminars and workshops.

PROFESSIONAL AFFILIATIONS

APPRAISAL INSTITUTE:

MAI Designation, currently recertified through December 2007.

CERTIFIED GENERAL REAL ESTATE

APPRAISER:

State of California Certified General Real Estate Appraiser, No. AG007708, expires September 28, 2006.

BUSINESS EXPERIENCE

For the past 42 years Mr. Anderson has been involved, full time, in the valuation of real estate and businesses.

COURT EXPERIENCE

Mr. Anderson has qualified as an expert witness and appeared before the Superior Courts in Alameda and Riverside Counties, California and Property Tax Appeal Boards in Los Angeles and San Diego Counties, California.

ERIC C. ANDERSON, SCREA

Senior Associate

APPRAISAL SPECIALIZATION

Mr. Anderson has fourteen years of commercial, industrial and subdivision real estate appraisal experience. He is responsible for all facets of the appraisal process including inspections, data collection, verification, valuation analysis and report writing. Representative property types include office buildings, shopping centers, retail buildings, warehouse/distribution buildings, business parks, auto service centers as well as vacant commercial, industrial and residential land. Primary functions of appraisal assignments include institutional lending, asset management, and bond financing.

EDUCATION

APPRAISAL INSTITUTE COURSES

Advanced Applications, 2002

Report Writing and Valuation Analysis, 2002

Advanced Sales Comparison and Cost Approaches, 2002

Highest & Best Use and Market Analysis, 1998

Advanced Income Capitalization, 2000

Standards of Professional Practice, Part B, 1998

Standards of Professional Practice, Part A, 1998

Basic Income Capitalization, 1993

Real Estate Appraisal Principles, 1992

Basic Valuation Procedures, 1992

Experience
14
Years

APPRAISAL INSTITUTE SEMINARS

Real Estate Finance & Investment Performance, 2005

Contemporary Approaches to Land, 2005

CALIFORNIA STATE UNIVERSITY,
FULLERTON EXTENDED EDUCATION
SERVICES

Legal Considerations in Real Estate Appraisal, 1992

Cost Approaches to Real Estate Appraisal, 1992

Sales Comparison Approaches to Real Estate Appraisal, 1992

Fundamentals of Construction and Land Valuation, 1991

Real Estate Economics, 1991

Real Estate Valuation, 1991

Ethics and Standards in Real Estate Valuation, 1991

CALIFORNIA STATE UNIVERSITY,
FULLERTON

Bachelor of Arts, June 1991

Major in Geography

Minor in Business Administration

PROFESSIONAL CERTIFICATIONS

State of California Certified General Real Estate Appraiser, No. AG023751, expires January 14, 2007.

PROFESSIONAL AFFILIATIONS

Associate Member of the Appraisal Institute

JOHN J. MCNAMARA, III

Managing Director

APPRAISAL SPECIALIZATION

Mr. McNamara is responsible for planning and directing all appraisal engagements originated by the firm. He has more than twenty-seven years of broad business, real estate and machinery & equipment appraisal experience in the United States and Europe, including serving as an officer of the world's largest appraisal practice.

Mr. McNamara has counseled major U.S. Asian and European Companies on a wide variety of valuation matters including mergers and acquisitions, equity & debt offerings, recapitalizations, ESOP's, asset parity, bankruptcies, and various tax related appraisal issues. He has provided consultation as a designated appraisal expert in various litigation support engagements.

EDUCATION

Bachelor of Science, 1966,
Florida Atlantic University,
College of Business Administration.
Graduate-New York Institute of
Finance, 1971.

Subsequent course work:

Appraisal Theory & Principles,
Industrial & Commercial Real Estate
Appraisal Techniques
Merger & Acquisition Tax Considerations
Intangible Asset Valuation
Machinery & Equipment Appraisals
Appraising Closely Held Securities,
Financial Statement Analysis
Money & Banking
ASA – Business Valuation POV I - IV
Useful Life Analysis
Fraudulent Conveyance & Bankruptcy.

PREVIOUSLY HELD REGISTRATIONS

New York Stock Exchange
American Stock Exchange
National Association of
Securities Dealers
Chicago Board Options Exchange
Chicago Board of Trade

Experience
27
Years

REPRESENTATIVE CLIENTS

Rockwell International
Tenneco, Inc.
Duracell Batteries, Ltd.
Fluor Corporation
Deutsche Poclairn, GmbH
Coca Cola Bottling Company
Mitsui & Co. (USA), Inc.
Occidental Petroleum Corporation
Twentieth Century-Fox Film Corporation
Ente Nazionale Idrocarburi, SpA

PROFESSIONAL AFFILIATIONS

Association for Corporate Growth,-Director
Past President-Orange County Chapter,
Member-National Property Management
Association, Former Member-American Tax
Institute in Europe, Former Member-
Association for Corporate Growth-London
Chapter

BUSINESS EXPERIENCE

Prior business experience includes several years in commercial and investment banking, including serving as special assistant to the Chairman of the Board of duPont Glore Forgan, a major bracket NYSE member firm.

SPEAKING ENGAGEMENTS

Mr. McNamara has conducted speaking engagements on appraisal topics to the following professional groups:
Orange County Bar Association,
Tech Coast Venture Network,
National Association of Accountants,
National Property Management Association,
Institute of Cost & Management,
Accountants (UK.) and has participated in valuation seminars presented to a broad range of corporate financial, tax, real estate, risk management and legal executives.

MCNAMARA & ASSOCIATES

Community Facility District Assignments

Location	Issuing Agency	District Number	Project Name	No. of Dwelling Units	Approx. Bond Size in Millions
Imperial County	City of Imperial	CFD 2004-1	Mayfield	339	\$10.00
Imperial County	City of Imperial	CFD 2004-2	Victoria Ranch	516	\$4.40
Imperial County	City of Imperial	CFD 2004-3	Bratton Subdivision	498	\$3.50
Imperial County	City of Imperial	CFD 2005-1	Springfield	459	\$6.20
Imperial County	City of Imperial	CFD 2006-1	Monterey Park	597	\$23.00
Imperial County	City of Imperial	CFD 2006-2	Savanna Ranch	402	\$3.50
Imperial County	Heber PUD	CFD 2005-1	Heber Meadows	219	\$1.60
Imperial County	City of Calexico	CFD 2005-1	Hearthstone	467	\$15.00
Riverside County	City of Norco	CFD 200-1	Norco Ridge Ranch	557	\$22.00
Riverside County	City of Norco	CFD 2002-1	Hawks Crest	133	\$2.50
Riverside County	City of Norco	CFD 1997-1	Norco Hills	217	\$6.80
Riverside County	City of Murrieta	CFD 2000-1	Greer Ranch	672	\$18.00
Riverside County	City of Murrieta	CFD 2001-1	Murrieta Highlands	905	\$14.00
Riverside County	City of Murrieta	CFD 2003-1	Murrieta Springs	766	\$20.00
Riverside County	City of Murrieta	CFD 2001-1	Greer Ranch	672	\$15.80
Riverside County	City of Murrieta	CFD 2003-2	Blackmore Ranch	171	\$7.00
Riverside County	City of Murrieta	CFD 2003-3	Creekside Village	289	\$13.00
Riverside County	City of Murrieta	CFD 2003-4	Mapleton Commons	348	\$4.00
Riverside County	City of Murrieta	CFD 2004-1	Bremerton	149	\$4.00
Riverside County	City of Murrieta	CFD 2004-2	Murrieta Fields	96	\$1.80
Riverside County	City of Murrieta	CFD 2004-3	Amberwalk & Meadowlane	363	\$5.00
Riverside County	City of Murrieta	CFD 2002-2	The Oaks	656	\$25.00
Riverside County	City of Murrieta	CFD 2005-1	Springbrook	111	\$3.50
Riverside County	City of Murrieta	CFD 2005-2	Lantana	955	\$2.30
Riverside County	City of Murrieta	CFD 2005-3	Hunter Road	114	\$4.60
Riverside County	City of Murrieta	CFD 2005-5	Golden City	502	\$30.00
Riverside County	City of Murrieta	AD 1995-1	Murrieta Oaks	230	\$5.00
Riverside County	Elsinore Valley MWD	CFD 2003-1	Water's Edge	133	\$4.20
Riverside County	Elsinore Valley MWD	CFD 2002-1	Oakmont II	96	\$2.00
San Bernardino County	Snowline JUSD	CFD 2002-1	Vista Verde	800	\$10.00
San Bernardino County	Snowline JUSD	CFD 2005-3	Victorville-241	241	\$2.00
San Bernardino County	City of Highland	CFD 1990-1	Tax Rate Area 1-2-3-5-6-7	1,007	\$15.00
San Bernardino County	City of Upland	CFD 2003-1	Mountain View	54	\$1.50
San Bernardino County	City of Upland	CFD 2003-2	Colonies	437	\$18.00
San Bernardino County	City of Upland	CFD 2003-2	Colonies	102 acres	\$15.00
San Bernardino County	City of Upland	CFD 2004-3	College Park	Mixed	TBD
Los Angeles County	City of Lancaster	CFD 1991-1	Quartz Hill II	1,583	\$5.70
Los Angeles County	City of Lancaster	CFD 1991-2	Lancaster Business Park	100 acres	\$3.00
Ventura County	City of Moorpark	CFD 1997-1	Carlsberg Business Park	73 acres	\$8.00

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

FORM OF BOND COUNSEL OPINION

[Closing Date]

Community Facilities District No. 2005-1
of the City of Calexico (Hearthstone)
Calexico, California

*Re: \$14,710,000 Community Facilities District No. 2005-1 of the City of Calexico
(Hearthstone), 2006 Special Tax Bonds*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of Calexico the (“City”) taken in connection with the formation of Community Facilities District No. 2005-1 of the City of Calexico (Hearthstone) (the “District”) and the authorization and issuance of 2006 Special Tax Bonds issued by the District in the aggregate principal amount of \$14,710,000 (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 July 1, 2006 (the “Indenture”), by and between the District and U.S. Bank National Association, as trustee. 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, 2007, 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 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. The Bonds are limited obligations of the District but are not a

debt of the City, 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, 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 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, 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 on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

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

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

Respectfully submitted,

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX F

FORMS OF CONTINUING DISCLOSURE AGREEMENTS

(THIS PAGE INTENTIONALLY LEFT BLANK)

CONTINUING DISCLOSURE AGREEMENT

(Community Facilities District No. 2005-1 (Hearthstone) of the City of Calexico)

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of July 1, 2006, is executed and delivered by the Community Facilities District No. 2005-1 (Hearthstone) of the City of Calexico (the “CFD”) and Urban Futures, Inc., as dissemination agent (the “Dissemination Agent”) hereunder, in connection with the issuance of the \$14,710,000 Community Facilities District No. 2005-1 (Hearthstone) 2006 Special Tax Bonds (the “Bonds”). The Bonds are being issued pursuant to provisions of a Bond Indenture, dated as of July 1, 2006 (the “Indenture”), by and between the CFD and U.S. Bank National Association, as trustee (the “Trustee”). The CFD, the Dissemination Agent and the Trustee covenant and agree as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report or any addendum thereto provided by the CFD 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.

“CFD” means Community Facilities District No. 2005-1 (Hearthstone) of the City of Calexico, a community facilities district organized and existing under the laws of the State of California, and such area of land comprising that community facilities district.

“City” means the City of Calexico, California.

“Disclosure Representative” shall mean the City Manager of the City of Calexico or his or her designee, or such other officer or employee as the City Council of the City of Calexico (the “Council”) shall designate in writing to the Trustee and Dissemination Agent from time to time.

“Dissemination Agent” shall mean Urban Futures, Inc., or any successor Dissemination Agent designated in writing by the CFD and which has filed with the Trustee a written acceptance of such designation.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov>.

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

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

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

“State” shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) The CFD shall, or shall cause the Dissemination Agent to, not later than nine months (March 30) after the end of the City’s fiscal year, commencing with fiscal year ending June 30, 2006, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be provided in electronic format to each Repository and may be provided through the services of a “Central Post Office” approved by the Securities and Exchange Commission. In lieu of filing with each Repository, the Annual Report may be provided in electronic format through the services of a “Central Post Office” approved by the Securities and Exchange Commission. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f). Furthermore, upon receipt of a written request of any Beneficial Owner, the Dissemination Agent shall provide a copy of the Annual Report to such Beneficial Owner.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the CFD shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the CFD and the Trustee of such failure to receive the Annual Report. The CFD shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Trustee may conclusively rely upon such certification of the CFD and shall have no duty or obligation to review such Annual Report.

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

(d) The Dissemination Agent shall:

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

(ii) to the extent information is known to it, file a report with the CFD and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

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

(i) The audited financial statements of the City, prepared in accordance with generally accepted accounting principles in effect from time to time. 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 Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(ii) The balance in the Reserve Account held under the Indenture.

(iii) Total assessed valuation (per the Imperial County Assessor records) of all parcels currently subject to the Special Tax within the CFD, showing the total assessed valuation for all land and the total assessed valuation for all improvements within the CFD and distinguishing between the assessed value of developed property and undeveloped property.

(iv) Identification of each parcel within the CFD for which any Special Tax payment is delinquent, together with the following information respecting each such parcel: (A) the amount delinquent; (B) the date of each delinquency; (C) in the event a foreclosure complaint has been filed respecting such delinquent parcel and such complaint has not yet been dismissed, the date on which the complaint was filed; and (D) in the event a foreclosure sale has occurred respecting such delinquent parcel, a summary of the results of such foreclosure sale.

(v) The number of certificates of occupancy issued by the City within the CFD and the principal amount of prepayments of the Special Tax with respect to the CFD for the prior Fiscal Year.

(vi) A land ownership summary listing property owners responsible for more than five percent (5%) of the annual Special Tax levy, as shown on the Imperial County Assessor's last equalized tax roll prior to the September next preceding the Annual Report date.

(vii) A description of the status of the facilities being constructed with proceeds of the Bonds as of the date of the Annual Report (but only so long as such facilities are not completed).

(viii) The number of building permits issued in the CFD during the prior Fiscal Year.

(ix) The amount of Special Taxes generated by the developed parcels and undeveloped parcels within the CFD.

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 City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The CFD 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 CFD shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds.

(b) The Dissemination Agent shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter, contact the Disclosure Representative, inform such person of the event,

and request that the CFD promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Trustee whether or not to report such event to the Bondholders. In the absence of such direction the Dissemination Agent shall not report such event unless otherwise required to be reported by the Trustee to the Bondholders under the Indenture. The Dissemination Agent may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee or the Dissemination Agent with regular responsibility for the administration of matters related to the Indenture. Neither the Trustee nor the Dissemination Agent shall have any responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the CFD obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the CFD shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

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

(f) If the Dissemination Agent has been instructed by the CFD to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

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

SECTION 7. Dissemination Agent. The CFD 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 content of any notice or report prepared by the CFD pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days written notice to the CFD and the Trustee. 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 CFD in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the CFD, Dissemination Agent and the Trustee may amend this Disclosure Agreement (and the Trustee and Dissemination Agent shall agree to any amendment so requested by the CFD) provided, neither the Trustee nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the CFD 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 CFD.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the CFD 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 CFD 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 CFD shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the CFD or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee (at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost,

liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the CFD or Trustee, as the case may be, 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 Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the CFD or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VII of the Indenture pertaining to the Trustee is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee and Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the CFD agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the CFD 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. The Dissemination Agent shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the CFD, the Bondholders, or any other party. The Dissemination Agent shall have no liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Agreement. The obligations of the CFD under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

To the City:

City of Calexico
608 Heber Avenue
Calexico, California 92231
Attn: City Manager
Fax: (760) 357-5864

To the Dissemination Agent: Urban Futures, Inc.
3111 North Tustin Avenue, Suite 230
Orange, California 92865
Attn: Jennifer Helbock
Fax: (714) 283-5465

To the Trustee: U.S. Bank National Association
633 West Fifth Street, 24th Floor LM-CA-T24T
Los Angeles, California 90071
Attn: Corporate Trust Department
Fax: (213) 615-6199

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

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the CFD, the Trustee, the Dissemination Agent, the Participating 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. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

COMMUNITY FACILITIES DISTRICT NO.
2005-1 (HEARTHSTONE) OF THE CITY OF
CALEXICO

By _____
Mayor of the City of Calxico

URBAN FUTURES, INC.,
as Dissemination Agent

By _____
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Community Facilities District No. 2005-1 (Hearthstone) of the City of Calexico

Name of Bond Issue: Community Facilities District No. 2005-1 (Hearthstone) of the City of Calexico
2006 Special Tax Bonds

Date of Issuance: July 12, 2006

NOTICE IS HEREBY GIVEN that the CFD has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of July 1, 2006, with respect to the Bonds. The CFD anticipates that the Annual Report will be filed by _____.

Dated: _____

URBAN FUTURES, INC.,
on behalf of CFD

cc: City

DEVELOPER CONTINUING DISCLOSURE AGREEMENT

This Developer Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of July 1, 2006, is executed and delivered by PCC – La Jolla Palms, LLC, a California limited liability company, and PCG – La Jolla Palms, L.P., a California limited partnership (collectively, the “Property Owner”) and Urban Futures, Inc., as dissemination agent (the “Dissemination Agent”), in connection with the issuance of the \$14,710,000 Community Facilities District No. 2005-1 (Hearthstone) of the City of Calexico 2006 Special Tax Bonds (the “Bonds”). The Bonds are being issued pursuant to provisions of a Bond Indenture, dated as of July 1, 2006 (the “Indenture”), by and between the Community Facilities District No. 2005-1 (Hearthstone) of the City of Calexico (the “Issuer”) and U.S. Bank National Association, Inc., as trustee (the “Trustee”). The Property Owner and the Dissemination Agent covenant and agree as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Affiliate” of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, five percent (5%) or more of the outstanding voting securities of such other Person, (b) any Person whose outstanding voting securities of five percent (5%) or more are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

“Annual Report” shall mean any Annual Report or its addendum provided by the Property Owner or Major Owner, as applicable, pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Assumption Agreement” means an undertaking of a Major Owner, or an Affiliate thereof, for the benefit of the holders and beneficial owners of the Bonds containing terms substantially similar to this Disclosure Agreement (as modified for such Major Owner’s development and financing plans with respect to the District), whereby such Major Owner or Affiliate agrees to provide annual reports and notices of significant events, setting forth the information described in sections 4 and 5 hereof, respectively, with respect to the portion of the property in the District owned by such Major Owner and its Affiliates and, at the option of the Property Owner or such Major Owner, agrees to indemnify the Dissemination Agent pursuant to a provision substantially in the form of Section 11 hereof.

“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 Project Manager of the Property Owner or his or her designee, or such other officer or employee as the Property Owner shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean Urban Futures, Inc., or any successor dissemination agent designated in writing by the Issuer and which has filed with the Property Owner a written acceptance of such designation.

“District” shall mean Community Facilities District No. 2005-1 (Hearthstone) of the City of Calexico.

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

“Major Owner” shall mean an owner (including all Affiliates of such owner) of land in the District responsible in the aggregate for 20% or more of the annual special taxes levied in the District.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov>.

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

“Person” means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“Property” means , at the time of inquiry, all real property then-owned by Property Owner or Major Owner within the District.

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

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

“Special Taxes” shall mean the special taxes to be levied within the District pursuant to the Indenture.

“State” shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) Property Owner shall, or, upon written direction, shall cause the Dissemination Agent to, not later than February 15 of each year, commencing February 15, 2007, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement with a copy to the Issuer. Not later than February 1 in each year, commencing February 1, 2007, Property Owner shall provide the Annual Report to the Dissemination Agent. Property Owner shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Issuer to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and the Issuer may conclusively rely upon such certification of Property Owner and shall have no duty or obligation to review such Annual Report. In lieu of filing with each Repository, the Annual Report may be provided in electronic format through the services of a “Central Post Office” approved by the Securities and Exchange Commission. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement.

(b) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository or to the Municipal Securities Rulemaking Board and the State Repository, if any 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 name and address of each National Repository and the State Repository, if any; and

(ii) to the extent information is known to it, file a report with the Issuer and the Property Owner certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

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

(i) Relating to the Property, a summary of the Property Owner’s development activity on the Property as of the preceding January 1, consisting of the following: (A) number of acres/lots owned by the Property Owner or its Affiliates as of such date, (B) progress of construction activities on the Property as of such date, and (C) number of acres/lots sold by Property Owner or its Affiliates to end users or builders as of such date.

(ii) Unless such information has already been provided in a previous Annual Report, any material changes in the information relating to the Property Owner and/or the Property

contained in the Official Statement under the caption “THE DEVELOPMENT” and “THE DEVELOPER.”

(iii) A description of the status of any pending land purchase contracts with regard to the Property (other than sales to individual homebuyers).

(iv) Unless such information has already been provided in a previous Annual Report, a description of any change in the legal structure of the Property Owner and/or the financial condition of the Property Owner that would materially interfere with its ability to complete the development plan for the Property as described in the Official Statement under the caption “THE DEVELOPMENT” (the “Development Plan”) or to pay its Special Taxes.

(v) A description of any material changes in the Development Plan.

(vi) A pro forma financing statement relating to the Development Plan detailing (A) amount spent to date, (B) the remaining costs to complete the Development Plan including timing of such disbursements and (C) the source of financing for such remaining development costs.

(vii) A description of any previously undisclosed material amendment to the land use entitlements for the Property.

(viii) An update of the status of any previously reported Listed Event described in Section 5 hereof.

(ix) A statement as to whether or not the Property Owner and all of its Affiliates paid, prior to their becoming delinquent, all special taxes levied on the property owned by the Property Owner and such Affiliates within the District and if such Property Owner or any of such Affiliates is delinquent in the payment of such special taxes, a statement identifying each entity that is so delinquent, specifying the amount of each such delinquency and describing any plans to resolve such delinquency.

(x) Unless such information has already been provided in a previous Annual Report, a description of any material changes in the financing plan of the Property Owner for the Development Plan described in the Official Statement under the caption “THE DEVELOPMENT” (the “Financing Plan”) and the causes or rationale for such changes.

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 Property Owner or related entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Property Owner 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 Property Owner shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. bankruptcy or insolvency proceedings commenced by or against Property Owner or Affiliate thereof that would materially interfere with the Property Owner's ability to complete the Development Plan or to pay its Special Taxes when due;

2. failure to pay any taxes, special taxes or assessments due with respect to the Property prior to the delinquency date;

3. filing of a lawsuit against Property Owner or, to the Property Owner's actual knowledge, an Affiliate thereof (with service of process accomplished) seeking damages, or a judgment in a lawsuit against Property Owner or, to the Property Owner's actual knowledge, an Affiliate thereof, which, if decided adversely to Property Owner or Affiliate thereof, could have a significant impact on the Property Owner's ability to pay Special Taxes or to sell or develop the Property;

4. any conveyance by the Property Owner of property to an entity that is not an Affiliate of such Property Owner, the result of which conveyance is to cause the transferee to become a Major Owner and the related assumption of any obligation by a Major Owner pursuant to Section 6;

5. any denial or termination of credit, any denial or termination of, or default under, any line of credit or loan or any other loss of a source of funds that would have a material adverse affect on the Property Owner's most recently disclosed Financing Plan or the ability of the Property Owner or any Affiliate thereof owning property in the District to pay Special Taxes when due;

6. any significant amendments to land use entitlement for the Property Owner's property;

7. any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development of the Property that would materially interfere with the Property Owner's ability to complete the Development Plan;

8. any previously undisclosed legislative, administrative or judicial challenges to development of the Property that would materially interfere with the Property Owner's ability to complete the Development Plan;

9. any material change in the alignment, design or likelihood of completion of significant public improvement being constructed by the Property Owner affecting the Property, including major thoroughfares, sewers, water conveyance systems and similar facilities; and

(b) The Disclosure Representative shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter, promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and to the Bondholders.

(c) Whenever Disclosure Representative obtains knowledge of the occurrence of a Listed Event, the Disclosure Representative shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

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

(f) If the Dissemination Agent has been instructed by the Disclosure Representative to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories.

SECTION 6. Duration of Reporting Obligation. (a) All of the Property Owner's obligations hereunder shall commence on such date as property owned by the Property Owner is responsible for payment of 20% or more of the Special Taxes and shall terminate (except as provided in Section 11) upon the earlier to occur of (i) the legal defeasance, prior redemption or payment in full of all the Bonds, (ii) so long as the Bonds are outstanding, at such time as property owned by the Property Owner is no longer responsible for payment of 20% or more of the Special Taxes or (iii) the date on which all Special Taxes are paid or prepaid in full. Upon the occurrence of any such termination or suspension prior to the final maturity of the Bonds, the Property Owner shall give notice of such termination or suspension in the same manner as for a Listed event under Section 5.

(b) If a portion of the Property is conveyed to a Person that, upon such conveyance, will be a Major Owner, the obligations of Property Owner hereunder with respect to such property owned by such Major Owner and its Affiliates shall be assumed by such Major Owner or by an Affiliate thereof and the Property Owner obligations hereunder will be terminated. In order to effect such an assumption, such Major Owner or Affiliate shall enter into an Assumption Agreement. The entering into an Assumption Agreement by such Major Owner or Affiliate shall be a condition precedent to the conveyance of such property and the Property Owner shall provide a copy of the executed Assumption Agreement to the Issuer prior to such conveyance.

SECTION 7. Dissemination Agent. The Property Owner 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 content of any notice or report prepared by the Property Owner pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days written notice to the Property Owner and 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 Property Owner in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Property Owner and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Property Owner) provided, the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Property Owner 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 Property Owner.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Property Owner 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 Property Owner 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 Property Owner shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Article VII of the Indenture pertaining to the Trustee is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Property Owner agrees to indemnify and save the Dissemination Agent, its officers, directors and employees (the "Indemnified Party"), harmless against any loss, expense and liabilities which they may incur arising out of or in the reasonable exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including reasonable attorneys fees) of defending against any claim of liability, but excluding losses, expenses or liabilities due to any Indemnified Party's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Property Owner for its services provided hereunder in accordance with its schedule of fees as amended from time to time. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Property Owner, the Bondholders, or any other party. The Dissemination Agent shall not have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Disclosure Agreement. The obligations of the Property Owner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

To the Issuer:	Community Facilities District No. 2005-1 (Hearthstone) of the City of Calexico c/o City of Calexico 608 Heber Avenue Calexico, California 92231 Attn: City Manager Telephone: (760) 768-2110 Facsimile: (760) 357-5864
----------------	---

To the Dissemination Agent: Urban Futures, Inc.
3111 North Tustin Avenue, Suite 230
Orange, California 92865
Attn: Jennifer Helbock
Telephone: (714) 283-9334
Facsimile: (714) 283-5465

To the Property Owner: c/o Pacific Century Group
525 West Main Street, Suite 17
El Centro, California 92243
Attn: Bryan Avilla
Telephone: (760) 482-2800 Ext. 201
Facsimile: (760) 482-2808

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

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Property Owner, the Dissemination Agent, the Participating 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. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

PCC – LA JOLLA PALMS, LLC, a California limited liability company

By: _____
Name: _____
Title: _____

PCG – LA JOLLA PALMS, L.P., a California limited partnership

By: Triple L Realty Partners, LLC, a California limited liability company, its General Partner

By: Pacific Century Homes Inc., a California corporation, its Manager

By: _____
Name: William W. Lo
Title: Chairman and CEO

URBAN FUTURES, INC.,
as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: PCC – La Jolla Palms, LLC

and

PCG – La Jolla Palms, L.P.

Name of Bond Issue: Community Facilities District No. 2005-1
(Hearthstone) 2006 Special Tax Bonds

Date of Issuance: July 12, 2006

NOTICE IS HEREBY GIVEN that the Property Owner has not provided an Annual Report with respect to the above-named Bonds as required by the Developer Continuing Disclosure Agreement, dated as of July 1, 2006, with respect to the Bonds. [The Property Owner anticipates that the Annual Report will be filed by _____.]

Dated: _____

URBAN FUTURES, INC.,
on behalf of Property Owner

cc: Issuer
Property Owner

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC; and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

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 certificate will be issued for the each issue of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (respectively, "NSCC," "FICC" and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be

requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds: DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners well be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

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 Issuer or Agent, 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 nor its nominee, Agent, or Issuer, 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 District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272