

*In the opinion of Best Best & Krieger LLP Riverside, California (“Bond Counsel”), subject to certain qualifications described in this Official Statement, under existing statutes, regulations, rulings and judicial decisions interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, such interest is exempt from California personal income tax. See “LEGAL MATTERS — Tax Exemption.”*

County of Riverside

State of California

**\$4,415,000**

**COMMUNITY FACILITIES DISTRICT NO. 2006-1  
(RIVERWALK VISTA)  
OF THE CITY OF RIVERSIDE  
2013 SPECIAL TAX BONDS  
(IMPROVEMENT AREA NO. 1)**

**Dated: Date of Delivery****Due: September 1, as shown on the inside cover page**

The Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside 2013 Special Tax Bonds (Improvement Area No. 1) (the “Bonds”) are being issued and delivered to finance various public improvements needed with respect to the development within Improvement Area No. 1 of Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside (the “District”) and regional park improvements to be owned and operated by the City of Riverside (the “City”), to finance certain elementary and secondary school facilities for the Alvord Unified School District (the “School District”), to fund a reserve fund securing the Bonds and to pay costs of administration and issuance of the Bonds. The District, and Improvement Area No. 1, has been formed by the City and is located in the in the southwestern portion of the City, in the County of Riverside, California (the “County”).

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to a Fiscal Agent Agreement, dated as of June 1, 2013 (the “Fiscal Agent Agreement”), by and between the City, for and on behalf of the District, and U.S. Bank National Association as fiscal agent (the “Fiscal Agent”). The Bonds are special obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined in this Official Statement) to be levied on and collected from the owners of certain taxable land within Improvement Area No. 1 of the District and from certain other funds pledged under the Fiscal Agent Agreement, all as further described in this Official Statement. The Special Taxes are to be levied according to the rates and method of apportionment of special tax approved by the City Council of the City and the qualified electors within the District. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes” and APPENDIX A — “AMENDED AND RESTATED RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” The City Council of the City is the legislative body of the District.

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in integral multiples of \$5,000 and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described in this Official Statement. Interest on the Bonds will be payable on March 1, 2014 and semiannually thereafter on each September 1 and March 1. Principal of and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Bonds. See “THE BONDS — General Provisions,” “— Book-Entry Only System” and APPENDIX G — “INFORMATION CONCERNING DTC.”

*Neither the faith and credit nor the taxing power of the City, the County, the State of California or any political subdivision of such entities is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are special obligations of the District payable solely from Special Taxes and certain other amounts held under the Fiscal Agent Agreement as more fully described in this Official Statement. The Bonds are not secured by special taxes levied in Improvement No. 2 of the District, and any such levy of special taxes in Improvement Area No. 2 are not pledged to the repayment of the Bonds.*

The Bonds are subject to optional redemption, mandatory redemption prior to maturity from special tax prepayments and mandatory sinking fund redemption as described in this Official Statement. See “THE BONDS — Redemption.”

**Investment in the Bonds involves risks that are not appropriate for certain investors. Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the section of this Official Statement entitled “RISK FACTORS” for a discussion of certain risk factors that should be considered, in addition to the other matters set forth in this Official Statement, in evaluating the investment quality of the Bonds.**

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

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MATURITY SCHEDULE  
(See Inside Cover Page)

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The Bonds are offered when, as and if issued and accepted by Stifel, Nicolaus & Company, Incorporated, the Underwriter, subject to approval as to their legality by Best Best & Krieger LLP, Riverside, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City and the District by the City Attorney, for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as counsel to the Underwriter, and for TRI Pointe Homes, Inc. by Goodwin Procter, LLP, Los Angeles, California. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about June 26, 2013.

**STIFEL**

**MATURITY SCHEDULE**  
**Base CUSIP No.† 769053**  
**\$2,050,000 Serial Bonds**

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP No.†</i>
2014	\$ 45,000	2.000%	1.000%	101.170	CU1
2015	80,000	2.000	1.450	101.175	CV9
2016	85,000	2.000	2.000	100.000	CW7
2017	85,000	3.000	2.650	101.374	CX5
2018	85,000	3.000	3.050	99.759	CY3
2019	90,000	3.250	3.450	98.892	CZ0
2020	90,000	3.500	3.750	98.435	DA4
2021	95,000	4.000	4.050	99.650	DB2
2022	100,000	4.000	4.250	98.111	DC0
2023	105,000	4.250	4.450	98.371	DD8
2024	110,000	4.500	4.600	99.127	DE6
2025	115,000	4.500	4.700	98.155	DF3
2026	120,000	4.625	4.800	98.298	DG1
2027	125,000	4.750	4.900	98.473	DH9
2028	130,000	5.000	5.000	100.000	DJ5
2029	135,000	5.000	5.100	98.899	DK2
2030	145,000	5.000	5.150	98.295	DL0
2031	150,000	5.000	5.200	97.658	DM8
2032	160,000	5.000	5.250	96.992	DN6

**\$2,365,000 Term Bonds**

\$340,000 5.125% Term Bonds due September 1, 2034 Yield: 5.300% Price : 97.780 CUSIP No.† DP1  
 \$575,000 5.125% Term Bonds due September 1, 2037 Yield: 5.350% Price : 96.959 CUSIP No.† DQ9  
 \$1,450,000 5.250% Term Bonds due September 1, 2043 Yield: 5.450% Price : 97.046 CUSIP No.† DR7

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† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Underwriter take any responsibility for the selection or correctness of the CUSIP numbers set forth herein.

**CITY OF RIVERSIDE**  
**MAYOR AND CITY COUNCIL**

Rusty Bailey, Mayor  
Mike Gardner, Ward 1  
Andy Melendrez, Ward 2  
Ken Gutierrez, Ward 3  
Paul Davis, Ward 4  
Chris MacArthur, Ward 5  
James Perry, Ward 6  
Steve Adams, Ward 7

**CITY STAFF**

Scott C. Barber, City Manager  
Deanna Lorson, Assistant City Manager  
Belinda J. Graham, Assistant City Manager  
Brent A. Mason, Finance Director  
Gregory P. Priamos, City Attorney  
Colleen J. Nicol, City Clerk  
L. Scott Catlett, Assistant Finance Director

**BOND COUNSEL**

Best Best & Krieger LLP  
Riverside, California

**SPECIAL TAX CONSULTANT**

Albert A. Webb Associates  
Riverside, California

**FISCAL AGENT**

U.S. Bank National Association  
Los Angeles, California

**APPRAISER**

Kitty Siino & Associates, Inc.  
Tustin, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by the City and the District. No dealer, broker, salesperson or other person has been authorized by the City, the District, the Fiscal Agent or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained 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, the Fiscal Agent or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described in this Official Statement, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment to this Official Statement, is intended to be deposited with the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found at [www.emma.msrb.org](http://www.emma.msrb.org).

The information set forth in this Official Statement which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the City or the District. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the District or any other parties described in this Official Statement since the date of this Official Statement. All summaries of the Fiscal Agent Agreement or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is made by this Official Statement to such documents on file with the City for further information. While the City maintains an Internet website for various purposes, none of the information on that website is incorporated by reference in this Official Statement or intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds or obligations of the City. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

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

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

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “IMPROVEMENT AREA NO. 1.”

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 CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

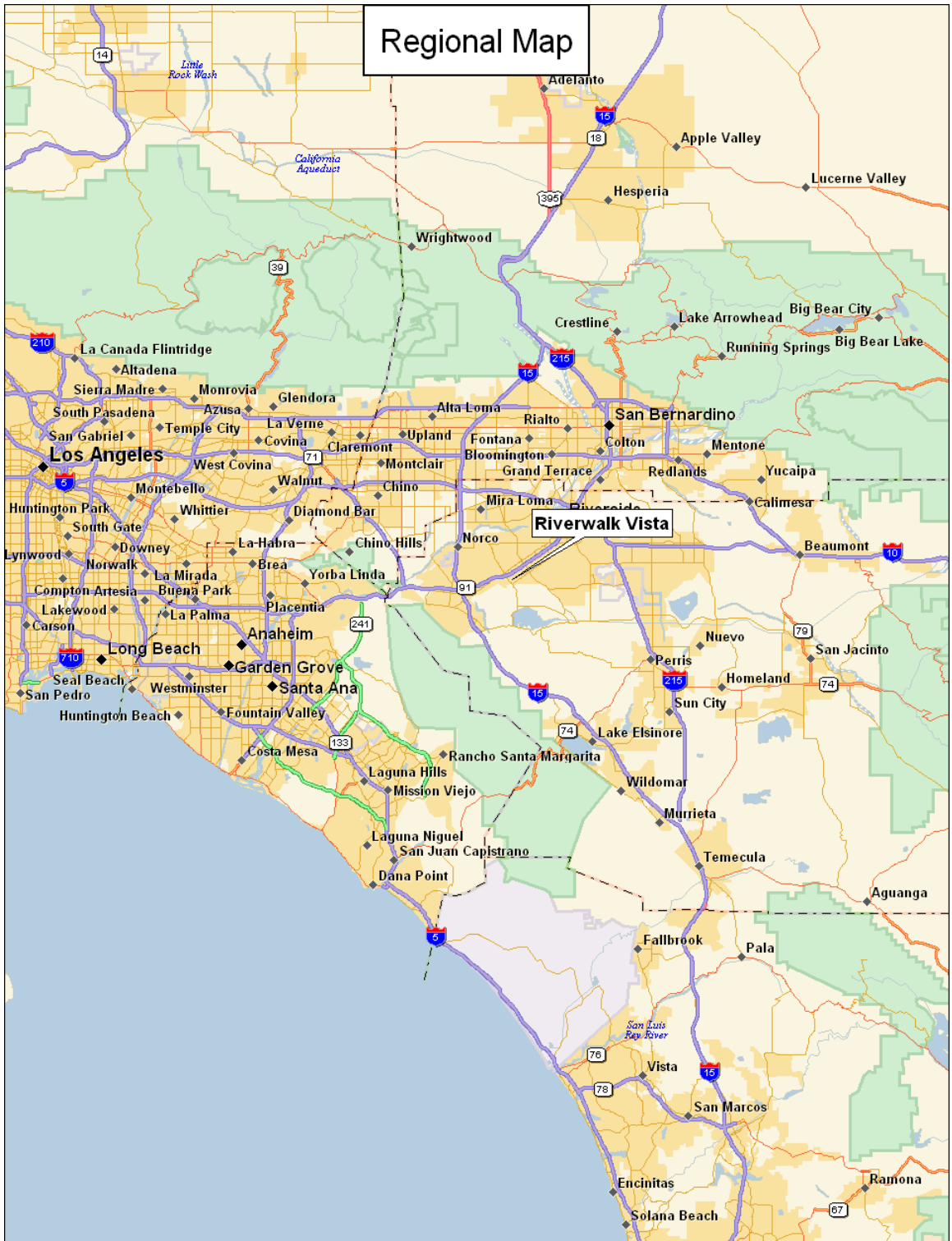
**IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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

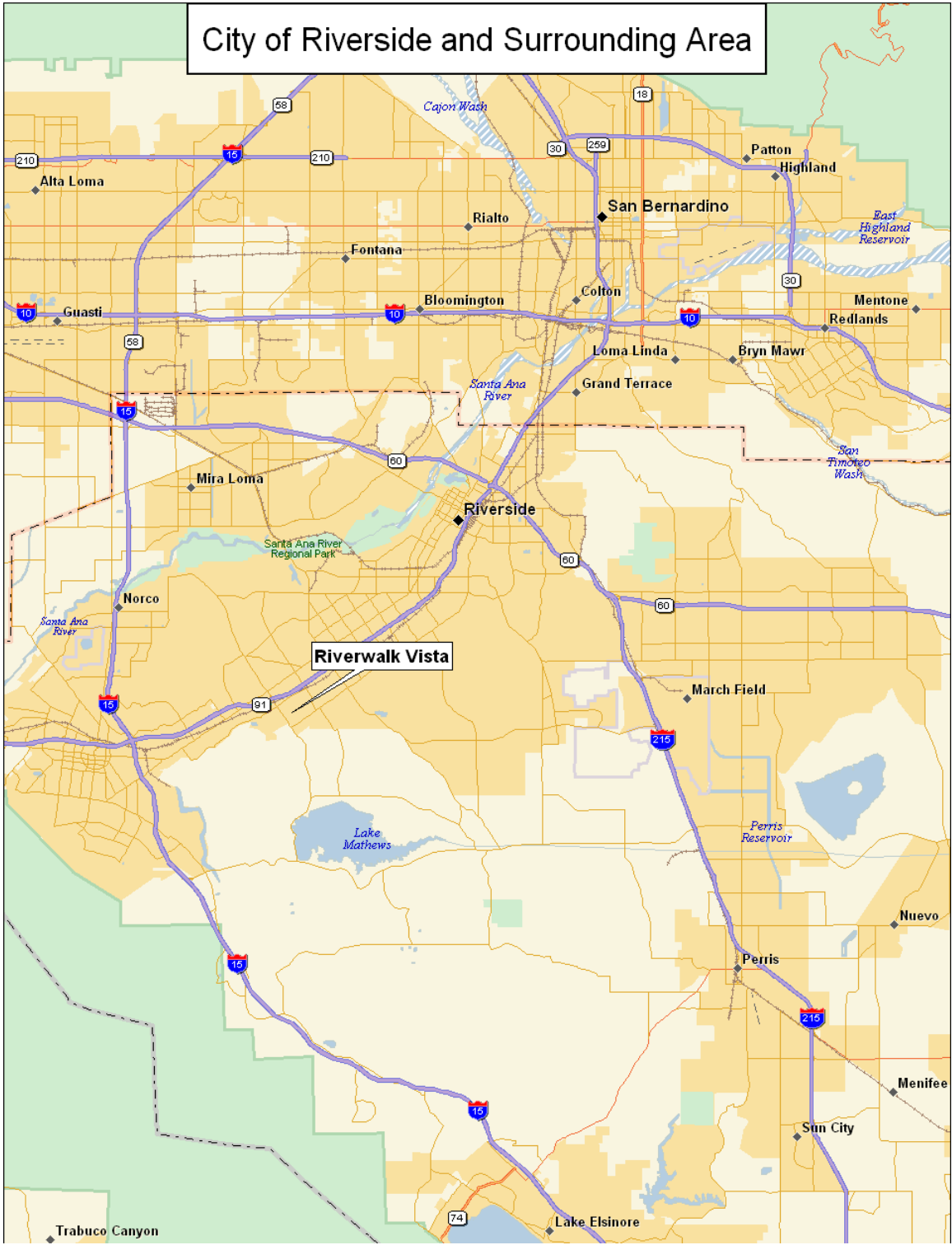
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# Regional Map



# City of Riverside and Surrounding Area



**City of Riverside  
Community Facilities District No. 2006-1  
Improvement Area No. 1  
(Riverwalk Vista)**



Arizona Middle School

La Sierra Metrolink Station

Indiana Avenue

La Sierra Avenue

91



**\$4,415,000**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (RIVERWALK VISTA)**  
**OF THE CITY OF RIVERSIDE**  
**2013 SPECIAL TAX BONDS**  
**(IMPROVEMENT AREA NO. 1)**

**INTRODUCTION**

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in APPENDIX D — “SUMMARY OF FISCAL AGENT AGREEMENT — DEFINITIONS” or APPENDIX A — “AMENDED AND RESTATED RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

**General**

The purpose of this Official Statement (the “Official Statement”), is to provide certain information concerning the issuance of the \$4,415,000 Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside 2013 Special Tax Bonds (Improvement Area No. 1) (the “Bonds”). The proceeds of the Bonds will be used to finance various public improvements needed with respect to the development within Improvement Area No. 1 of Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside (the “District”) and regional park facilities to be owned and operated by the City of Riverside (the “City”), to finance certain elementary and secondary school facilities for the Alvord Unified School District (the “School District”), to fund the Reserve Fund securing the Bonds and to pay costs of administration and issuance of the Bonds.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and a Fiscal Agent Agreement dated as of June 1, 2013 (the “Fiscal Agent Agreement”) by and between the City, for and on behalf of the District, and U.S. Bank National Association (the “Fiscal Agent”). The Bonds are secured under the Fiscal Agent Agreement by a pledge of and lien upon Special Tax Revenues (as defined in this Official Statement) and all moneys in the Principal Account and Interest Account of the Bond Fund and all moneys deposited in the Reserve Fund as described in the Fiscal Agent Agreement.

**Improvement Area No. 1**

Improvement Area No. 1 of the District (“Improvement Area No. 1”) contains approximately 53 gross acres located in the southwestern portion of the City, at the corner of La Sierra and Indiana Avenues within ¼ mile of the 91 Freeway. Improvement Area No. 1 encompasses a portion of the master planned community known as “Riverwalk Vista.” The property within Improvement Area No. 1 is located within a gated community built around a recreation center that boasts a resort-style community pool with a large waterfall, playgrounds, gazebo and barbeque area along with neighborhood parks and tot lots all connected by greenbelts and winding paths. Improvement Area No. 2 within the District is currently largely undeveloped. The original master developer of the District, Griffin Communities, completed the majority of the backbone infrastructure within the District, but lost all of the property within the District to its lenders as a result of the downturn in the housing market.

TRI Pointe Homes, Inc. and Woodside Homes (together, the “Developers”), acquired the property in Improvement Area No. 1 in 2011 and 2012, respectively, and are in the final stages of the development of Improvement Area No. 1 into 185 single family residential units in three neighborhoods known as

“TopazRidge,” “Sagebluff” and “Promenade.” As of May 24, 2013, 102 units have been completed and conveyed to individual homeowners (including 3 units that are completed model homes owned by MREC Riverwalk LLC and leased to Woodside Homes), 9 units were completed but owned by the Developers, 48 units were under construction, and 26 were in finished lot condition with building permits obtained. See “IMPROVEMENT AREA NO. 1 — General Description of Improvement Area No. 1.”

***Formation Proceedings.*** The District has been formed by the City pursuant to the Act.

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

Pursuant to the Act, the City Council of the City (the “City Council”), acting as the Legislative body of the District, adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of Special Taxes (defined below) on taxable property within the boundaries of the District, and to have the District incur bonded indebtedness to fund (i) the design, construction and acquisition of various public improvements and water and sewer system facilities, which are necessary to meet increased demands placed upon the City as a result of the development of the District (the “City Facilities”), and (ii) the design, construction and acquisition of certain public school facilities (the “School District Facilities”) to be owned and operated by the Alvord Unified School District (the “School District”). Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District and each Improvement Area within the District and calling special elections to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the District. On May 27, 2007, at a special election held pursuant to the Act, Griffin Communities, as the sole landowner in the District and therefore the only qualified voter of the District, authorized the District to incur bonded indebtedness within Improvement Area No. 1 in an aggregate principal amount not to exceed \$12,500,000, and approved the rates and method of apportionment of special taxes for Improvement Area No. 1 then to be in effect. On October 11, 2011, at a special election held pursuant to the Act, TRI Pointe Homes Inc. and MREC Riverwalk LLC, as the qualified voters within Improvement Area No. 1, voted to reduce the rates of special tax to be levied on parcels within Improvement Area No. 1 and approved the rates and method of apportionment of special taxes within Improvement Area No. 1 which is set forth in APPENDIX A (the “Rates and Method”).

***Appraisal Report.*** Kitty Siino & Associates, Inc. (the “Appraiser”) has conducted an Appraisal dated April 5, 2013 of the land within Improvement Area No. 1 subject to the Special Tax (the “Appraisal Report”). The Appraisal Report sets forth an estimate of the market value of the fee simple interest of the taxable land and improvements within Improvement Area No. 1. The Appraiser is of the opinion that, based upon the assumptions and conditions contained in the Appraisal Report, the aggregate market value and minimum market value of the taxable land and improvements in existence within Improvement Area No. 1, as of March 22, 2013, was \$48,782,072. This estimate of value results in an overall Improvement Area No. 1-wide appraised value-to-lien ratio of approximately 9.88-to-1 for Improvement Area No. 1 based on the estimated amount of direct and overlapping debt allocated to parcels within Improvement Area No. 1 (including the Bonds, all overlapping debt secured by a tax or assessment on the property within the District and all overlapping general obligation debt). See “IMPROVEMENT AREA NO. 1 — Appraisal Report” and APPENDIX B — “APPRAISAL REPORT.”

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

***Special Taxes.*** As used in this Official Statement, the term “Special Tax” is that tax which has been authorized to be levied against certain land within Improvement Area No. 1 pursuant to the Act and in

accordance with the Rates and Method to satisfy the Special Tax Requirement (as defined in the Rates and Method). Special taxes levied within Improvement Area No. 2 of the District are not pledged to the repayment of the Bonds, and the term “Special Tax,” as used in this Official Statement, does not include any special taxes levied on property other than taxable property within Improvement Area No. 1. “Special Tax Revenues” are defined to mean the proceeds of the Special Taxes received by the City, including any scheduled payments and any prepayments, receipts of sale of delinquencies, interest and penalties and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien and interest and penalties. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes” and APPENDIX A — “AMENDED AND RESTATED RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” Under the Fiscal Agent Agreement, the District has pledged to repay the Bonds from the Special Tax Revenues and amounts on deposit in the Principal Account and Interest Account of the Bond Fund and the Reserve Fund established under the Fiscal Agent Agreement. As used in this Official Statement, “Special Tax” means the Debt Service and Facilities Special Tax for Improvement Area No. 1, as defined in the Rates and Method.

**Reserve Fund.** The Fiscal Agent Agreement provides that the amount in the Reserve Fund shall, as of any date, equal the lesser of (i) 10% of the proceeds of the sale of the Bonds and any Parity Bonds; (ii) Maximum Annual Debt Service on the Bonds and any Parity Bonds; or (iii) 125% of average Annual Debt Service on the Bonds and any Parity Bonds (the “Reserve Requirement”). The initial Reserve Requirement for the Bonds is an amount equal to \$291,018.76. Subject to the maximum annual amounts of Special Taxes contained in the Rates and Method, if the amount in the Reserve Fund is less than the Reserve Requirement, the City has covenanted to restore the amount in the Reserve Fund to the Reserve Requirement by the inclusion of a sufficient amount in the next annual Special Tax levy within Improvement Area No. 1. The ability of the City Council to increase the annual Special Taxes levied in Improvement Area No. 1 to replenish the Reserve Fund is subject to the maximum annual amounts of Special Taxes authorized for Improvement Area No. 1. The moneys in the Reserve Fund will be used only for payment of the principal of, and interest and any redemption premium on, the Bonds and, at the direction of the City, for deposit in the Rebate Fund. See “SOURCES OF PAYMENT FOR THE BONDS — Reserve Fund.”

The Special Tax Revenues are the primary security for the repayment of the Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent in the Principal Account and Interest Account of the Bond Fund and the Reserve Fund, to the limited extent described in the Fiscal Agent Agreement. See “SOURCES OF PAYMENT FOR THE BONDS — Reserve Fund.”

**Foreclosure Proceeds.** The City has covenanted for the benefit of the owners of the Bonds that it will commence, and diligently pursue to completion, judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of the fiscal year in which such Special Taxes were due, and it will commence and diligently pursue to completion judicial foreclosure proceedings against all properties with delinquent Special Taxes by the October 1 following the close of any fiscal year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*”

There is no assurance that the property within Improvement Area No. 1 can be sold for the appraised value or assessed values described in this Official Statement, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current or future property owners within Improvement Area No. 1. See “RISK FACTORS — Land Values” and APPENDIX B — “APPRAISAL REPORT.”

**EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL**

**OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM SPECIAL TAXES AND AMOUNTS HELD UNDER THE FISCAL AGENT AGREEMENT AS MORE FULLY DESCRIBED IN THIS OFFICIAL STATEMENT.**

*No Parity Bonds.* The City has covenanted not to issue any additional Bonds secured by a pledge and lien on the Special Taxes (“Parity Bonds”) for any purpose other than paying and discharging all or a portion of the Outstanding Bonds. See “SOURCES OF PAYMENT FOR THE BONDS — No Parity Bonds.”

**Description of the Bonds**

The Bonds will be issued and delivered as fully registered Bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Bonds (the “Beneficial Owners”) in integral multiples of \$5,000, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. In the event that the book-entry only system described in this Official Statement is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Fiscal Agent Agreement. See APPENDIX G — “INFORMATION CONCERNING DTC.”

Principal of, premium, if any, and interest on the Bonds is payable by the Fiscal Agent to DTC, as the registered Owner of the Bonds. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Fiscal Agent, all as described in this Official Statement. See “THE BONDS — Book-Entry Only System” and see APPENDIX G — “INFORMATION CONCERNING DTC.”

**Redemption**

The Bonds are subject to optional redemption, mandatory redemption from Special Tax Prepayments and mandatory sinking fund redemption as described in this Official Statement. For a more complete description of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE BONDS” and APPENDIX D — “SUMMARY OF FISCAL AGENT AGREEMENT.”

**Tax Matters**

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, the interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with certain covenants described in this Official Statement, is excluded from gross income for federal income tax purposes, and is not a specific preference item for purposes of the federal alternative minimum tax. Set forth in APPENDIX F is the form of opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain other tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see “LEGAL MATTERS — Tax Exemption.”

**Professionals Involved in the Offering**

U.S. Bank National Association will act as Fiscal Agent under the Fiscal Agent Agreement. Stifel, Nicolaus & Company, Incorporated is the Underwriter of the Bonds. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Best Best & Krieger LLP, Riverside, California, Bond Counsel. Certain legal matters will be passed on for the City and the District by the City Attorney’s Office, for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Underwriter’s Counsel, and for TRI Pointe Homes, Inc. by Goodwin Procter,

LLP, Los Angeles, California. Other professional services have been performed by Albert A. Webb Associates, Riverside, California, as Special Tax Consultant, and Kitty Siino & Associates, Tustin, California, as Appraiser.

For information concerning the respects in which certain of the above-mentioned professionals, advisors, counsel and agents may have a financial or other interest in the offering of the Bonds, see “LEGAL MATTERS — Financial Interests.”

### **Continuing Disclosure**

Pursuant to a Continuing Disclosure Certificate executed by the City (the “Continuing Disclosure Certificate”), the City has agreed to provide, or cause to be provided, on an annual basis, to the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board (the “MSRB”), which can be found at [www.emma.msrb.org](http://www.emma.msrb.org) (“EMMA”), certain financial information and operating data. The City has further agreed to provide notice to EMMA of certain material events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the “SEC”).

In addition, pursuant to a Continuing Disclosure Certificate executed by TRI Pointe Homes, Inc. (“TRI Pointe”) (such certificate, the “Developer Continuing Disclosure Certificate”), TRI Pointe has agreed to provide or cause to be provided, to EMMA certain annual information with respect to itself and its development within Improvement Area No. 1 and notice of certain listed events to assist the Underwriter in complying with the Rule. See “CONTINUING DISCLOSURE” and APPENDIX E for a description of the specific nature of the annual reports to be filed by the District and TRI Pointe and notices of listed events to be provided by the District and TRI Pointe.

### **Bondowners’ Risks**

Certain events could affect the timely repayment of the principal of and interest on the Bonds when due. See the section of this Official Statement entitled “RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth in this Official Statement, in evaluating an investment in the Bonds. The Bonds are not rated by any nationally recognized rating agency.

### **Forward Looking Statements**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “IMPROVEMENT AREA NO. 1.”

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.

## Other Information

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

Brief descriptions of the Bonds and the Fiscal Agent Agreement are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references to the Fiscal Agent Agreement, the Bonds and the constitution and laws of the State as well as the proceedings of the City Council, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Fiscal Agent Agreement.

Copies of the Fiscal Agent Agreement, the Continuing Disclosure Certificate, the Developer Continuing Disclosure Certificate and other documents and information referred to in this Official Statement are available for inspection and (upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the City at 3900 Main Street, Riverside, California 92522, Attention: City Clerk.

## THE FINANCING PLAN

A portion of the Bond proceeds will be used by the District to design, construct and acquire certain authorized public facilities and school district facilities. See “IMPROVEMENT AREA NO. 1 — Description of Authorized Facilities” and Table 1 in this Official Statement for a description of the public facilities authorized to be financed with the proceeds of the Bonds.

### Estimated Sources and Uses of Funds

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

#### *Sources of Funds*

Principal Amount of Bonds	\$4,415,000.00
Less Net Original Issue Discount	(91,092.45)
Special Tax Proceeds <sup>(1)</sup>	<u>199,422.16</u>
<b>Total Sources</b>	<b><u>\$ 4,523,329.71</u></b>

#### *Uses of Funds*

Improvement Fund <sup>(2)</sup>	\$4,039,750.35
Reserve Fund	291,018.76
Costs of Issuance Fund <sup>(3)</sup>	91,500.00
Underwriter's Discount	81,060.60
Deposit to Administration Account	<u>20,000.00</u>
<b>Total Uses</b>	<b><u>\$ 4,523,329.71</u></b>

<sup>(1)</sup> This amount was collected on the 2008-09 and 2012-13 tax rolls.

<sup>(2)</sup> \$2,427,597.35 will be deposited in the City Facilities Account which will include \$1,116,043.53 to be reimbursed to Arch (defined below under the caption “IMPROVEMENT AREA NO. 1 — General Description of Improvement Area No. 1.”), and \$1,612,153 will be deposited in the School District Facilities Account.

<sup>(3)</sup> Costs of Issuance include legal fees, printing costs, Appraisal Report costs, Special Tax Consultant fees, and Fiscal Agent fees, in addition to other miscellaneous costs incidental to Bond issuance.

## THE BONDS

### General Provisions

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

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth day of the month preceding such Interest Payment Date (such fifteenth day, the “Record Date”), in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment or from the date of the Bonds, if no interest has previously been paid or made available for payment.

Interest on any Bond will be paid to the person whose name appears as its registered Owner in the registration books held by the Fiscal Agent on the close of business on the Record Date. Interest will be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, to the registered Owner at its address on the registration books. Pursuant to a written request prior to the Record Date of a Bondowner of at least \$1,000,000 in aggregate principal amount of Bonds, payment will be made by wire transfer in immediately available funds to a designated account in the United States.

Principal of the Bonds and any premium due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Fiscal Agent in St. Paul, Minnesota.

### Authority for Issuance

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

**Resolutions of Intention.** On January 16, 2007 the City Council adopted a resolution stating its intention to establish the District, and Improvement Area No. 1 and Improvement Area No. 2, and to authorize the levy of a special tax in each of the Improvement Areas, and a resolution declaring its intention to have the District incur bonded indebtedness in an amount not to exceed \$25,000,000, including \$12,500,000 within Improvement Area No. 1 and \$12,500,000 within Improvement Area No. 2.

**Resolutions of Formation.** Following a noticed public hearing conducted on May 22, 2007, the City Council adopted on May 22, 2007 resolutions which established the District, and Improvement Area No. 1 and Improvement Area No. 2, authorized the levy of a special tax within each Improvement Area of the District, and declared the necessity for each Improvement Area of the District to incur bonded indebtedness in a maximum aggregate principal amount of \$25,000,000, including \$12,500,000 within Improvement Area No. 1 and \$12,500,000 within Improvement Area No. 2.

**Resolution Calling Election.** The resolutions adopted by the City Council on May 22, 2007 also called for consolidated special elections by the landowners in each Improvement Area of the District on the

issues of the levy of the Special Tax, the incurring of bonded indebtedness within the respective Improvement Area, and the establishment of an appropriations limit.

**Landowner Election and Declaration of Results.** On May 22, 2007, elections were held at which the landowners within each Improvement Area of the District approved ballot propositions authorizing the issuance of up to \$25,000,000 of bonds, including \$12,500,000 within Improvement Area No. 1 and \$12,500,000 within Improvement Area No. 2, to finance the acquisition and construction of various public facilities, the levy of the Special Tax and the establishment of an appropriations limit for the District. The landowners approved ballot propositions authorizing the District to issue bonds in an aggregate principal amount not to exceed \$25,000,000, including \$12,500,000 within Improvement Area No. 1 and \$12,500,000 within Improvement Area No. 2, for financing public facilities. On May 22, 2007, the City Council adopted a resolution approving the canvass of the votes and declaring the District to be fully formed, including Improvement Area No. 1 and Improvement Area No. 2 with the authority to levy the Special Taxes, to incur the bonded indebtedness, and to have the established appropriations limit.

**Amendment to Special Tax.** On October 11, 2011, at a special election held pursuant to the Act, TRI Pointe Homes Inc. and MREC Riverwalk LLC, as the qualified voters within Improvement Area No. 1, voted to reduce the rates of special tax to be levied on parcels within Improvement Area No. 1 and approved the rates and method of apportionment of special taxes for the District which is set forth in APPENDIX A.

**Special Tax Lien and Levy.** The original Notice of Special Tax Lien for the District was recorded in the Office of the County Recorder of the County on May 30, 2007 as Document No. 2007-0352815 reflecting a continuing lien against the taxable property within the District. An Amendment to Notice of Special Tax Lien for the District was recorded in the Office of the County Recorder of the County on October 17, 2011 as Document No. 2011-0456149 (as amended, the “Notice of Special Tax Lien”).

**Ordinance Levying Special Taxes.** On July 22, 2008, the City Council adopted Ordinance No. 6994 which authorized the levy of Special Taxes within the District, including Improvement Area No. 1 therein.

**Resolution Authorizing Issuance of the Bonds.** On May 28, 2013, the City Council adopted a resolution approving issuance of the Bonds.

## **Redemption**

**Optional Redemption.** The Bonds are subject to redemption prior to their stated maturity dates on any Interest Payment Date, as selected among maturities by the City (and by lot within any one maturity), in integral multiples of \$5,000, at the option of the City from moneys derived by the City from any source, at redemption prices (expressed as percentages of the principal amounts of the Bonds to be redeemed), together with accrued interest to the date of redemption, as follows:

<b>Redemption Dates</b>	<b>Redemption Prices</b>
March 1, 2014 through March 1, 2021	103%
September 1, 2021 and March 1, 2022	102
September 1, 2022 and March 1, 2023	101
September 1, 2023 and any Interest Payment Date thereafter	100

**Mandatory Redemption From Special Tax Prepayments.** The Bonds are subject to mandatory redemption prior to their stated maturity dates on any Interest Payment Date, pro rata among all maturities (and by lot within any one maturity), in integral multiples of \$5,000, from moneys derived by the City from Special Tax Prepayments, at redemption prices (expressed as percentages of the principal amounts of the Bonds to be redeemed), together with accrued interest to the date of redemption, as follows:



<i>Redemption Dates</i>	<i>Redemption Prices</i>
March 1, 2014 through March 1, 2021	103%
September 1, 2021 and March 1, 2022	102
September 1, 2022 and March 1, 2023	101
September 1, 2023 and any Interest Payment Date thereafter	100

***Mandatory Sinking Fund Redemption.*** The outstanding Bonds maturing on September 1, 2034, September 1, 2037 and September 1, 2043 are subject to mandatory sinking fund redemption, in part, on September 1, 2033, September 1, 2035, and September 1, 2038, respectively, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments as follows:

**Bonds Maturing on September 1, 2034**

<i>Sinking Fund Redemption Date (September 1)</i>	<i>Sinking Payments</i>
2033	\$165,000
2034 (Maturity)	175,000

**Bonds Maturing on September 1, 2037**

<i>Sinking Fund Redemption Date (September 1)</i>	<i>Sinking Payments</i>
2035	\$185,000
2036	190,000
2037 (Maturity)	200,000

**Bonds Maturing on September 1, 2043**

<i>Sinking Fund Redemption Date (September 1)</i>	<i>Sinking Payments</i>
2038	\$210,000
2039	225,000
2040	235,000
2041	245,000
2042	260,000
2043 (Maturity)	275,000

The amounts in the foregoing schedules shall be reduced by the City pro rata among redemption dates, in order to maintain substantially level Debt Service, as a result of any prior or partial optional or mandatory redemption of the Bonds.

***Purchase of Bonds.*** In lieu of payment at maturity or redemption under the Fiscal Agent Agreement, moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding Bonds, upon the filing with the Fiscal Agent of an Officer's Certificate requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer's Certificate may provide, but in no event may Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase. In such event, the City shall, as may be appropriate, provide to the Fiscal Agent a revised maturity schedule or a revised mandatory sinking fund schedule for the Bonds, or both.

***Notice to Fiscal Agent.*** An Authorized Officer shall give the Fiscal Agent written notice of the City's intention to redeem Bonds not less than 45 days prior to the applicable redemption date. Such written notice

shall specify whether Bonds are to be redeemed by optional redemption or mandatory redemption from special tax prepayments. The provisions of this subsection shall not apply to mandatory sinking fund redemption of the Bonds.

***Redemption Procedure by Fiscal Agent.*** The Fiscal Agent shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the Securities Depositories and to one or more Information Services, and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books maintained by the Fiscal Agent at its Principal Office; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds. Any such notice given may be conditional and/or rescinded by written notice given to the Fiscal Agent by an Authorized Officer and the Fiscal Agent shall provide notice of such rescission as soon thereafter as practicable in the same manner, and to the same recipients, as notice of such redemption was given pursuant to the Fiscal Agent Agreement.

Such notice shall state the date of such notice, the date of issue of the Bonds, the place or places of redemption, the redemption date, the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, shall designate the CUSIP numbers and Bond numbers of the Bonds to be redeemed, by giving the individual CUSIP number and Bond number of each Bond to be redeemed, or shall state that all Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption, shall state as to any Bond called for redemption in part the portion of the principal of the Bond to be redeemed, shall require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and shall state that further interest on such Bonds will not accrue from and after the redemption date. The cost of the mailing and publication of any such redemption notice shall be paid by the District.

Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall, to the extent practicable, bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

In the event of an optional redemption or mandatory redemption from Special Tax Prepayments pursuant to the Fiscal Agent Agreement, the City shall transfer or cause to be transferred to the Fiscal Agent for deposit in the Bond Fund moneys in an amount equal to the redemption price of the Bonds being redeemed on or before the Interest Payment Date upon which such Bonds are to be redeemed.

If less than all the Bonds Outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in integral multiples of \$5,000, and, in selecting portions of such Bonds for redemption, the Fiscal Agent shall treat each such Bond as representing the number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

Whenever provision is made in the Fiscal Agent Agreement for the redemption of less than all of the Bonds of a maturity or any given portion thereof, the Fiscal Agent shall select the Bonds not previously called for redemption pro rata among the maturities and by lot within a maturity in any manner which the Fiscal Agent in its sole discretion shall deem appropriate.

Upon surrender of Bonds redeemed in part only, the City shall execute and the Fiscal Agent shall authenticate and deliver to the Owner, at the expense of the District, a new Bond or Bonds, of the same maturity, of authorized denominations in an aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

***Effect of Redemption.*** From and after the date fixed for redemption, if funds available for the payment of the redemption prices of the Bonds called for redemption shall have been deposited in the Bond

Fund, such Bonds shall cease to be entitled to any benefit under the Fiscal Agent Agreement other than the right to receive payment of the redemption price, and interest shall cease to accrue on the Bonds to be redeemed on the redemption date specified in the notice of redemption.

All Bonds redeemed and purchased by the Fiscal Agent pursuant to the Fiscal Agent Agreement shall be cancelled by the Fiscal Agent.

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

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

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

### **Book-Entry Only System**

The Bonds will be issued in book-entry form, and The Depository Trust Company of New York, New York (“DTC”) will act as securities depository. So long as the Bonds are held in book-entry form, principal of, premium, if any, and interest on the Bonds will be paid by the Fiscal Agent directly to DTC for distribution to the beneficial owners of the Bonds in accordance with procedures adopted by DTC. See APPENDIX G — “INFORMATION CONCERNING DTC.”

**Debt Service Schedule**

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

**ANNUAL DEBT SERVICE SCHEDULE**

<i>Payment Year (September 1)</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2014	\$45,000	\$245,872.83	\$290,872.83
2015	80,000	207,368.76	287,368.76
2016	85,000	205,768.76	290,768.76
2017	85,000	204,068.76	289,068.76
2018	85,000	201,518.76	286,518.76
2019	90,000	198,968.76	288,968.76
2020	90,000	196,043.76	286,043.76
2021	95,000	192,893.76	287,893.76
2022	100,000	189,093.76	289,093.76
2023	105,000	185,093.76	290,093.76
2024	110,000	180,631.26	290,631.26
2025	115,000	175,681.26	290,681.26
2026	120,000	170,506.26	290,506.26
2027	125,000	164,956.26	289,956.26
2028	130,000	159,018.76	289,018.76
2029	135,000	152,518.76	287,518.76
2030	145,000	145,768.76	290,768.76
2031	150,000	138,518.76	288,518.76
2032	160,000	131,018.76	291,018.76
2033	165,000	123,018.76	288,018.76
2034	175,000	114,562.50	289,562.50
2035	185,000	105,593.76	290,593.76
2036	190,000	96,112.50	286,112.50
2037	200,000	86,375.00	286,375.00
2038	210,000	76,125.00	286,125.00
2039	225,000	65,100.00	290,100.00
2040	235,000	53,287.50	288,287.50
2041	245,000	40,950.00	285,950.00
2042	260,000	28,087.50	288,087.50
2043	<u>275,000</u>	<u>14,437.50</u>	<u>289,437.50</u>
<b>Total</b>	<b>\$4,415,000</b>	<b>\$4,248,960.53</b>	<b>\$8,663,960.53</b>

Source: Underwriter.

**SOURCES OF PAYMENT FOR THE BONDS**

**Limited Obligations**

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

The Special Tax Revenues are the primary security for the repayment of the Bonds. Under the Fiscal Agent Agreement, the District has pledged to repay the Bonds from the Special Tax Revenues (which are the proceeds of the Special Taxes received by the City, including any scheduled payments, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes) and all moneys deposited in Principal and Interest Accounts of the Bond Fund and the Reserve Fund.

As used in this Official Statement, "Special Tax" means the Debt Service and Facilities Special Tax for Improvement Area No. 1, as defined in the Rates and Method. Special taxes levied within Improvement Area No. 2 of the District are not pledged to the repayment of the Bonds, and the term "Special Tax," as used in this Official Statement, does not include any special taxes levied on property other than taxable property within Improvement Area No. 1. See APPENDIX A — "AMENDED AND RESTATED RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

In the event that the Special Tax Revenues are not received when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent in the Principal and Interest Accounts of the Bond Fund and the Reserve Fund for the exclusive benefit of the Owners of the Bonds.

**NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY OF RIVERSIDE, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE FISCAL AGENT AGREEMENT AS MORE FULLY DESCRIBED IN THIS OFFICIAL STATEMENT.**

### **Special Taxes**

*Authorization and Pledge.* In accordance with the provisions of the Act, the City Council established the District on May 22, 2007 for the purpose of financing the acquisition, construction and installation of various public improvements required in connection with the proposed development within the District. At a special election held on May 22, 2007, the owners of the property within the District authorized the District to incur indebtedness in an amount not to exceed \$12,500,000 with respect to Improvement Area No. 1, and approved the Rates and Method which authorizes the Special Tax to be levied to repay District indebtedness, including the Bonds. On July 22, 2008, the Board adopted Ordinance No. 6994 which authorized the levy of Special Taxes in the District, including Improvement Area No. 1.

The District has covenanted in the Fiscal Agent Agreement that each year it will levy Special Taxes up to the maximum rates permitted under the Rates and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on any Outstanding Bonds (including any Parity Bonds that may be issued) to replenish the Reserve Fund and to pay the estimated Administrative Expenses.

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rates and Method. See APPENDIX A — "AMENDED AND RESTATED RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX." There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See "RISK FACTORS — Insufficiency of Special Taxes."

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

Under the Rates and Method, commencing with Fiscal Year 2011-12, all Taxable Property in Improvement Area No. 1 has and will continue to be classified as Developed Property (Residential or Non-Residential) or Undeveloped Property and has and will continue to be subject to a Special Tax levy at the maximum rates described in Section C of the Rates and Method.

For purposes of the levy of Special Taxes to satisfy the Special Tax Requirement, a parcel will be classified as Developed Property if it is Taxable Property for which a building permit for residential dwelling units or non-residential construction was issued prior to March 1 of the fiscal year preceding the Special Tax levy. The Maximum Special Tax for Debt Service for each parcel of Taxable Property will be the greater of (a) the applicable amount set forth in Table 1 of the Rates and Method (ranging from \$1,263 per parcel to \$2,437 per parcel for parcels classified as Residential Property, and \$14,175 per acre for parcels classified as Non-Residential Property), and (b) the applicable amount of "Backup Special Tax."

The total amount of the Backup Special Tax for Assessor's Parcels of Taxable Property, exclusive of Assessor's Parcels of Taxable Association Property and Taxable Public Property, in a Final Subdivision will be determined by multiplying the Acreage of all such Assessor's Parcels of Taxable Property by the Backup Special Tax per Acre. If a Final Subdivision will include both Assessor's Parcels of Residential Property and Assessor's Parcels of Non-Residential Property, the total amount of the Backup Special Tax for such Assessor's Parcels of Residential Property will be based only on the Acreage of those Assessor's Parcels.

The Backup Special Tax for each Assessor's Parcel of Residential Property in a Final Subdivision will be determined by dividing the total amount of the Backup Special Tax for all of the Assessor's Parcels of Residential Property in the Final Subdivision, as determined pursuant to the preceding paragraph, by the number of such Assessor's Parcels (i.e., the number of residential lots) within such Final Subdivision.

The Backup Special Tax for each Assessor's Parcel of Non-Residential Property in a Final Subdivision will be determined by multiplying the Acreage of the Assessor's Parcel by the Backup Special Tax per Acre.

Notwithstanding the foregoing, if Assessor's Parcels of Residential Property are subsequently changed or modified by recordation of a lot line adjustment or similar instrument, the total amount of the Backup Special Tax will be recalculated so that the total amount of the Backup Special Tax for such Assessor's Parcels after such change will be equal to the aggregate amount of the Backup Special Tax for such Assessor's Parcels before such change occurred.

After classifying the parcels in the District, the City Council will determine the Special Tax Requirement (as defined in the Rates and Method) for Improvement Area No. 1 for the fiscal year. "Special Tax Requirement" means for Improvement Area No. 1 that amount required in any Fiscal Year after taking into consideration available funds pursuant to the Fiscal Agent Agreement: (1) to pay principal of and interest on all outstanding bonds which are payable from Special Taxes levied on Taxable Property in the District, (2) to pay periodic costs for the Bonds, including, but not limited to, costs related to credit enhancement and rebate payments, (3) to pay Administrative Expenses, (4) to provide an amount equal to reasonably anticipated delinquencies in the collection of Special Taxes, (5) pay any amount required to replenish the reserve fund for the outstanding Bonds, and (6) provide any amounts that the City Council determines are necessary to pay the costs on the provision, construction and acquisition of public facilities and/or to accumulate funds therefor.

The Special Tax for Debt Service and Facilities will be levied first on Developed Property in Improvement Area No. 1 up to 100% of the applicable rate for Improvement Area No. 1 set forth in Table 1. If additional monies are needed to satisfy the Special Tax Requirement for Improvement Area No. 1 after levying on all Developed Property in Improvement Area No. 1 at the applicable Table 1 rate for Improvement Area No. 1, the Special Tax will be levied next on Undeveloped Property in Improvement Area No. 1 up to 100% of the applicable rate for Improvement Area No. 1 set forth in Table 1. If additional moneys are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax to be levied on all

Assessor's Parcels of Developed Property whose Maximum Special Tax is its Backup Special Tax will be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel. If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, the Special Tax will be levied Proportionately on all Assessor's Parcels of Taxable Association Property up to 100% of its Maximum Special Tax. If additional moneys are needed to satisfy the Special Tax Requirement after the first four steps have been completed, the Special Tax will be levied Proportionately on all Assessor's Parcels of Taxable Public Property up to 100% of its Maximum Special Tax.

However, notwithstanding the above, under no circumstances will the Special Tax levied against any taxable parcel of residential property within Improvement Area No. 1 be increased by more than 10% as a consequence of a delinquency or default by the owner of any other parcel within Improvement Area No. 1.

***Prepayment of Special Taxes.*** The City Council may allow property owners to fully prepay the obligation of parcels of Taxable Property to pay the Special Taxes with respect to the Special Tax Requirement.

Additionally, the City has covenanted in the Fiscal Agent Agreement that the City shall cause all applications of owners of property in Improvement Area No. 1 to prepay and satisfy the Special Tax obligation for their property to be reviewed by the Special Tax Consultant and shall not accept any such prepayment unless such consultant certifies in writing that the total amount of the Maximum Special Tax (as defined in the Rates and Method) that may be levied on Taxable Property both prior to and after the proposed prepayment is and will be at least 1.1 times the amount of Maximum Annual Debt Service on all Outstanding Bonds plus estimated annual Administrative Expenses of \$30,000. For purposes of such certification, Taxable Property means all parcels of property in Improvement Area No. 1 that are not exempt from the levy of the Special Tax pursuant to the Act or the Rates and Method. (See APPENDIX A — "AMENDED AND RESTATED RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX"). Prepayments of Special Taxes aggregating in excess of \$5,000 will result in a mandatory redemption of Bonds. See "THE BONDS — Redemption — *Mandatory Redemption from Special Tax Prepayments.*"

***Collection and Application of Special Taxes.*** The Special Taxes are collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes. Improvement Area No. 1 may, however, collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

***Covenants to Protect Special Tax Rates.*** The City has made certain covenants in the Fiscal Agent Agreement for the purpose of ensuring that the current Maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the Bonds and Administrative Expenses when due. First, Improvement Area No. 1 has covenanted that, to the extent it is legally permitted to avoid doing so, it will not initiate and conduct proceedings to reduce the Maximum Special Tax rates (the "Maximum Rates") and, in the event an ordinance is adopted by initiative which purports to reduce or otherwise alter the Maximum Rates, the City will commence and pursue legal action seeking to preserve its ability to avoid reduction of Maximum Rates. See "RISK FACTORS — Proposition 218." Second, the City has covenanted not to permit the tender of Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the City having insufficient Special Tax Revenues to pay the principal of and interest on the Outstanding Bonds following such tender. See "RISK FACTORS — Non-Cash Payments of Special Taxes."

Although the Special Taxes constitute liens on taxable parcels within Improvement Area No. 1, they do not constitute a personal indebtedness of the owners of property within Improvement Area No. 1. Moreover, other liens for taxes and assessments already exist on the property located within Improvement Area No. 1 and others could come into existence in the future in certain situations without the consent or knowledge of the City or the landowners in Improvement Area No. 1. See "RISK FACTORS — Parity Taxes

and Special Assessments.” There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled “RISK FACTORS.”

Under the terms of the Fiscal Agent Agreement, all Special Tax Revenues received by the District are to be deposited in the Special Tax Fund. Special Tax Revenues deposited in the Special Tax Fund are to be applied by the Fiscal Agent under the Fiscal Agent Agreement in the following order of priority: (i) to deposit up to \$30,000 to the Administrative Expense Fund to pay Administrative Expenses; (ii) to replenish the Reserve Fund to the Reserve Requirement; (iii) to transfer to the Bond Fund to pay the principal of and interest on the Bonds when due; (iv) to make any required transfers to the Rebate Fund; and (v) for any other lawful purpose of the District. See APPENDIX D — “SUMMARY OF FISCAL AGENT AGREEMENT.”

***Proceeds of Foreclosure Sales.*** The net proceeds received following a judicial foreclosure sale of land within Improvement Area No. 1 resulting from a landowner’s failure to pay the Special Taxes when due are included within the Special Tax Revenues pledged to the payment of principal of and interest on the Bonds under the Fiscal Agent Agreement.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the owners of the Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) parcels with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due; and (ii) all properties with delinquent Special Taxes by the October 1 following the close of any fiscal year in which the District receives Special Taxes in an amount which is less than 95% of the total Special Tax levied; provided that the City will not be required to order, and cause to be commenced, judicial foreclosure proceedings against any such properties if the City determines that the amount of the delinquent Special Taxes for such properties is so small that the cost of foreclosure is not warranted. See APPENDIX D — “SUMMARY OF FISCAL AGENT AGREEMENT — OTHER COVENANTS OF THE CITY.”

If foreclosure is necessary and other funds (including amounts in the Reserve Fund) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. See “RISK FACTORS — Bankruptcy and Foreclosure.” Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See “RISK FACTORS — Land Values.” Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

***No Teeter Plan.*** Although the Riverside County Board of Supervisors has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”) which allows each entity levying secured property taxes in the County to draw on the amount of property taxes levied rather than the amount actually collected, as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, the District is not included in the County Teeter Plan. Consequently, the District may not draw on the County Tax Loss Reserve Fund in the event of delinquencies in Special Tax payments within the District.



## **Special Tax Fund**

Pursuant to the Fiscal Agent Agreement, there will be established, as a separate fund to be held by the Fiscal Agent, the "Community Facilities District No. 2006-1 of the City of Riverside Special Tax Bonds (Improvement Area No. 1) Special Tax Fund" (the "Special Tax Fund") to the credit of which the City will deposit, as hereinafter provided, not later than ten (10) Business Days after receipt, all Special Tax Revenues received by the City. There will also be established in the Special Tax Fund as a separate account, to be held by the Fiscal Agent, the "Surplus Account" to the credit of which amounts will be deposited as provided in the Fiscal Agent Agreement. Moneys in the Special Tax Fund, and the Surplus Account therein, will be held by the Fiscal Agent for the benefit of the City and the Owners of the Bonds, will be disbursed as provided below and, pending disbursement, will be subject to a lien in favor of the Owners of the Bonds. Notwithstanding the foregoing, any amounts received by the City which constitute Special Tax Prepayments will be transferred by the City not later than ten (10) business days after receipt to the Fiscal Agent for deposit by the Fiscal Agent in the "Special Tax Prepayments Account" established pursuant to the Fiscal Agent Agreement.

As soon as practicable after the receipt from the City of any Special Tax Revenues, but no later than ten (10) business days after such receipt, the Fiscal Agent will withdraw from the Special Tax Fund and deposit in the Administrative Expense Fund, an amount which is estimated by the City, in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely) to be sufficient, together with the amount then on deposit in the Administrative Expense Fund, to pay the Administrative Expenses during the current Fiscal Year; provided, however, that the amount deposited in the Administrative Expense Fund prior to the deposits to the Interest Account and the Principal Account of the Bond Fund, as provided below, will not exceed \$30,000 for any Fiscal Year. From the amount then remaining on deposit in the Special Tax Fund, the Fiscal Agent will, as soon as the amount on deposit in the Special Tax Fund is sufficient, deposit in the Reserve Fund the amount, if any, which the City will direct in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), to be withdrawn from the Special Tax Fund and deposited in the Reserve Fund to make the amount on deposit therein equal to the Reserve Requirement. Thereafter, on or before each Interest Payment Date, the Fiscal Agent will deposit in the Interest Account and the Principal Account of the Bond Fund the amounts required for payment of interest on or interest on and principal of the Bonds, as provided in the Fiscal Agent Agreement.

Notwithstanding the two preceding paragraphs, if prior to the September 1 Interest Payment Date in any Bond Year the City determines that Special Tax Revenues will be sufficient to enable the Fiscal Agent to deposit in the Reserve Fund the amount, if any, which is necessary to make the amount on deposit therein equal to the Reserve Requirement and deposit in the Bond Fund the full amount required for deposit to the Interest Account and the Principal Account to pay the interest on and principal of the Bonds on such Interest Payment Date, the City may instruct the Fiscal Agent in an Officer's Certificate, upon which the Fiscal Agent may conclusively rely, to deposit an additional amount in the Administrative Expense Fund before making the required deposits to the Interest Account and the Principal Account of the Bond Fund, and the Fiscal Agent will deposit such additional amount in the Administrative Expense Fund before depositing any amount to the Reserve Fund or the Interest Account and the Principal Account of the Bond Fund.

On or before the March 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on the Bonds which is due on such Interest Payment Date, the Fiscal Agent will transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account of the Bond Fund in an amount not to exceed the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer to and deposit in the Interest Account to pay the full amount of the interest on the Bonds which is due and payable on such Interest Payment Date. On or before the September 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on and principal of the Bonds which is due on such Interest Payment Date, the Fiscal Agent will transfer moneys from the Surplus Account, to the extent of

moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account and the Principal Account in amounts not to exceed the amount of the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer, to pay the full amount of the interest on and principal of the Bonds which is due and payable on such Interest Payment Date. On or before May 30 of each year, commencing on May 30, 2014 the Fiscal Agent will notify the City of the amount which is then on deposit in the Surplus Account and of the aggregate amount of the principal of and interest on the Bonds which will become due and payable on March 1 and September 1 of the following calendar year.

On September 2 of each year, beginning on September 2, 2014, the amount, if any, on deposit in the Special Tax Fund (including the amount on deposit in the Surplus Account), together with the amount then on deposit in the in the Principal Account of the Bond Fund (but not including, however, the amounts, if any, then on deposit Interest Account or the Special Tax Prepayments Account), as determined by the City, will not exceed the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Principal Account, exceeds the maximum amount allowable pursuant to the preceding sentence, as determined by the City and communicated in writing by an Authorized Officer to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), the excess amount will be transferred from the Special Tax Fund to and deposited in the Reserve Fund to the extent that the amount on deposit therein is less than the Reserve Requirement. Any such excess remaining in the Special Tax Fund after any such amount is transferred from the Special Tax Fund to the Reserve Fund will be transferred from the Special Tax Fund to and deposited in the Administrative Expense Fund. On September 2 of each year, after any such excess amount has been transferred as provided above, the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Principal Account, will not exceed in the aggregate the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent will have no obligation to monitor the City's obligations as set forth in this paragraph.

Moneys in the Special Tax Fund will be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings will be retained in the Special Tax Fund to be used for the purposes of such fund. See APPENDIX D — "SUMMARY OF FISCAL AGENT AGREEMENT."

### **Reserve Fund**

In order to secure further the payment of principal of and interest on the Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Fund and thereafter to maintain in the Reserve Fund an amount equal to the Reserve Requirement. The Fiscal Agent Agreement provides that the amount in the Reserve Fund shall, as of any date in any Bond Year, equal the lesser of (i) 10% of the proceeds of the sale of the Bonds and any Parity Bonds; (ii) Maximum Annual Debt Service on the Bonds and any Parity Bonds; or (iii) 125% of average Annual Debt Service on the Bonds and any Parity Bonds.

Subject to the limits on the maximum annual Special Tax which may be levied within Improvement Area No. 1, as described in APPENDIX A, the City has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Fund at the Reserve Requirement; provided, if a shortfall occurs in the Reserve Fund as a consequence of Special Tax delinquencies, the City may only increase Special Taxes within the District to replenish the Reserve Fund in the amount of such delinquencies. The ability of the legislative body of the District to increase the annual Special Taxes levied in Improvement Area No. 1 to replenish the Reserve Fund is additionally subject to certain additional limitations under the Act restricting the amount by which Special Taxes on taxable parcels can be increased due to delinquencies of other taxable parcels.

However, notwithstanding the above, under no circumstances will the Special Tax levied against any taxable parcel of residential property within Improvement Area No. 1 be increased by more than 10% as a consequence of a delinquency or default by the owner of any other parcel within Improvement Area No. 1.

The moneys in the Reserve Fund will be used for payment of the principal of, and interest and any redemption premium on, the Bonds, and, at the direction of the City, for deposit in the Rebate Fund. Amounts in the Reserve Fund are to be applied to (i) pay debt service on the Bonds, to the extent other monies are not available therefor; (ii) redeem all Outstanding Bonds, including without limitation, from Special Tax Prepayments; and (iii) pay the principal and interest due in the next succeeding Interest Payment Date. In the event of a prepayment of Special Taxes, under certain circumstances, a portion of the Reserve Fund will be added to the amount being prepaid and be applied to redeem Bonds. As described in the Fiscal Agent Agreement, the Reserve Fund credit will be equal to the expected reduction in the Reserve Requirement; provided, however, there will be no Reserve Fund credit if the amount in the Reserve Fund is less than the Reserve Requirement. See APPENDIX D — “SUMMARY OF FISCAL AGENT AGREEMENT.”

### **No Parity Bonds**

The City may not issue bonds of the District secured by the Special Taxes on a parity with the Bonds (“Parity Bonds”), except for the purpose of refunding all or a portion of the Outstanding Bonds. The City will not issue any additional bonds for Improvement Area No. 1 to finance additional public facilities for the District.

## **IMPROVEMENT AREA NO. 1**

### **General Description of Improvement Area No. 1**

Improvement Area No. 1 contains approximately 53 gross acres located in the southwestern portion of the City, at the corner of La Sierra and Indiana Avenues within ¼ mile of the 91 Freeway. Improvement Area No. 1 encompasses a portion of a master planned community known as “Riverwalk Vista.” Development within Riverwalk Vista is subject to the Riverwalk Vista Specific Plan which was approved in September 2005 and provides for the development of up to 402 single family detached homes. Improvement Area No. 1 consists of 185 proposed single family detached homes located in a gated community built around an already completed recreation center that boasts a resort-style pool with large waterfall, playgrounds, a gazebo and a barbeque area along with neighborhood parks and tot lots all connected by green belts and winding paths.

The property within Improvement Area No. 1 is zoned R-7,000 which allows for a maximum density of 6.2 dwelling units per acre. All of the taxable property within Improvement Area No. 1 is located within three tracts: Tract Nos. 32772-1 (TopazRidge), 32772-2 (Sagebluff) and 32772-3 (includes Promenade).

Development within Improvement Area No. 1 began in 2007 by Griffin Communities (“Griffin”). Griffin completed much of the backbone infrastructure for the District but eventually lost all of its property within the District to its lenders. In connection with Griffin’s failure to continue its development within the District, on June 8, 2010, the City entered into a Settlement Agreement with the Riverwalk Vista, LLC, Griffin’s subsidiary through which it was operating in the District, and Griffin’s performance guarantor, Arch Insurance Company (“Arch”). As part of the Settlement Agreement, the City and Arch also entered into an Agreement Providing for Advance and Reimbursement of Funds dated as of June 8, 2010 (“Reimbursement Agreement”), pursuant to which (i) Arch agreed to advance the City \$1,116,043.53 for its costs related to completion of certain of the Facilities, and (ii) the City agreed to issue bonds in an amount sufficient to repay Arch. Proceeds of the Bonds will provide for that repayment. See “THE FINANCING PLAN”.

The Developers are in the final stages of the development of Improvement Area No. 1 which consist of 185 single family residential units divided into three neighborhoods. TRI Pointe is building homes in Tract Nos. 32772-1 and 32772-2 within neighborhoods known as “TopazRidge,” and “Sagebluff”. Woodside (defined below) is building homes in Tract No. 32772-3 within a neighborhood known as “Promenade.” TRI Pointe purchased the 79 lots comprising its TopazRidge development in April 2011 from REDUS California, LLC who had in turn acquired the property from Wells Fargo Bank who had foreclosed on the property from Griffin. TRI Pointe purchased the 47 lots comprising its Sagebluff development in July 2011 from City

National Bank who had foreclosed on the property from Griffin. MREC Riverwalk LLC (“MREC”) purchased the 59 lots within the Tract No. 32772-3 in June 2011 from Bank of the West who had foreclosed on the property from Griffin. At the time of the MREC purchase from Bank of the West, the property had 3 completed model homes and 14 homes under construction. MREC hired a builder to complete the 14 production homes, which it then sold to individual purchasers (closings between April 2012 and December 2012). MREC sold the remaining 42 lots to Woodside and has leased the 3 models to Woodside.

As of May 24, 2013, 102 units have been completed and conveyed to individual homeowners (including 3 units that are completed model homes owned by MREC Riverwalk LLC and leased to Woodside Homes), 9 units were completed but owned by the Developers, 48 units were under construction, and 26 were in finished lot condition with building permits obtained. See “— TRI Pointe Homes” and “— Woodside Homes” below.

The real property in Improvement Area 2 was originally owned by Griffin, but passed to its lenders with the real property in Improvement Area 1. Foremost Communities, Inc. currently owns the real property in Improvement Area 2 which has been slated for development of 214 residential units to be commenced in 2013 or 2014. Most of the proposed lots have already been graded, with some additional grading work to be performed. However, the Bonds are not secured by any real property or any levy of taxes on property in Improvement Area 2. Levies of special taxes in Improvement Area 2, if and when levied, are not security for the Bonds.

**Description of Authorized Facilities**

The City Facilities authorized to be financed from Bond proceeds consist of street and road facilities, include street lights and traffic signals, storm water drainage facilities, water system facilities, including capacity in existing facilities, sewer system facilities including capacity in existing facilities and sewage treatment capacity, parks and park and recreation facilities, transportation facilities, and electric transmission and distribution facilities, as well as incidental expenses related to the planning, design and completion of such facilities. The School District Facilities authorized to be financed from Bond proceeds include the design, construction and acquisition of certain public school facilities of the School District for elementary school, middle school and high school facilities, to be owned and operated by the School District pursuant to that certain Joint Community Facilities Agreement by and between the School District and the City dated as of May 1, 2007.

The estimated costs of the City Facilities and School District Facilities to be paid from the proceeds of the Bonds and Special Taxes levied and collected by the District within Improvement Area No. 1 are described in Table 1 below:

**TABLE 1  
COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF RIVERSIDE  
(IMPROVEMENT AREA NO. 1)  
ESTIMATED COSTS OF FACILITIES**

<i>Project</i>	<i>Estimated Cost</i>
City Facilities	\$2,427,597.35
School District Facilities	<u>1,612,153.00</u>
<b>Total</b>	<u><u>\$4,039,750.35</u></u>

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Source: The District.

## TRI Pointe Homes

**General.** TRI Pointe Homes, Inc. (“TRI Pointe”) is a publicly-held Delaware corporation engaged in the design, construction and sale of single-family homes in planned communities in major metropolitan areas located throughout Southern and Northern California and in Colorado. TRI Pointe was converted from TRI Pointe Homes, LLC, a Delaware limited liability company organized in 2009. TRI Pointe’s common stock trades on the New York Stock Exchange under the symbol “TPH.” TRI Pointe’s SEC filings are available to the public over the Internet at the SEC’s website at [www.sec.gov](http://www.sec.gov). *This internet address is included for reference only and the information on this internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the internet site.*

**Representations.** TRI Pointe has represented to the District that (1) except as described in this Official Statement, there is no material indebtedness of TRI Pointe or its Affiliates (defined below) that is secured by an interest in the Property (defined below); (2) neither TRI Pointe nor, to the Actual Knowledge of TRI Pointe (defined below), any of its Affiliates is in default on any obligation to repay borrowed money, which default is reasonably likely to materially and adversely affect TRI Pointe’s ability to develop the Property as proposed in this Official Statement or to pay the Special Taxes due with respect to the Property; (3) neither TRI Pointe nor, to the Actual Knowledge of TRI Pointe, any of its Affiliates is in default on any obligation to repay borrowed money, which default is reasonably likely to materially and adversely affect TRI Pointe’s ability to develop the Property as proposed in this Official Statement or to pay the Special Taxes due with respect to the Property, and (4) neither TRI Pointe nor, to the Actual Knowledge of TRI Pointe, any of its Affiliates has been delinquent to any material extent in the payment of any *ad valorem* property tax, special assessment or special tax on property included within the boundaries of a community facilities district or an assessment district that would have (a) caused a draw on a reserve fund relating to such assessment district or community facilities district or (b) resulted in a foreclosure action being commenced.

As used in the above representations of TRI Pointe, the following defined terms and phrases have the following meanings:

“Actual Knowledge of TRI Pointe” shall mean the knowledge of the authorized officer of TRI Pointe signing the certificate containing the above representations (the “TRI Pointe Letter of Representations”) as of the date of the TRI Pointe Letter of Representations obtained from interviews with such current officers and responsible employees of TRI Pointe and its Affiliates as the authorized officer signing the TRI Pointe Letter of Representations has determined are likely, in the ordinary course of their respective duties, to have knowledge of the matters set forth in the TRI Pointe Letter of Representations. The authorized officer of TRI Pointe signing the TRI Pointe Letter of Representations has not conducted any extraordinary inspection or inquiry other than such inspections or inquiries as are prudent and customary in connection with the ordinary course of TRI Pointe’s current business and operations.

“Affiliate” means, with respect to a Person (i) any other Person directly, or indirectly through one or more intermediaries, controlling, controlled by or under common control with such Person, and (ii) for whom information, including financial information or operating data, concerning such Person referenced in clause (i) is material to an evaluation of the District and the Bonds (i.e., information relevant to TRI Pointe’s development plans with respect to its Property and its payment of Special Taxes, or such Person’s assets or funds that would materially affect TRI Pointe’s ability to develop its Property as described in this Official Statement or to pay its Special Taxes).

“Property” means the property within Improvement Area No. 1 held in the name of TRI Pointe.

**Other Developments.** Other development projects recently completed or currently under development by TRI Pointe in Southern California include the following:

<i>Site Name</i>	<i>Location</i>	<i>Average Base Selling Price<sup>(1)</sup></i>	<i>Estimated Number of Homes at Completion</i>	<i>Actual/Expected Completion Date</i>
Brio	La Habra	\$458,700	91	April 2015
Rancho Mission Viejo	Mission Viejo	\$609,800	105	October 2015
Candera	San Marcos	\$359,900	58	July 2015
Altana	San Diego	\$617,900	45	August 2014
Los Arboles	Simi Valley	\$398,700	43	June 2013
Tamarind Lane	Azusa	\$445,700	62	October 2014
Tamarind Lane II	Azusa	\$445,000	25	October 2014
Playa Vista	Los Angeles	\$905,000	66	June 2015

<sup>(1)</sup> Based on development status as of February 28, 2013.  
Source: TRI Pointe.

### ***Development Plan.***

*TopazRidge.* The TopazRidge neighborhood is being built by TRI Pointe on Tract 32772-1 and is expected to include 79 homes at build out. As of the date of value for the appraisal, 30 units had been completed and conveyed to individual homeowners, 6 units were completed but owned by TRI Pointe, 14 units were under construction, and 29 were in finished lot condition with building permits obtained. As of May 24, 2013, 34 units (including the 11 units acquired from REDUS) have been completed and conveyed to individual homeowners, 3 models have been constructed, 1 unit was completed but owned by TRI Pointe, 26 units were under construction, and 15 were in finished lot condition with building permits obtained. Trenching for the remaining 15 finished lots is expected to commence on June 10, 2013, with construction to follow thereafter. Of the units not yet conveyed to individual homeowners, 28 have been sold but escrow has not yet closed.

TRI Pointe acquired 11 completed units (consisting of 8 production homes and 3 model homes) and 68 finished lots from REDUS California, LLC (“REDUS”). TRI Pointe began developing the property within the TopazRidge neighborhood in 2011 by building 3 new model homes, selling the existing 11 units (including the previously-constructed models), and then constructing the remaining lots. The first homes in the TopazRidge neighborhood were closed to individual homeowners in February 2012.

All of the public improvements with respect to the development of the TopazRidge neighborhood have been completed and the development within the TopazRidge neighborhood is anticipated to be complete as of May 2014.

The homes within the TopazRidge neighborhood range in size from approximately 2,567 square feet to approximately 3,773 square feet.

A summary of the units by product type and the estimated sizes for the TopazRidge neighborhood being developed by TRI Pointe within the District is set forth below.

<i>Development</i>	<i>Plan<sup>(1)</sup></i>	<i>Number of Homes</i>	<i>Square Footage<sup>(2)</sup></i>	<i>Individual Owned<sup>(3)</sup></i>	<i>Average Base Sales Price</i>
TopazRidge	1	10	2,567	4	\$433,000
	2	28	3,426	10	457,000
	3	30	3,773	9	477,000
	4	2	2,713	2	390,000
	5	4	4,190	4	430,000
	6	<u>5</u>	<u>4,291</u>	<u>5</u>	<u>440,000</u>
		79		34	

<sup>(1)</sup> Plans 1 through 3 are TRI Pointe product. Plans 4, 5, and 6 were 11 previously-constructed homes acquired from REDUS.  
<sup>(2)</sup> Estimated square footage. Actual square footage may vary based on options selected.  
<sup>(3)</sup> As of May 24, 2013.

*Sagebluff.* The Sagebluff neighborhood is being built by TRI Pointe on Tract 32772-2 and is expected to include 47 homes at build out. As of the date of value for the appraisal, 29 units had been completed and conveyed to individual homeowners, 12 units were completed but owned by TRI Pointe, and 6 units were under construction. As of May 24, 2013, 38 units (including the 8 production units acquired from City National Bank) have been completed and conveyed to individual homeowners, 3 units were completed but owned by TRI Pointe, and 6 units were under construction. Of the units not yet conveyed to individual homeowners, all 9 have been sold but escrow has not yet closed.

TRI Pointe acquired 11 completed units (consisting of 8 production and 3 model units) and 36 finished lots from City National Bank. TRI Pointe began developing the property within the Sagebluff neighborhood in 2011 by remodeling the 3 existing model homes, selling the existing 8 production units, and then constructing the remaining lots. The first homes in the Sagebluff neighborhood were closed to individual homeowners in February 2012.

All of the public improvements with respect to the development of the Sagebluff neighborhood have been completed and the development within the Sagebluff neighborhood is anticipated to be complete by the end of June 2013.

The homes within the Sagebluff neighborhood that are being constructed by TRI Pointe range in size from approximately 2,858 square feet to approximately 3,140 square feet.

A summary of the units by product type and the estimated sizes for the Sagebluff neighborhood being developed by TRI Pointe within the District is set forth below.

<i>Development</i>	<i>Plan<sup>(1)</sup></i>	<i>Number of Homes</i>	<i>Square Footage<sup>(2)</sup></i>	<i>Individual Owned<sup>(3)</sup></i>	<i>Average Base Sales Price</i>
Sagebluff	1	8	2,858	7	\$362,000
	2	16	3,042	13	373,000
	3	12	3,140	10	380,000
	4	3	2,866	2	362,000
	5	4	3,068	3	373,000
	6	<u>4</u>	<u>3,176</u>	<u>3</u>	<u>380,000</u>
		47		38	

<sup>(1)</sup> Plans 1 through 3 are TRI Pointe product. Plans 4, 5, and 6 were 11 previously-constructed homes acquired from City National Bank

<sup>(2)</sup> Estimated square footage. Actual square footage may vary based on options selected.

<sup>(3)</sup> As of May 24, 2013.

### ***Financing Plan.***

*TopazRidge.* As of May 24, 2013, all infrastructure facilities associated with the TopazRidge neighborhood have been completed. TRI Pointe estimates the costs remaining to complete construction of the homes that have not closed escrow to be approximately \$8,381,300, including costs of home construction, landscaping, options, fees, warranties, taxes, selling expenses, and general/administrative expense.

TRI Pointe has financed, and is financing, its development activities in TopazRidge through a combination of internal sources (e.g., cash on hand, sales proceeds) and the proceeds of a \$30 million revolving loan arrangement with California Bank & Trust (the "CBT Loan"). TRI Pointe will fund the remaining costs to be paid from these two sources. The CBT Loan has an outstanding balance of \$5,072,371.04 (as of May 30, 2013), and is secured by individual deeds of trust on several projects being developed by TRI Pointe, including the property owned by TRI Pointe in Improvement Area No. 1. On April 19, 2014, the CBT Loan commitment, if not renewed will go into a 12-month reduction period with decreases at the end of each calendar quarter following the April 19, 2014 date through the final maturity date of April 19, 2015. The CBT Loan commitment will decrease by \$7.5 million commencing on July 19, 2014 and each three months thereafter. Based on this reduction schedule, the CBT Loan commitment will expire on April 19, 2015. The maturity date of the CBT Loan is April 19, 2015.

The CBT Loan is secured by first lien encumbrances against several different projects, and a default in another project could result in the foreclosure on the property within Improvement Area No. 1 that is secured by the subject deed of trust. However, the deed of trust lien on a lot in a parcel is partially released in conjunction with the sale of a home (and corresponding lot) in the parcel to a homebuyer.

The CBT Loan is in good standing as of May 24, 2013.

TRI Pointe believes that the combination of internal sources and proceeds of the Loan will be sufficient to pay all of the remaining costs associated with developing, constructing, marketing, and selling the remaining homes in the TopazRidge neighborhood.

*Sagebluff.* As of May 24, 2013, all infrastructure facilities associated with the Sagebluff neighborhood have been completed. TRI Pointe estimates the costs remaining to be paid to complete construction of the homes that have not closed escrow in Sagebluff to be approximately \$1,050,000, including costs of home construction, landscaping, options, fees, warranties, taxes, selling expenses, and general/administrative expense.



TRI Pointe has financed its development activities in Sagebluff through a combination of internal sources (e.g., cash on hand, sales proceeds) and the proceeds of a series of loans with Union Bank, N.A. (the “Union Bank Loans”). The Union Bank Loans were secured by one deed of trust on all Union Bank collateral. All of the Union Bank Loans have been repaid in full and the deed of trust reconveyed to TRI Pointe, except for the following loan which remains outstanding: On April 12, 2012, TRI Pointe borrowed \$895,000 to remodel the three Sagebluff model homes (the “Model Home Loan”). The Model Home Loan is secured by a deed of trust on the three model home parcels only, and is outstanding in the amount of \$200,834.30 (as of May 30, 2013). The three model homes have been sold to individual homeowners, and the closing is expected by June 14, 2013. Prior to the closing, TRI Pointe intends to pay the Model Home Loan and have the deed of trust on each of the model home lots reconveyed.

The Model Home Loan is in good standing as of May 24, 2013, but no further draws may be made on this Model Home Loan (as the models have been completed).

Consequently, TRI Pointe will utilize internal funding to finance the remaining costs to be paid on the Sagebluff project. TRI Pointe believes that internal sources will be sufficient to pay all of the remaining costs associated with developing, constructing, marketing, and selling the remaining homes in the Sagebluff neighborhood.

Except as described in this Official Statement and except for those consents, permits, authorizations, certifications and approvals of governmental entities required in the ordinary course of development, TRI Pointe has no actual knowledge of any impediment to construction or obtaining land use entitlements which could be reasonably expected to have a material adverse effect on its ability to complete the planned development of its property within Improvement Area No. 1 within the timeframe and budget described in the Official Statement.

## Woodside Homes

**General.** Woodside 05S, LP (“Woodside”) is a California limited partnership 100% owned by Woodside Group, LLC, directly or through its subsidiaries. Woodside Group, LLC is wholly owned by PH Holding LLC. PH Holding LLC is a Delaware limited liability company whose subsidiaries have engaged in the design, construction and sale of single-family homes throughout Arizona, California, Nevada, Texas and Utah, under the brand name of “Woodside Homes” since 1977.

Woodside Group LLC and its subsidiaries were reorganized effective December 31, 2009, under Chapter 11 of the U.S. Bankruptcy Code. The bankruptcy cases for the reorganized Woodside Group entities were closed in August 2011. As of that date, PH Holding LLC’s pre-bankruptcy liability had all been resolved, settled, or discharged in the bankruptcy process.

Other development projects currently under development by Woodside Homes in Southern California include the following:

<i>Site Name</i>	<i>Location</i>	<i>Average Base Selling Price<sup>(1)</sup></i>	<i>Estimated Number of Homes at Completion</i>	<i>Expected Completion Date</i>
Cimarron at Audie Murphy Ranch	Menifee	\$259,240	107	March 2015
Laredo at Audie Murphy Ranch	Menifee	\$302,490	91	December 2014
BelVista	Temecula	\$241,657	210	March 2015
Sagecrest II at McSweeney Ranch	Hemet	\$218,390	62	June 2014
Altura at Spencer’s Crossing	Murrieta	\$301,590	69	April 2014
Palazzo <sup>(2)</sup>	Indio	Mid \$200’s	60	January 2015
Aspen at Sycamore Creek <sup>(2)</sup>	Temescal Valley	Mid-to-high 300’s	115	October 2016

<sup>(1)</sup> Based on development status as of April 15, 2013.

<sup>(2)</sup> Project still in early development, with no models yet.  
Source: Woodside.

***Development Plan.***

*Promenade.* The Promenade neighborhood is being built by Woodside within Tract 32772-3 and is expected to include 42 homes at build-out. Together with the 17 homes already built by MREC, Tract 32772-3 will include a total of 59 homes. See “—General Description of Improvement Area No. 1” above. As of the date of the Appraisal, 14 units in Tract 32772-3 had been completed and conveyed to individual homeowners, 3 units were owned by MREC and serving as models, 11 units were completed but owned by Woodside, 12 units were under construction, and 19 were in finished lot condition with building permits obtained. As of May 24, 2013 (and exclusive of the 17 homes previously built by MREC), 13 units have been completed and conveyed to individual homeowners, 2 units were completed but owned by Woodside, 16 units were under construction, and 11 were in finished lot condition with building permits obtained. Of the units not yet conveyed to individual homeowners, 18 have been sold but escrow has not yet closed.

Woodside began developing the property within the Promenade neighborhood in 2012. All of the public improvements with respect to the development of the Promenade neighborhood have been completed and the development within the Promenade neighborhood is anticipated to be complete as of December 2013. The homes within the Promenade neighborhood range in size from approximately 1,519 square feet to approximately 1,975 square feet. The first homes in the Promenade neighborhood were conveyed to individual homeowners by Woodside in April, 2013.

A summary of the units by product type and the estimated sizes and average sales prices for the Promenade neighborhood being developed by Woodside within the District is set forth below.

<i>Development</i>	<i>Plan</i>	<i>Number of Homes<sup>(1)</sup></i>	<i>Square Footage<sup>(2)</sup></i>	<i>Individual Owned<sup>(3)</sup></i>	<i>Average Sales Price</i>
Promenade	1	11	1,519	5	\$280,132
	2	13	1,740	4	301,756
	3	<u>18</u>	1,975	<u>5</u>	327,028
		42		14	

(1) Excludes the 14 homes previously built and sold by MREC and the 3 models owned by MREC.

(2) Estimated square footage. Actual square footage may vary based on options selected.

(3) As of May 24, 2013.

***Financing Plan.***

As of May 14, 2013, Woodside had expended approximately \$6,862,395 in connection with its development within Improvement Area No. 1, including land acquisition costs of approximately \$3,113,431, home construction costs of approximately \$2,236,123, and land development and other related project costs (sales and marketing and general and administrative) of approximately \$1,512,841. Woodside expects to expend approximately an additional \$1,963,202 to complete its development within Improvement Area No. 1 (not including repayment of internal funding). To date, Woodside has financed its development activities in Improvement Area No. 1 with a combination of internal funding, including advances from the affiliates of PH Holding LLC. PH Holding LLC has a \$127,000,000 secured debt indenture of which Wells Fargo Bank, National Association, is Trustee and Collateral Agent (the “Woodside Indenture”). Woodside is a guarantor under the Woodside Indenture. Woodside intends to use these same sources to finance the remaining home construction costs, land acquisition costs and carrying costs for the property (including property taxes and the Special Taxes) until full sell-out of its proposed single family detached homes in Improvement Area No. 1. Woodside believes that it will have sufficient funds, including advances from its affiliates, if necessary, to provide the internal funding needed to complete Woodside’s proposed development within Improvement Area No. 1. While Woodside’s affiliates have made such internal financing available in the past, there can be no assurance whatsoever of their willingness or ability to do so in the future, if needed. Neither Woodside nor its affiliates has any legal obligation of any kind to make any such funds available or to obtain loans. Other than

pointing out the willingness of Woodside's affiliates to provide internal financing in the past, Woodside has not represented in any way that its affiliates will do so in the future. If and to the extent internal funding is inadequate to pay the costs to complete Woodside's planned development within the Improvement Area No. 1 and other financing by Woodside is not put into place, there could be a shortfall in the funds required to complete the proposed development by Woodside and portions of the project may not be developed.

Except as described in this Official Statement and except for those consents, permits, authorizations, certifications and approvals of governmental entities required in the ordinary course of development, Woodside has no actual knowledge of any impediment to construction or obtaining land use entitlements which could be reasonably expected to have a material adverse effect on its ability to complete the planned development of its property within Improvement Area No. 1 within the timeframe and budget described in the Official Statement.

### **Estimated Direct and Overlapping Indebtedness**

Within the boundaries of Improvement Area No. 1 are numerous overlapping local agencies providing public services. The approximate amount of the direct and overlapping debt on the parcels within Improvement Area No. 1 for fiscal year 2012-13 is shown in Table 2 below (the "Debt Report").

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**TABLE 2  
CITY OF RIVERSIDE  
COMMUNITY FACILITIES DISTRICT NO. 2006-1  
(IMPROVEMENT AREA NO. 1)  
DIRECT AND OVERLAPPING DEBT  
AS OF APRIL 1, 2013**

I. Assessed Value \$ 21,742,335  
2012-2013 Equalized Roll Assessed Valuation

II. Land Secured Bond Indebtedness

<i><b>Outstanding Direct and Overlapping Bonded Debt</b></i>	<i><b>Type</b></i>	<i><b>Issued</b></i>	<i><b>Outstanding</b></i>	<i><b>% Applicable</b></i>	<i><b>Parcels in CFD No. 2006-1 IA 1<sup>(3)</sup></b></i>	<i><b>Amount Applicable</b></i>
City of Riverside CFD No. 2006-1 IA 1	CFD	\$ 4,415,000	\$ 4,415,000	100.000%	185	\$ 4,415,000
<b>TOTAL LAND SECURED BONDED DEBT <sup>(1)(2)</sup></b>						<b>\$ 4,415,000</b>

III. General Obligation Bond Indebtedness

<i><b>Outstanding Direct and Overlapping Bonded Debt</b></i>	<i><b>Type</b></i>	<i><b>Issued</b></i>	<i><b>Outstanding</b></i>	<i><b>% Applicable</b></i>	<i><b>Parcels in CFD No. 2006-1 IA 1<sup>(3)</sup></b></i>	<i><b>Amount Applicable</b></i>
Metropolitan Water Debt Service	GO	\$ 850,000,000	\$ 196,545,000	0.001037%	185	\$ 2,037
City of Riverside	GO	\$ 20,000,000	\$ 15,135,000	0.103307%	185	15,635
Riverside Community College District Debt Service	GO	\$ 264,999,278	\$ 230,858,371	0.029059%	185	67,086
Alvord Unified School District GO Bond	GO	\$ 169,751,560	\$ 153,161,560	0.365958%	185	560,508
<b>TOTAL GENERAL OBLIGATION BONDED DEBT<sup>(1)</sup></b>						<b>\$ 645,266</b>

<i><b>Authorized but Unissued Direct and Overlapping Indebtedness</b></i>	<i><b>Type</b></i>	<i><b>Authorized</b></i>	<i><b>Unissued</b></i>	<i><b>% Applicable</b></i>	<i><b>Parcels in CFD No. 2006-1 IA 1<sup>(3)</sup></b></i>	<i><b>Amount Applicable</b></i>
Metropolitan Water Debt Service	GO	\$ 850,000,000	\$ 0	0.001037%	185	\$ 0
City of Riverside	GO	\$ 20,000,000	\$ 0	0.103307%	185	0
Riverside Community College District Debt Service	GO	\$ 350,000,000	\$ 85,000,722	0.029059%	185	24,701
Alvord Unified School District GO Bond	GO	\$ 196,000,000	\$ 26,248,440	0.365958%	185	96,058
<b>TOTAL UNISSUED GENERAL OBLIGATION INDEBTEDNESS<sup>(1)</sup></b>						<b>\$ 120,759</b>

**TOTAL OUTSTANDING AND UNISSUED GENERAL OBLIGATION INDEBTEDNESS** **\$ 766,025**  
**TOTAL OF ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT** **\$ 5,060,266**

IV. Ratios to 2012-13 Assessed Valuation  
     Outstanding Land Secured Bonded Debt 4.92:1  
     Total Outstanding Bonded Debt 4.30:1

<sup>(1)</sup> Albert A. Webb Associates is not aware of any additional bonded debt for parcels in CFD No. 2006-1 IA 1 for the referenced Fiscal Year 2012-13. Issued, Outstanding and Authorized amounts are for Improvement Area 1.

<sup>(2)</sup> Additional bonds will be issued for refunding only.

<sup>(3)</sup> All parcels have subdivided into 185 individual parcels for FY 2012-13 for Improvement Area 1.

Source: Albert A. Webb Associates.

## **Expected Tax Burden**

Based on the appraised values within Improvement Area No. 1 set forth in the Appraisal Report, the projected debt service on the Bonds, estimated District administrative expenses of \$20,000 and other information known to the City, the City expects that, beginning in Fiscal Year 2013-14, the projected effective tax rates levied on taxable property in Improvement Area No. 1 will range from approximately 1.48% to 1.69% of the appraised value. However, the City Council is obligated to levy Special Taxes on parcels of taxable property in Improvement Area No. 1 in each fiscal year in an amount sufficient to pay debt service on the outstanding Bonds. Consequently, if there were significant delinquencies in the collection of Special Taxes for any fiscal year, it might be necessary for the City Council to increase the amounts of the Special Taxes levied on parcels in Improvement Area No. 1 in the subsequent fiscal year such that the effective tax rate for that fiscal year would exceed 2.00% of the appraised or assessed value of some or all of such parcels.

Table 3 below describes the estimated fiscal year 2013-14 effective tax burden for sample units within each neighborhood in Improvement Area No. 1 assuming Special Taxes levied in fiscal year 2013-14 will equal the projected Bond debt service plus \$20,000 in estimated District administrative expenses.

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The estimated tax rates and amounts presented in this Official Statement are based on currently available information. The actual amounts charged may vary and may increase in future years depending on the amount of Bonds and Parity Bonds outstanding, and the number of delinquencies in Improvement Area No. 1, among other factors.

**TABLE 3  
CITY OF RIVERSIDE  
COMMUNITY FACILITIES DISTRICT NO. 2006-1 (RIVERWALK VISTA) (IMPROVEMENT AREA NO. 1)  
PROJECTED FISCAL YEAR 2013-14 EFFECTIVE TAX RATES  
FOR SAMPLE UNITS WITHIN EACH NEIGHBORHOOD**

<i>Plan</i>	<u>TOPAZRIDGE</u>					
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
CFD Tax Category	1,900 to 2,699 S.F.	3,000 to 3,699 S.F.	3,700 to 3,899 S.F.	2,700 to 2,999 S.F.	Over 3,899 S.F.	Over 3,899 S.F.
Home Size	2,567	3,426	3,773	2,713	4,190	4,291
Appraised Value <sup>(1)</sup>	\$392,751	\$419,685	\$437,668	\$401,524	\$448,437	\$450,555
<b>Ad Valorem Property Taxes:</b>						
General Purpose	\$3,927.51	\$4,196.85	\$4,376.68	\$4,015.24	\$4,484.37	\$4,505.55
Alvord Unified School District (0.11836%)	464.86	496.74	518.02	475.24	530.77	533.28
Riverside City Community College District (0.01702%)	66.85	71.43	74.49	68.34	76.32	76.68
Metro Water West (0.00350%)	13.75	14.69	15.32	14.05	15.70	15.77
City of Riverside (0.00572%)	22.47	24.01	25.03	22.97	25.65	25.77
<b>Total General Property Taxes</b>	<b>\$4,495.43</b>	<b>\$4,803.71</b>	<b>\$5,009.55</b>	<b>\$4,595.84</b>	<b>\$5,132.81</b>	<b>\$5,157.05</b>
<b>Assessment, Special Taxes &amp; Parcel Charges:</b>						
Flood Control Stormwater / Cleanwater / Santa Ana	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76
CSA #152 City of Riverside	8.14	8.14	8.14	8.14	8.14	8.14
City of Riverside Lighting District	31.44	31.44	31.44	31.44	31.44	31.44
Riverside City Library Services	19.00	19.00	19.00	19.00	19.00	19.00
N.W. Mosquito & Vector Control District <sup>(2)</sup>	0.00	0.00	0.00	0.00	0.00	0.00
MWD Standby Charge	9.22	9.22	9.22	9.22	9.22	9.22
CFD 2006-1 IA 1 (Riverwalk Vista)	1,249.93	1,895.91	2,083.21	1,865.75	2,226.66	2,226.66
<b>Total Assessments &amp; Parcel Charges</b>	<b>\$1321.49</b>	<b>\$1,967.47</b>	<b>\$2,154.77</b>	<b>\$1,937.31</b>	<b>\$2,298.22</b>	<b>\$2,298.22</b>
<b>Projected Total Property Tax</b>	<b>\$5,816.92</b>	<b>\$6,771.18</b>	<b>\$7,164.32</b>	<b>\$ 6,533.16</b>	<b>\$7,431.03</b>	<b>\$7,455.27</b>
<b>Projected Effective 2013-14 Tax Rate</b>	<b>1.48%</b>	<b>1.61%</b>	<b>1.64%</b>	<b>1.63%</b>	<b>1.66%</b>	<b>1.65%</b>

<sup>(1)</sup> Reflects the appraised value based on ownership status as of March 22, 2013, the date of value of the Appraisal

<sup>(2)</sup> For Fiscal Year 2006-07, this assessment was \$1.47 per single family residential parcel and for Fiscal Year 2009-10 through Fiscal Year 2013-14, this assessment has been suspended.

Source: Albert A. Webb Associates, based on home size information provided by the Developers and the appraised values set forth in the Appraisal Report.

**TABLE 3**  
**Continued from prior page**

<i>Plan</i>	<u>SAGEBLUFF</u>						<u>PROMENADE</u>			<b>Average Parcel</b>
	1	2	3	4	5	6	1b	2b	3b	
CFD Tax Category	2,700 to 2,999 S.F.	3,000 to 3,699 S.F.	3,000 to 3,699 S.F.	2,700 to 2,999 S.F.	3,000 to 3,699 S.F.	3,000 to 3,699 S.F.	1,899 S.F. or Less	1,899 S.F. or Less	1,900 to 2,699 S.F.	
Home Size	2,858	3,042	3,140	2,866	3,068	3,176	1,544	1,754	1,981	
Appraised Value <sup>(1)</sup>	\$354,609	\$365,400	\$378,308	\$352,518	\$368,160	\$374,768	\$268,656	\$285,902	\$303,093	\$380,847
<b>Ad Valorem Property Taxes:</b>										
General Purpose	\$3,546.09	\$3,654.00	\$3,783.08	\$3,525.18	\$3,681.60	\$3,747.68	\$2,686.56	\$2,859.02	\$3,030.93	\$3,808.47
Alvord Unified School District (0.11836%)	419.72	432.49	447.77	417.24	435.75	443.58	317.98	338.39	358.74	450.77
Riverside City Community College District (0.01702%)	60.35	62.19	64.39	60.00	62.66	63.79	45.73	48.66	51.59	64.82
Metro Water West (0.00350%)	12.41	12.79	13.24	12.34	12.89	13.12	9.40	10.01	10.61	13.33
City of Riverside (0.00572%)	20.28	20.90	21.64	20.16	21.06	21.44	15.37	16.35	17.34	21.78
<b>Total General Property Taxes</b>	<b>\$4,058.85</b>	<b>\$4,182.37</b>	<b>\$4,330.11</b>	<b>\$4,034.92</b>	<b>\$4,213.96</b>	<b>\$4,289.59</b>	<b>\$3,075.04</b>	<b>\$3,272.43</b>	<b>\$3,469.20</b>	<b>\$4,359.17</b>
<b>Assessment, Special Taxes &amp; Parcel Charges:</b>										
Flood Control Stormwater / Cleanwater / Santa Ana	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76	\$ 3.76
CSA #152 City of Riverside	8.14	8.14	8.14	8.14	8.14	8.14	8.14	8.14	8.14	8.14
City of Riverside Lighting District	31.44	31.44	31.44	31.44	31.44	31.44	31.44	31.44	31.44	31.44
Riverside City Library Services	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00
N.W. Mosquito & Vector Control District <sup>(2)</sup>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MWD Standby Charge	9.22	9.22	9.22	9.22	9.22	9.22	9.22	9.22	9.22	9.22
CFD 2006-1 IA 1 (Riverwalk Vista)	1,865.75	1,895.91	1,895.91	1,865.75	1,895.91	1,895.91	1,153.99	1,153.99	1,249.93	1,807.71
<b>Total Assessments &amp; Parcel Charges</b>	<b>\$1,937.31</b>	<b>\$1,967.47</b>	<b>\$1,967.47</b>	<b>\$1,937.31</b>	<b>\$1,967.47</b>	<b>\$1,967.47</b>	<b>\$1,225.55</b>	<b>\$1,225.55</b>	<b>\$1,321.49</b>	<b>\$1,879.27</b>
<b>Projected Total Property Tax</b>	<b>\$5,996.17</b>	<b>\$6,149.83</b>	<b>\$6,297.58</b>	<b>\$5,972.24</b>	<b>\$6,181.43</b>	<b>\$6,257.06</b>	<b>\$4,300.59</b>	<b>\$4,497.98</b>	<b>\$4,790.69</b>	<b>\$6,238.44</b>
<b>Projected Effective 2013-14 Tax Rate</b>	<b>1.69%</b>	<b>1.68%</b>	<b>1.66%</b>	<b>1.69%</b>	<b>1.68%</b>	<b>1.67%</b>	<b>1.60%</b>	<b>1.57%</b>	<b>1.58%</b>	<b>1.64%</b>

<sup>(1)</sup> Reflects the appraised value based on ownership status as of March 22, 2013, the date of value of the Appraisal

<sup>(2)</sup> For Fiscal Year 2006-07, this assessment was \$1.47 per single family residential parcel and for Fiscal Year 2009-10 through Fiscal Year 2013-14, this assessment has been suspended.

Source: Albert A. Webb Associates, based on home size information provided by the Developers and the appraised values set forth in the Appraisal Report.

## **Appraisal Report**

An MAI appraisal of the land and existing improvements within Improvement Area No. 1 was prepared by Kitty Siino & Associates, Inc., Tustin, California, dated April 5, 2013. The Appraisal Report is entitled “Summary Appraisal Report –Community Facilities District No. 2006-1 Improvement Area No. 1 (Riverwalk Vista) City of Riverside.” See APPENDIX B — “APPRAISAL REPORT.” The Appraisal Report sets forth an estimate of the market value of the fee simple interest of the taxable land and improvements within Improvement Area No. 1 based on a sales comparison approach along with utilizing certain mass appraisal techniques. The Appraisal Report determined a minimum base value for the completed homes in each floor plan of each tract within Improvement Area No. 1. Parcels with homes under construction that are less than 95% complete were valued as if in a finished lot with no additional improvements. The Appraiser is of the opinion that, based upon the assumptions and conditions contained in the Appraisal Report, the aggregate market value and minimum market value of the taxable land and improvements in existence within Improvement Area No. 1 as of March 22, 2013, was \$48,782,072.

The Appraisal Report is based upon a variety of assumptions and limiting conditions that are described in APPENDIX B. The City makes no representation as to the accuracy of the Appraisal Report. See APPENDIX B — “APPRAISAL REPORT.” There is no assurance that the property within Improvement Area No. 1 can be sold for the prices set forth in the Appraisal Report or that any parcel can be sold for a price sufficient to pay the Special Tax for that parcel in the event of a default in payment of Special Taxes by the landowner. See “RISK FACTORS — Land Values” and APPENDIX B — “APPRAISAL REPORT.”

### **Estimated Value-to-Lien Ratio**

***Estimated Assessed Value-to-Lien Ratio.*** The assessed value of the land within Improvement Area No. 1 is \$21,742,335 for fiscal year 2012-13. Dividing the assessed value by the principal amount of the Bonds plus all overlapping debt secured by a tax or assessment on the property within Improvement Area No. 1 and all overlapping general obligation debt results in an estimated assessed value-to-lien ratio of 4.30-to-1 for Improvement Area No. 1. See Table 2.

***Estimated Appraised Value-To-Lien Ratio.*** Table 4 below incorporates the values assigned to parcels in the Appraisal Report, the estimated principal amount of the Bonds allocable to each category of parcels and the estimated appraised value-to-lien ratios for various categories of parcels based upon land values and property ownership in Improvement Area No. 1 as updated by the Appraisal Report to March 22, 2013.



**TABLE 4  
COMMUNITY FACILITIES DISTRICT NO. 2006-1  
(RIVERWALK VISTA) OF THE CITY OF RIVERSIDE  
(IMPROVEMENT AREA NO. 1)  
ESTIMATED VALUE-TO-LIEN RATIOS  
ALLOCATED BY PROPERTY OWNER  
OWNERSHIP AS OF MARCH 22, 2013**

<i>Property Owner</i>	<i>Number of Parcels</i>	<i>Appraised Property Value<sup>(4)</sup></i>	<i>Estimated FY 2013-14 Levy<sup>(5)</sup></i>	<i>Percentage FY 2013-14 Levy</i>	<i>CFD 2006-1 IA 1 Proposed 2013 Bonds<sup>(6)</sup></i>	<i>Appraised Value-to-Lien Ratio<sup>(7)</sup></i>
Developed: Individually Owned	73	\$27,542,072	\$130,647	42.03%	\$1,855,437	14.84:1
Developed: TRI Pointe Owned <sup>(1)</sup>	67	14,245,000	126,474	40.68	1,796,175	7.93:1
Developed: MREC Owned <sup>(2)</sup>	3	785,000	3,558	1.14	50,529	15.54:1
Developed: Woodside Owned <sup>(3)</sup>	<u>42</u>	<u>6,210,000</u>	<u>50,194</u>	<u>16.15</u>	<u>712,859</u>	<u>8.71:1</u>
<b>TOTAL</b>	<b>185</b>	<b>\$48,782,072</b>	<b>\$310,873</b>	<b>100.00%</b>	<b>\$4,415,000</b>	<b>11.05:1</b>

<sup>(1)</sup> Reflects Appraised Value for 20 Homes Under Construction, 6 Model Homes, 29 Finished Lots, and 12 Homes 95% Completed, all of which have building permits issued and are therefore considered developed per the RMA.

<sup>(2)</sup> Reflects Appraised Value for 3 Model Homes owned by MREC, currently leased to Woodside.

<sup>(3)</sup> Reflects Appraised Value for 12 Homes Under Construction, 19 Finished Lots, and 11 Homes 95% Completed, all of which have building permits issued and are therefore considered developed per the RMA.

<sup>(4)</sup> Reflects the appraised value based on ownership status as of March 22, 2013, the date of value of the Appraisal.

<sup>(5)</sup> Estimated Fiscal Year 2013-14 Special Tax Levy based upon development status.

<sup>(6)</sup> Includes the principal amount of the 2013 Bonds. Responsibility of the principal amount of the 2013 Bonds has been allocated based on the projected Fiscal Year 2013-14 Special Tax levy and the assigned rates per tax rate category as outlined in the Rate and Method of Apportionment.

<sup>(7)</sup> Excludes general obligation debt shown on Table 2, which if included would reduce the value-to-lien ratio to 9.88-to-1.

Source: Albert A. Webb Associates.

**Delinquency History**

The following table is a summary of Special Tax levies, collections and delinquency rates in Improvement Area No. 1 for Fiscal Years 2008-09 through 2012-13.

**TABLE 5  
COMMUNITY FACILITIES DISTRICT NO. 2006-1  
(RIVERWALK VISTA) OF THE CITY OF RIVERSIDE  
(IMPROVEMENT AREA NO. 1)  
SPECIAL TAX LEVIES, DELINQUENCIES AND DELINQUENCY RATES  
FISCAL YEARS 2008-09 AND 2012-13**

<i>Fiscal Year</i>	<i>Amount Levied</i>	<i>Parcels Levied</i>	<i>Delinquencies as of June 30 of Fiscal Year in which Special Taxes Were Levied</i>			<i>Delinquencies as of May 14, 2013</i>		
			<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>	<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>
2008-09	\$147,599.00	42	0	\$0.00	0.00%	0	\$0.00	0.00%
2012-13	\$77,947.00	45	N/A	N/A	N/A	0	\$0.00	0.00%

<sup>(1)</sup> For Fiscal Years 2009-10, 2010-11, and 2011-12 no levies were placed on the Secured Tax Roll for Improvement Area No. 1 of the District.  
Source: Albert A. Webb Associates.

**Value-to- Lien Strata**

Table 6 below sets forth the appraised value-to- lien ratios for the parcels in Improvement Area No. 1:

**TABLE 6  
COMMUNITY FACILITIES DISTRICT NO. 2006-1  
(RIVERWALK VISTA) OF THE CITY OF RIVERSIDE  
(IMPROVEMENT AREA NO. 1)  
VALUE-TO-LIEN STRATA**

<i>Value-to Lien</i>	<i>No. of Parcels of Developed Property</i>	<i>Percentage of Developed Property</i>	<i>Appraised Value<sup>(1)</sup></i>	<i>Percentage of Assessed Value</i>	<i>CFD 2006-1 IA 1 Proposed 2013 Bonds <sup>(2)</sup></i>	<i>Percent Share of Aggregate Outstanding &amp; Proposed Land Secured Debt</i>	<i>Aggregate Appraised Value-to Lien<sup>(3)</sup></i>
Less than 5.00:1	0	0.00%	\$ 0	0.00%	\$ 0	0.00%	0.00:1
5.00:1 to 7.99:1	74	40.00	10,875,000	22.29	1,733,682	39.27	6.27:1
7.00:1 to 9.99:1	6	3.24	1,050,000	2.15	106,508	2.41	9.86:1
10.00:1 to 12.99:1	15	8.11	4,802,500	9.84	410,151	9.29	11.71:1
13.00:1 to 15.99:1	72	38.92	26,504,799	54.33	1,857,396	42.07	14.27:1
Greater than 16.00:1	<u>18</u>	<u>9.73</u>	<u>5,549,773</u>	<u>11.38</u>	<u>307,263</u>	<u>6.96</u>	<u>18.06:1</u>
Total	185	100.00%	\$48,782,072	100.00%	\$4,415,000	100.00%	11.05:1

<sup>(1)</sup> Reflects the appraised value based on ownership status as of March 22, 2013, the date of value of the Appraisal.

<sup>(2)</sup> Responsibility of the par amount has been allocated based on the projected FY 2013-14 special tax levy, for which Principal is not amortized and Interest is not capitalized, based on development status as of April 1, 2013 as provided by the Underwriter.

<sup>(3)</sup> Excludes general obligation debt shown on Table 2, which if included would reduce the value-to-lien ratio to 9.88-to-1.

Source: Albert A. Webb Associates

## **City's Collection Practices**

The staff of the City provides administrative and other support services for the community facilities districts that have been formed by the City. These services include, but are not limited to, attempting to collect delinquent special taxes prior to the commencement of foreclosure proceedings by sending demand letters to property owners whose special taxes are delinquent advising them of the consequences of failing to pay the applicable special taxes. The City has not commenced foreclosure proceedings against any delinquent property owners within Improvement Area No. 1. However, the City has covenanted in the Fiscal Agent Agreement to commence foreclosure proceedings under certain circumstances described in this Official Statement. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*"

## **RISK FACTORS**

The purchase of the Bonds involves significant investment risks and, therefore, the Bonds are not suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth in this Official Statement, in evaluating the investment quality of the Bonds. The Bonds have not been rated by a rating agency. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. The occurrence of one or more of the events discussed in this section of this Official Statement could adversely affect the ability or willingness of property owners in Improvement Area No. 1 to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of Improvement Area No. 1 to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed in this section of this Official Statement could adversely affect the value of the property in Improvement Area No. 1. See "— Land Values" and "— Limited Secondary Market" below.

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

The Bond Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of Improvement Area No. 1, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses.

No assurance can be given that the individual homeowners will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See "RISK FACTORS — Bankruptcy and Foreclosure" below, for a discussion of certain limitations on Improvement Area No. 1's ability to pursue judicial proceedings with respect to delinquent parcels.

### **Limited Obligations**

The Bonds and related interest are not payable from the general funds of the City. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District or the City is pledged for the payment of principal or interest of the Bonds, and, except as provided in the Fiscal Agent Agreement, no Owner of the Bonds may compel the exercise of any taxing power by the District or the City or force the forfeiture of any City or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of the City's or District's property or upon any of the City's or District's income, receipts or revenues, except the Special Taxes and other amounts pledged under the Fiscal Agent Agreement.

## **Insufficiency of Special Taxes**

Under the Rates and Method, all of the taxable property within Improvement Area No. 1 is classified as Developed Property. The annual amount of Special Tax to be levied on each taxable parcel in Improvement Area No. 1 will generally be based on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A — “AMENDED AND RESTATED RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX” and “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Rates and Method of Apportionment of Special Tax.*”

The maximum Special Taxes that may be levied within Improvement Area No. 1 are at least 110% of Maximum Annual Debt Service on the Bonds. Notwithstanding that the maximum Special Taxes that may be levied in Improvement Area No. 1 exceeds debt service due on the Bonds, the Special Taxes collected could be inadequate to make timely payment of debt service either because of nonpayment or because property becomes exempt from taxation as permitted in the Rates and Method.

In order to pay debt service on the Bonds, it is necessary that the Special Taxes be paid in a timely manner. Should the Special Taxes not be paid on time, the City has established a Reserve Fund in an amount equal to the Reserve Requirement to pay debt service on the Bonds to the extent other funds are not available. See “SOURCES OF PAYMENT FOR THE BONDS — Reserve Fund.” The City has covenanted to maintain in the Reserve Fund an amount equal to the Reserve Requirement subject, however, to the limitation that the City may not levy the Special Tax in Improvement Area No. 1 in any fiscal year at a rate in excess of the maximum amounts permitted under the Rates and Method. As a result, if a significant number of delinquencies occurs, the District could be unable to replenish the Reserve Fund to the Reserve Requirement due to the limitations on the maximum Special Tax. If such defaults were to continue in successive years, the Reserve Fund could be depleted and a default on the Bonds could occur.

The City has covenanted that, under certain conditions, it will institute foreclosure proceedings to sell any property with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were ever instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*” for provisions which apply in the event of such foreclosure and which the City is required to follow in the event of delinquencies in the payment of the Special Tax.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the Bonds (if the Reserve Fund has been depleted) pending such sales or the prosecution of such foreclosure proceedings and receipt by the City on behalf of the District of the proceeds of sale. The City may adjust the future Special Tax levied on taxable parcels in Improvement Area No. 1, subject to the limitation on the maximum Special Tax, to provide an amount required to pay interest on, principal of, and redemption premiums, if any, on the Bonds, and the amount, if any, necessary to replenish the Reserve Fund to an amount equal to the Reserve Requirement and to pay all current expenses. There is, however, no assurance that the total amount of the Special Tax that could be levied and collected against taxable parcels in Improvement Area No. 1 will be at all times sufficient to pay the amounts required to be paid by the Fiscal Agent Agreement, even if the Special Tax is levied at the maximum Special Tax rates. See “Bankruptcy and Foreclosure” below for a discussion of potential delays in foreclosure actions.

The Rates and Method governing the levy of the Special Tax expressly exempts up to approximately 24.03 acres of property owned by public agencies and other exempt entities in Improvement Area No. 1. See Section E of APPENDIX A — “AMENDED AND RESTATED RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” If for any reason property within Improvement Area No. 1 becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, another public agency or a religious organization, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within Improvement Area No. 1. This

would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

The Rates and Method governing the levy of the Special Tax provides that, once a parcel is classified as taxable property, it will remain subject to a Special Tax levy even if subsequently it is acquired by a public agency. The Act provides that, if any property within Improvement Area No. 1 not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to problems of collecting taxes from public agencies, if a substantial portion of land within Improvement Area No. 1 was to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which 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.

### **Special Tax Delinquencies**

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within Improvement Area No. 1 on the *ad valorem* property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments.

See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*,” for a discussion of the provisions which apply, and procedures which the City is obligated to follow under the Fiscal Agent Agreement, in the event of delinquencies in the payment of Special Taxes. See “RISK FACTORS — FDIC/Federal Government Interests in Properties” below, for a discussion of the policy of the Federal Deposit Insurance Corporation (the “FDIC”) regarding the payment of special taxes and assessment and limitations on the City’s ability to foreclosure on the lien of the Special Taxes in certain circumstances where property within Improvement Area No. 1 is owned by the federal government, agencies of the federal government, or, possibly, government sponsored enterprises such as Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”).

The City has the authority and the obligation, subject to the Act and the maximum Special Tax rates set forth in the Rates and Method, to increase the levy of Special Taxes against non-delinquent property owners in Improvement Area No. 1 in the event other owners in Improvement Area No. 1 are delinquent. Pursuant to the Rates and Method, under no circumstances may the Special Tax levied against any parcel used for private residential purposes be increased as a consequence of delinquency or default by owner of any other parcel or parcels within Improvement Area No. 1 by more than 10% in any fiscal year. Thus, the City may not be able to increase Special Tax levies in future fiscal years by enough to make up for delinquencies for prior fiscal years. This would result in draws on the Reserve Fund, and if delinquencies continue and in the aggregate exceed the Reserve Fund balance, defaults would occur in the payment of principal and interest on the Bonds.

Although the City has covenanted in the Fiscal Agent Agreement to commence and diligently pursue foreclosure under the circumstances described under the caption “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*,” foreclosure delays may occur under the circumstances described under the caption “RISK FACTORS — Bankruptcy and Foreclosure.” Delinquencies may result as a consequence of many factors. See “RISK FACTORS,” generally, for discussions of certain potential causes of delinquencies.

## **Risks Related to Homeowners With High Loan to Value Ratios or Negative Equity**

The Developers began selling homes in Improvement Area No. 1 in 2011. Since that time, home prices within Improvement Area No. 1 have moderately increased. See APPENDIX B — “APPRAISAL REPORT.” However, there may be a concentration of risk in newly developed communities, such as Improvement Area No. 1, that is not present in the broader housing market due to homeowners with little equity or no equity in their homes. Homeowners with little equity, no equity or negative equity in their homes may become unwilling or unable to pay mortgage payments, as well as *ad valorem* taxes and special taxes, when due.

Any decline in home values in Improvement Area No. 1 could result in further property owner unwillingness or inability to pay mortgage payments, as well as *ad valorem* taxes and special taxes, when due. Under such circumstances, bankruptcies are likely to increase. Bankruptcy by homeowners with delinquent Special Taxes could delay the commencement and completion of foreclosure proceedings to collect delinquent Special Taxes. See “RISK FACTORS — Bankruptcy and Foreclosure.”

## **Natural Disasters**

Improvement Area No. 1, like all California communities, may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. Southern California is a seismically active area. Seismic activity represents a potential risk for damage to buildings, roads, bridges and property within Improvement Area No. 1. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. According to the County, the property within Improvement Area No. 1 is not located in an Alquist Priolo Earthquake Study Zone and is not located within one-half mile of an active earthquake fault. The property within Improvement Area No. 1 lies approximately six miles northeast of the Chino Fault. Additionally, Improvement Area No. 1 is not located in a flood plain area.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in Improvement Area No. 1. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in Improvement Area No. 1 could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

## **Hazardous Substances**

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

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

parcel that is realizable upon a delinquency and the willingness or ability of the owner of any parcel to pay the Special Tax Installments.

The value of the taxable property within Improvement Area No. 1, as set forth in the various tables in this Official Statement, does not reflect the presence of any hazardous substance or the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the property. The City has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within Improvement Area No. 1 has such a current liability with respect to any such parcel. However, it is possible that such liabilities do currently exist and that Improvement Area No. 1 is not aware of them.

### **Parity Taxes and Special Assessments**

Property within Improvement Area No. 1 is subject to taxes imposed by public agencies also having jurisdiction over the land within Improvement Area No. 1. See “IMPROVEMENT AREA NO. 1 — Estimated Direct and Overlapping Indebtedness.”

The Special Taxes and any related penalties will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by the City and other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See “RISK FACTORS — Bankruptcy and Foreclosure” below.

The City has control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within Improvement Area No. 1. In addition, the landowners within Improvement Area No. 1 may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Any such special taxes, *ad valorem* taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within Improvement Area No. 1 described in this Official Statement. See “SOURCES OF PAYMENT FOR BONDS” and “IMPROVEMENT AREA NO. 1 — Estimated Direct and Overlapping Indebtedness.”

### **Disclosures to Future Purchasers**

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

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



failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

### **Non-Cash Payments of Special Taxes**

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

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

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the District has no recourse against the owner.

### **Land Values**

The value of the property within Improvement Area No. 1 is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the District's only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a continued downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes. See "IMPROVEMENT AREA NO. 1 — Appraisal Report" and APPENDIX B — "APPRAISAL REPORT."

The Appraiser has estimated, on the basis of certain definitions, assumptions and limiting conditions contained in the Appraisal Report, that as of March 22, 2013, the market value of the property within Improvement Area No. 1 was \$48,782,072. See "IMPROVEMENT AREA NO. 1 — Appraisal Report." The Appraisal Report indicates the Appraiser's opinion as to the minimum market value of the individually owned properties referred to therein as of the date and under the conditions specified therein. The Appraiser's opinion reflects conditions prevailing in the applicable market as of the date of value. The Appraiser's opinion does not predict the future value of the subject property, and there can be no assurance that market conditions will not change adversely in the future.

Prospective purchasers of the Bonds should not assume that the taxable land within Improvement Area No. 1 could be sold for the appraised amount at a foreclosure sale for delinquent Special Taxes. In arriving at the estimate of market value, the Appraiser assumes that any sale will be unaffected by undue stimulus and will occur following a reasonable marketing period, which is not always present in a foreclosure sale. See APPENDIX B for a description of other assumptions made by the Appraiser and for the definitions and limiting conditions used by the Appraiser. Any event which causes one of the Appraiser's assumptions to

be untrue could result in a reduction of the value of the taxable land and improvements within Improvement Area No. 1 from the market value estimated by the Appraiser.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*”

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

**General.** The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the “FDIC”), the Drug Enforcement Agency, the Internal Revenue Service, or other federal agency has or obtains an interest.

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

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

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. In Rust v. Johnson (9th Circuit; 1979) 597 F.2d 174, the United States Court of Appeal, Ninth Circuit held that the Federal National Mortgage Association (“FNMA”) is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States.

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

**FDIC.** In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including

interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. The Ninth Circuit has issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from Mello-Roos special taxes.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the Bonds.

### **Bankruptcy and Foreclosure**

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

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

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

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

bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all the proceeds of the sale except the amount of the pre-petition taxes.

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

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

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

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

#### **No Acceleration Provision**

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the Bonds or the Fiscal Agent Agreement or in the event interest on the Bonds becomes included in gross income for federal income tax purposes. See “— Limitations on Remedies” below.

#### **Loss of Tax Exemption**

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

#### **Limitations on Remedies**

Remedies available to the owners of the Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Fiscal Agent Agreement 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. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the Bonds.

### **Limited Secondary Market**

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

### **Proposition 218**

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIIC and Article XIID to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative have not yet been interpreted by the courts, although several lawsuits have been filed requesting the courts to interpret various aspects of the Initiative. The Initiative could potentially impact the Special Taxes available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article XIII states that ". . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rates and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

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

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

It may be possible, however, for voters or the City Council acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance

can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the City has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels within the District to an amount that is less than 110% of Maximum Annual Debt Service on the Outstanding Bonds and Parity Bonds in each future Bond Year. In connection with the foregoing covenant, the City Council has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The City also has covenanted that, in the event an initiative is adopted which purports to alter the Rates and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

### **Ballot Initiatives**

Article XIII A, XIII B, XIII C and XIII D were adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. On March 6, 1995 in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the City, or local districts to increase revenues or to increase appropriations.

### **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Certificate (the “District Disclosure Certificate”) the District has agreed to provide, or cause to be provided, to the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found on the Internet at [www.emma.msrb.org](http://www.emma.msrb.org), on an annual basis certain financial information and operating data concerning the District. Additionally, pursuant to a Continuing Disclosure Certificate executed by TRI Pointe (the “Developer Disclosure Certificate,” and, together with the District Disclosure Certificate, the “Disclosure Certificates”) TRI Pointe has agreed to provide, or cause to be provided, to EMMA, on an annual basis certain information concerning TRI Pointe. The District and TRI Pointe have further agreed to provide notice to EMMA of certain listed events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12 adopted by the Securities and Exchange Commission. See APPENDIX E hereto for a description of the specific nature of the annual reports to be filed by the District and TRI Pointe and notices of listed events to be provided by the District and TRI Pointe. The full text of the forms of the Disclosure Certificates are set forth in APPENDIX E.

In the past, to assist the City and its related governmental entities in meeting their continuing disclosure obligations, the City retained certain corporate trust banks to act as dissemination agent. The City and its related governmental entities have not, on a handful of occasions during the past five years, fully complied, in all material respects, with their disclosure undertakings. Specifically, in some instances an annual report or a material event notice was not filed on a timely basis and, in some instances, an annual report or a material event notice was not properly filed with the applicable information repository. The City believes that each failure to file an annual report on a timely basis was the result of dissemination agent error; the City had prepared compliant annual reports and submitted them to the dissemination agent on or before the applicable deadline. Prior to February 2009, the City failed to file some bond insurer-related material event notices on a timely basis, but only when it was not aware of the underlying event; the City filed a corrective notice regarding bond insurer-related rating downgrades in February 2009 and has filed bond insurer-related rating

downgrade notices on a timely basis ever since. Additionally, although the City has timely made continuing disclosure filings with respect to the City's long-term pension obligation bonds, being the City's Taxable Pension Obligation Bonds 2004 Series A and Taxable Pension Obligation Bonds 2005 Series A, the City failed to make a similar filing with respect to its Taxable Pension Obligation Refunding Bond Anticipation Notes 2012 Series A.

The City and its affiliated governmental entities have made filings to correct all known instances of non-compliance during the last five years.

The City believes that it has established internal processes that will ensure that the City and its related governmental entities will meet all material obligations under their continuing disclosure undertakings. It also now handles its and its related governmental entities' continuing disclosure obligations internally, and no longer uses third-party dissemination agents for that purpose.

TRI Pointe has not previously entered into any undertakings with regard to Rule 15c2-12.

## **LEGAL MATTERS**

### **Tax Exemption**

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. Bond Counsel further notes, however, that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

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

Should the interest on the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Fiscal Agent Agreement.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Bond Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors

regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such action or events are taken or do occur, or whether such actions or events may adversely affect the value or tax treatment of a Bond, and Bond Counsel expresses no opinion with respect thereto.

The Internal Revenue Service (the "IRS") has initiated an expanded program for auditing 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 (or by an audit of similar bonds).

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes provided the City continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

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

### **Legal Opinion**

The legal opinion of Best Best & Krieger LLP, Riverside, California, approving the validity of the Bonds in substantially the form set forth as APPENDIX F, will be made available to purchasers at the time of original delivery. A copy of the legal opinion for the Bonds will be provided with each definitive bond. Certain legal matters will be passed upon for the City and the District by the City Attorney's Office, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as counsel to the Underwriter.

### **Litigation**

No litigation is pending or threatened concerning the validity of the Bonds, the pledge of Special Taxes to repay the Bonds, the powers or authority of the District with respect to the Bonds, or seeking to restrain or enjoin development of the land within Improvement Area No. 1 and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds.

### **No Rating**

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

### **Underwriting**

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$4,242,846.95 (being \$4,415,000 aggregate principal amount thereof, less Underwriter's discount of \$81,060.60 and less net original issue discount of \$91,092.45). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.



The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower or yields greater than the offering prices or yields stated on the inside cover page of this Official Statement. The offering prices or yields may be changed from time to time by the Underwriter.

**Financial Interests**

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

**Pending Legislation**

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

**Additional Information**

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

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

CITY OF RIVERSIDE  
ON BEHALF OF COMMUNITY FACILITIES  
DISTRICT NO. 2006-1 (RIVERWALK VISTA)  
OF THE CITY OF RIVERSIDE

By: /s/ Scott C. Barber  
City Manager

**APPENDIX A**

**AMENDED AND RESTATED  
RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR  
IMPROVEMENT AREA NO. 1 OF COMMUNITY FACILITIES DISTRICT NO. 2006-1  
(RIVERWALK VISTA) OF THE CITY OF RIVERSIDE**

A Special Tax (as hereinafter defined) shall be levied on all Assessor's Parcels of Taxable Property within Improvement Area No. 1 ("Improvement Area No. 1") of Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside (the "District") in each Fiscal Year, in an amount determined by the City Council of the City of Riverside (the "Council" or the "City") through the application of the appropriate Special Tax for "Developed Property," "Undeveloped Property," "Taxable Association Property," or "Taxable Public Property" as provided below. All Assessor's Parcels within Improvement Area No. 1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

**A. DEFINITIONS**

The terms hereinafter set forth have the following meanings:

"**Acre or Acreage**" means the land area of an Assessor's Parcel as shown on the 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, lot line adjustment, condominium plan, or other recorded parcel map.

"**Act**" means the Mello Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the California Government Code.

"**Administrative Expenses**" means the following actual or reasonably estimated costs directly related to the administration of the District with respect to Improvement Area No. 1: the costs of computing the Special Taxes and preparing the annual Special Tax levy schedules (whether by the City, the District, or an agent thereof); the costs of collecting the Special Taxes (whether by the City or otherwise); the costs of remitting the Special Taxes to the fiscal agent or trustee; the costs of the fiscal agent or trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, the District or any agent thereof in complying with arbitrage rebate requirements; the costs to the City, the District or any agent thereof to provide continuing disclosure information; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, the District or any agent thereof related to an appeal of the Special Tax. Administrative Expenses shall also include amounts advanced by the City or the District for any other administrative purposes of the District, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure proceedings for the collection of delinquent Special Taxes.

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

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

"**Association Property**" means any property owned by or irrevocably offered or dedicated to or for which an easement for purposes of right of way has been granted to a property owners' association, including any master or sub association.

“**Assigned Special Tax**” means the Assigned Special Tax for each Land Use Category of Developed Property, as specified in Table 1.

“**Backup Special Tax**” means the Backup Special Tax amount determined for an Assessor’s Parcel pursuant to Section C.

“**Backup Special Tax Per Acre**” means \$14,175 per Acre.

“**Bonds**” means any bonds or other indebtedness (as defined in the Act), whether issued in one or more series, secured by the levy of Special Taxes on Assessor’s Parcels of Taxable Property.

“**Developed Property**” means all Assessor’s Parcels within Improvement Area No. 1, exclusive of Association Property and Public Property, upon which completed Dwelling Units or non-residential buildings have been constructed or for which building permits have been issued as of March 1 of the Fiscal Year preceding the Fiscal Year for which Special Taxes are being levied.

“**District Administrator**” means the Assistant City Manager/CFO/Treasurer of the City, or his or her designee, or any agent appointed by him or her, who shall be responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

“**Dwelling Unit**” or “**DU**” means a single family home or condominium unit.

“**Exempt Property**” means all Assessor’s Parcels within Improvement Area No. 1 designated as being exempt from the Special Tax as provided in Section E.

“**Final Subdivision**” means a subdivision of property by 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 recordation of a condominium plan pursuant to California Civil Code Section 1352 that creates individual lots for which building permits may be issued without further subdivision.

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

“**Improvement Area No. 1**” means Improvement Area No. 1 of the District, the boundaries of which are identified on the map of the boundaries of the District.

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

“**Land Use Category**” means for Assessor’s Parcels of Developed Property, the categories of Residential Property and Non-Residential Property identified in Table 1.

“**Maximum Special Tax**” means the Maximum Special Tax, determined as provided in Section C, which can be levied in any Fiscal Year on any Assessor’s Parcel of Taxable Property within Improvement Area No. 1.

“**Non-Residential Property**” means all Assessor’s Parcels of Developed Property upon which completed non-residential buildings have been constructed or for which building permits have been or may be issued for construction of such buildings.

“**Proportionately**” means for Developed Property that the ratio of the amount of Special Tax levied to the Assigned Special Tax is the same for all Assessor’s Parcels of Developed Property within each Land Use Category identified in Table 1. For Undeveloped Property, Taxable Public Property and Taxable Association Property, “Proportionately” means that the ratio of the amount of Special Tax levied per Acre to the Maximum

Special Tax per Acre is the same for all Assessor's Parcels of Undeveloped Property, Taxable Public Property or Taxable Association Property.

**"Public Property"** means property owned by or irrevocably offered or dedicated to or for which an easement for purposes of public right of way has been granted to the federal government, the State of California, the County of Riverside, the City or any other local governmental or public agency; provided, however, that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be classified and taxed according to its use.

**"Residential Floor Area"** for any Assessor's Parcel of Residential Property means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the most recent building permit(s) issued for each Assessor's Parcel.

**"Residential Property"** means all Assessor's Parcels of Developed Property upon which completed Dwelling Units have been constructed or for which building permits have been or may be issued for purposes of constructing one or more Dwelling Units.

**"Special Tax"** means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property within Improvement Area No. 1 to fund the Special Tax Requirement.

**"Special Tax Requirement"** means the amounts required in any Fiscal Year to: (i) pay debt service on all outstanding Bonds (taking into consideration the amount of funds that may be available pursuant to the Indenture to pay such debt service); (ii) pay periodic costs for the Bonds, including, but not limited to, costs related to credit enhancement and rebate payments; (iii) pay Administrative Expenses; (iv) provide an amount equal to reasonably anticipated delinquencies in the collection of Special Taxes; (v) pay any amount required to replenish the reserve fund for the outstanding Bonds; and (vi) provide any amounts that the Council determines are necessary to pay the costs on the provision, construction and acquisition of public facilities and/or to accumulate funds therefor.

**"Taxable Association Property"** means all Assessor's Parcels of Association Property within Improvement Area No. 1 which are not Exempt Property.

**"Taxable Property"** means all of the Assessor's Parcels within Improvement Area No. 1 which are not Exempt Property.

**"Taxable Public Property"** means all Assessor's Parcels of Public Property within Improvement Area No. 1 which are not Exempt Property.

**"Undeveloped Property"** means all Taxable Property within Improvement Area No. 1 not classified as Developed Property, Taxable Association Property or Taxable Public Property.

## **B. CLASSIFICATION AND LAND USE CATEGORIZATION**

For each Fiscal Year, all Assessor's Parcels of Taxable Property within Improvement Area No. 1 shall be classified as Developed Property, Undeveloped Property, Taxable Association Property, or Taxable Public Property and shall be subject to the levy of Special Taxes as determined pursuant to Sections C and D below. Assessor's Parcels of Developed Property shall be classified as either Residential Property or Non-Residential Property.

For purposes of determining the applicable Assigned Special Tax for Assessor's Parcels of Developed Property which are classified as Residential Property, all such Assessor's Parcels shall be assigned to a Land

Use Category based upon the square footage of the Residential Floor Area of the Dwelling Unit(s) constructed or to be constructed thereon as specified in or shown on the building permit(s) issued therefor.

**C. ASSIGNED AND MAXIMUM SPECIAL TAXES**

**1. Developed Property**

The Maximum Special Tax for each Assessor’s Parcel classified as Developed Property shall be the greater of (i) the applicable Assigned Special Tax or (ii) the amount of the Backup Special Tax therefor.

a. Assigned Special Tax

The Assigned Special Tax amounts for all Land Use Categories of Developed Property are specified in Table 1 below.

TABLE 1  
Assigned Special Taxes for Land Use Categories  
of Developed Property

Land Use Category	Taxable Unit	Residential Floor Area (Square Feet of Dwelling Unit)	Assigned Special Tax per DU or Acre
1. Residential Property	DU	1,899 sq. ft. or less	\$1,263 per Unit
2. Residential Property	DU	1,900 to 2,699 sq. ft.	\$1,368 per Unit
3. Residential Property	DU	2,700 to 2,999 sq. ft.	\$2,042 per Unit
4. Residential Property	DU	3,000 to 3,699 sq. ft.	\$2,075 per Unit
5. Residential Property	DU	3,700 to 3,899 sq. ft.	\$2,280 per Unit
6. Residential Property	DU	3,900 sq. ft. or greater	\$2,437 per Unit
7. Non Residential Property	Acre	N/A	\$14,175 per Acre

b. Backup Special Tax

The total amount of the Backup Special Tax for Assessor’s Parcels of Taxable Property, exclusive of Assessor’s Parcels of Taxable Association Property and Taxable Public Property, in a Final Subdivision shall be determined by multiplying the Acreage of all such Assessor’s Parcels of Taxable Property by the Backup Special Tax per Acre. If a Final Subdivision includes both Assessor’s Parcels of Residential Property and Assessor’s Parcels of Non-Residential Property, the total amount of the Backup Special Tax for such Assessor’s Parcels of Residential Property shall be based only on the Acreage of those Assessor’s Parcels.

The Backup Special Tax for each Assessor’s Parcel of Residential Property in a Final Subdivision shall be determined by dividing the total amount of the Backup Special Tax for all of the Assessor’s Parcels of Residential Property in the Final Subdivision, as determined pursuant to the preceding paragraph, by the number of such Assessor’s Parcels (i.e., the number of residential lots) within such Final Subdivision.

The Backup Special Tax for each Assessor’s Parcel of Non-Residential Property in a Final Subdivision shall be determined by multiplying the Acreage of the Assessor’s Parcel by the Backup Special Tax per Acre.

Notwithstanding the foregoing, if Assessor's Parcels of Residential Property are subsequently changed or modified by recordation of a lot line adjustment or similar instrument, the total amount of the Backup Special Tax shall be recalculated so that the total amount of the Backup Special Tax for such Assessor's Parcels after such change will be equal to the aggregate amount of the Backup Special Tax for such Assessor's Parcels before such change occurred.

**2. Undeveloped Property, Taxable Association Property and Taxable Public Property**

The Maximum Special Tax for Assessor's Parcels of Undeveloped Property, Taxable Association Property and Taxable Public Property shall be \$14,175 per Acre.

**D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX**

Commencing with Fiscal Year 2011-12 and for each following Fiscal Year, the Council shall determine the Special Tax Requirement and shall levy the Special Tax on all Assessor's Parcels of Taxable Property until the aggregate amount of the Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied for each Fiscal Year as follows:

First: The Special Tax shall be levied Proportionately on all Assessor's Parcels of Developed Property up to 100% of the applicable Assigned Special Tax to satisfy the Special Tax Requirement;

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

Third: If additional moneys are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax to be levied on all Assessor's Parcels of Developed Property whose Maximum Special Tax is its Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, the Special Tax shall be levied Proportionately on all Assessor's Parcels of Taxable Association Property up to 100% of its Maximum Special Tax;

Fifth: If additional moneys are needed to satisfy the Special Tax Requirement after the first four steps have been completed, the Special Tax shall be levied Proportionately on all Assessor's Parcels of Taxable Public Property up to 100% of its Maximum Special Tax.

No Special Tax shall be levied on Assessor's Parcels in Improvement Area No. 1 in any Fiscal Year to pay the Special Tax Requirement for Improvement Area No. 2.

No Special Tax shall be levied on Assessor's Parcels of Undeveloped Property in Improvement Area No. 1 to provide any amounts that the Council determines are necessary to pay the costs of the provision, construction and acquisition of public facilities and/or to accumulate funds therefor, as described in Clause (vi) of the definition of Special Tax Requirement.

Notwithstanding the above, under no circumstances will the Special Taxes levied on any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) in any Fiscal Year as a consequence of delinquency or default in the payment of Special Taxes by the owner of any other Assessor's Parcel.

**E. EXEMPTIONS**

The District Administrator shall classify as Exempt Property Assessor's Parcels within Improvement Area No. 1 of (i) Public Property or (ii) Association Property; provided that such classification within Improvement Area No. 1 shall not reduce the Acreage of all Taxable Property to less than 24.03 Acres. The District Administrator shall not classify an Assessor's Parcel of Public Property or Association Property as Exempt Property if such classification would reduce the Acreage of all Assessor's Parcels of Taxable Property to less than 24.03 Acres. Such Assessor's Parcels that cannot be classified as Exempt Property because such classification would reduce the Acreage of all Assessor's Parcels of Taxable Property to less than 24.03 Acres will be classified as Taxable Association Property or Taxable Public Property, and will continue to be subject to the Special Tax. The District Administrator shall classify such Assessor's Parcels as Exempt Property in the chronological order in which property becomes Public Property or Association Property.

**F. MANNER OF COLLECTION**

The Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that the City may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may foreclose on Assessor's Parcels having delinquent Special Taxes as permitted by the Act.

**G. TERM OF THE SPECIAL TAX**

For each Fiscal Year that any Bonds are outstanding, the Special Tax shall be levied on all Assessor's Parcels of Taxable Property within Improvement Area No. 1. If any delinquent Special Taxes remain uncollected prior to or after all outstanding Bonds are retired, the Special Tax may be levied to the extent necessary, up to the applicable Maximum Special Tax, to make up the deficiency resulting from such delinquent Special Taxes, but not later than the 2051-52 Fiscal Year.

**H. PREPAYMENT**

As used in this Section H, the terms in quotes have the meanings given to them below:

**"CFD Facilities Amount"** means the amount of \$3,600,000 expressed in 2011 dollars, which shall increase on January 1, 2012 and on each January 1 thereafter, by the percentage increase in Construction Index since the preceding January 1, or such lesser amount (i) as shall be determined by the District Administrator to be sufficient to provide for the construction and acquisition of all of the public facilities, or (ii) as shall be determined by the Council at the time of the adoption of a covenant that the District will not issue any additional bonds.

**"Construction Fund"** means a fund or account established by the Indenture to hold funds which are to be used to pay costs associated with the construction and acquisition of public facilities for Improvement Area No. 1.

**"Construction Index"** means the Engineering News-Record Building Cost Index for the City of Los Angeles. If this index ceases to be published, the Construction Index shall be another index which is determined by the District Administrator to be reasonably comparable to such index.

**"Future Facilities Costs"** means the amount determined by subtracting from the CFD Facilities Amount (i) the amount available in the Construction Fund to pay the costs of the construction and acquisition of public facilities, and (ii) the estimated amount of income that will be earned from the investment of such available amount prior to the date upon which the prepayment is to be made.



“**Indenture**” means the bond indenture, fiscal agent agreement or resolution pursuant to which the bonds of the District are issued for Improvement Area No. 1 and which establishes a construction or improvement fund into which proceeds of the sale of the bonds are deposited to pay for the construction and acquisition of public facilities for Improvement Area No. 1.

“**Outstanding Bonds**” means all bonds of the District that are secured by and paid from Special Taxes that are levied on Assessor’s Parcels of Taxable Property in Improvement Area No. 1 and that will remain outstanding after the first date following the current Fiscal Year on which interest on or interest on and principal of such bonds will be paid, excluding bonds to be redeemed on a later date with Prepayment Amounts (as defined below) for other Assessor’s Parcels for which the Special Tax Obligation has been prepaid.

“**Special Tax Obligation**” means the total amount of Special Taxes which could be levied on an Assessor’s Parcel in Improvement Area No. 1 based on the Maximum Special Tax for the Assessor’s Parcel through the date of final maturity of the Outstanding Bonds.

**1. Prepayment in Full**

The Special Tax Obligation may only be prepaid and permanently satisfied for an Assessor’s Parcel of Developed Property or an Assessor’s Parcel of Undeveloped Property for which a building permit has been issued, or an Assessor’s Parcel of Taxable Association Property or Taxable Public Property. The Special Tax Obligation for an Assessor’s Parcel may be fully prepaid and the obligation of the Assessor’s Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to the Assessor’s Parcel at the time of prepayment. An owner of an Assessor’s Parcel intending to prepay the Special Tax Obligation for the Assessor’s Parcel shall provide the District Administrator with written notice of the owner’s intent to prepay, and within fifteen (15) days of receipt of such notice, the District Administrator shall notify such owner of the amount of a non-refundable deposit to cover the cost to be incurred by the City and the District in determining the Prepayment Amount for the Assessor’s Parcel. Within thirty (30) days of receipt of such non-refundable deposit, the District Administrator shall notify the owner of the Prepayment Amount for the Assessor’s Parcel. Prepayment must be made not later than sixty (60) days prior to any redemption date for any bonds which will be redeemed with the Prepayment Amount.

The Prepayment Amount shall be calculated as follows (Except as provided above, capitalized terms have the meanings given below.):

Bond Redemption Amount  
plus Redemption Premium  
plus Prepaid Facilities Amount  
plus Defeasance Amount  
plus Administration Costs  
less Reserve Fund Credit  
equals Prepayment Amount

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

**Paragraph No.:**

1. For an Assessor’s Parcel of Developed Property, determine the Maximum Special Tax for the prepaying Assessor’s Parcel. For an Assessor’s Parcel of Undeveloped Property, determine the Maximum Special Tax for the Assessor’s Parcel as though it

was Developed Property, based on the building permit(s) issued for the Assessor's Parcel. For an Assessor's Parcel of Taxable Association Property or Taxable Public Property, determine the Maximum Special Tax for the Assessor's Parcel.

2. Divide the Maximum Special Tax for the Assessor's Parcel, determined pursuant to paragraph 1, by the total estimated amount of the Maximum Special Taxes that could be levied on all Assessor's Parcels of Developed Property, including the prepaying Assessor's Parcel and excluding any Assessor's Parcels that have previously prepaid the Special Tax Obligation.
3. Multiply the aggregate principal amount of the Outstanding Bonds by the percentage derived pursuant to paragraph 2 to determine the principal amount of the Outstanding Bonds to be redeemed with the Prepayment Amount (the "*Bond Redemption Amount*").
4. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "*Redemption Premium Amount*").
5. Determine the Future Facilities Costs.
6. Multiply the Future Facilities Costs by the percentage derived pursuant to paragraph 2 to determine the amount of the Future Facilities Costs to be prepaid (the "*Prepaid Facilities Amount*").
7. Determine 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. Determine the unpaid amount of the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year.
9. Estimate the earnings on the investment of the Prepayment Amount, less the Prepaid Facilities Amount and the Administration Costs (as defined below), from the date of prepayment until the redemption date for the Outstanding Bonds that will be redeemed with the Prepayment Amount (the "*Net Prepayment Amount*").
10. Add the amounts derived pursuant to paragraphs 7 and 8 and subtract the amount derived pursuant to paragraph 9 to derive the Defeasance Amount (the "*Defeasance Amount*").
11. Determine the amount that will be needed and will not be paid from a non-refundable deposit by the owner of the prepaying Assessor's Parcel for paying the costs of (i) determining the Prepayment Amount, (ii) investing the Net Prepayment Amount, (iii) redeeming the Outstanding Bonds, and (iv) recording any notices to evidence the prepayment and satisfaction of the Special Tax Obligation for the Assessor's Parcel (the "*Administration Costs*").
12. Determine the amount of the reserve fund credit (the "*Reserve Fund Credit*") which shall be the lesser of: (a) the amount, if any, by which the "Reserve Requirement" (as defined in the Indenture) will be reduced as a result of the redemption of Outstanding Bonds with the Prepayment Amount (the "Reduced Reserve Requirement") or (b) the amount (which shall not be less than zero) derived by

subtracting the Reduced Reserve Requirement from the amount that will be on deposit in the Reserve Fund for the Outstanding Bonds on the prepayment date.

13. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, the Prepaid Facilities Amount, the Defeasance Amount and the Administration Costs less the Reserve Fund Credit.
14. Upon receipt of the Prepayment Amount, the Bond Redemption Amount, the Redemption Premium, the Defeasance Amount and the Reserve Fund Credit shall be deposited into the appropriate fund established under the Indenture for the redemption of Outstanding Bonds and shall be used to redeem an aggregate principal amount of Outstanding Bonds which is equally divisible by \$5,000 and, to the extent of any portion of the sum thereof that is not so utilized, to pay interest on and principal of Outstanding Bonds. The Prepaid Facilities Amount shall be deposited into the Construction Fund. The Administration Costs shall be retained by the City and used to pay or reimburse such costs.

Upon receipt of the Prepayment Amount for an Assessor's Parcel, the District Administrator shall cause the appropriate notice to be recorded in compliance with the Act to acknowledge that the Special Tax Obligation for the Assessor's Parcel has been prepaid and satisfied and to cancel the Special Tax lien securing payment of Special Taxes.

Notwithstanding the foregoing, no Prepayment shall be allowed for any Assessor's Parcel unless the total amount of the Maximum Special Taxes that may be levied on Taxable Property (excluding Assessor's Parcels of Taxable Association Property and Taxable Public Property), both before and after expected buildout of the property in Improvement Area No. 1, as then approved by the City, after the proposed Prepayment would be at least equal to the sum of (i) an amount equal to 110 percent of maximum annual debt service on all Outstanding Bonds, as determined by the District Administrator, a financial advisor or a special tax consultant, at the option of the District Administrator, plus (ii) Administrative Expenses in the amount of \$30,000.

## **2. Partial Prepayment**

An owner of not less than fifteen (15) Assessor's Parcels of Developed Property classified as Residential Property may partially prepay the Special Tax Obligation for all such Assessor's Parcels. The owner of an Assessor's Parcel of Undeveloped Property (i) for which a tentative subdivision map that will subdivide the Assessor's Parcel into not less than fifteen (15) Assessor's Parcels has been approved by the City, (ii) that will be classified as Residential Property and (iii) for which a building permit has been issued, may partially prepay the Special Tax Obligation for not less than fifteen (15) of such Assessor's Parcels. The amount of the Partial Prepayment shall be calculated pursuant to Section H.1 as modified by the following formula:

$$PP = P_E \times F$$

These terms have the following meaning:

- PP = the Partial Prepayment
- P<sub>E</sub> = the Prepayment Amount calculated according to Section H.1
- F = the percentage by which the owner of the Assessor's Parcels is partially prepaying the Special Tax Obligation.

The owner of such Assessor's Parcels who desires to partially prepay the Special Tax Obligation shall notify the District Administrator of (i) the owner's intent to partially prepay the Special Tax Obligation and, (ii) the percentage by which the Special Tax Obligation for all such Assessor's Parcels will be prepaid, and within fifteen (15) days of receipt of such notice, the District Administrator shall notify such owner of the amount of a non-refundable deposit determined to cover the costs to be incurred by the City and the District in determining the amount of the Partial Prepayment for such Assessor's Parcels. Within thirty (30) days of receipt of such non-refundable deposit, the District Administrator shall notify the owner of the Partial Prepayment amount applicable to each of the Assessor's Parcels. A Partial Prepayment must be paid not later than sixty (60) days prior to redemption date for Outstanding Bonds which will be redeemed with the Partial Prepayment.

Upon receipt of a Partial Prepayment of the Special Tax Obligation for any such Assessor's Parcels, the District Administrator shall (i) allocate the amount of the Partial Prepayment pursuant to Paragraph 14 of Section H.1 and (ii) note on the records of the District that there has been a Partial Prepayment of the Special Tax Obligation for such Assessor's Parcels and that the amount of Special Taxes that shall continue to be levied on such Assessor's Parcels pursuant to Section D shall be reduced based on the percentage (1.00 - F) of the remaining Special Tax Obligation for such Assessor's Parcels.

Notwithstanding the foregoing, no Partial Prepayment shall be allowed for any Assessor's Parcel unless the total amount of the Maximum Special Taxes that may be levied on Taxable Property (excluding Assessor's Parcels of Taxable Association Property and Taxable Public Property), both before and after expected buildout of the property in District, as then approved by the City, after the proposed Partial Prepayment would be at least equal to the sum of (i) an amount equal to 110 percent of maximum annual debt service on all Outstanding Bonds, as determined by the District Administrator, a financial advisor or a special tax consultant, at the option of the District Administrator, plus (ii) Administrative Expenses in the amount of \$30,000.

**APPENDIX B**  
**APPRAISAL REPORT**

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# SUMMARY APPRAISAL REPORT

## COMMUNITY FACILITIES DISTRICT NO. 2006-1 IMPROVEMENT AREA NO. 1 (Riverwalk Vista) CITY OF RIVERSIDE

City of Riverside, California  
(Appraisers' File No. 2013-1085)



**Prepared For**  
City of Riverside  
3900 Main Street  
Riverside, California 92522

**Prepared By**  
Kitty Siino & Associates, Inc.  
115 East Second Street, Suite 100  
Tustin, California 92780

**KITTY SIINO & ASSOCIATES, INC.**  
**REAL ESTATE APPRAISERS & CONSULTANTS**

April 5, 2013

Mr. Brent Mason, Director of Finance  
**City of Riverside**  
3900 Main Street  
Riverside, California 92522

Reference: Community Facilities District No. 2006-1 Improvement Area 1  
City of Riverside (Riverwalk Vista)  
Riverside, California

Dear Mr. Mason:

At the request and authorization of the City of Riverside, we have completed a Summary Appraisal Report for Improvement Area No. 1 of Community Facilities District No. 2006-1 of the City of Riverside ("City of Riverside CFD No. 2006-1 IA1") which consists of three subdivision tracts. Two of the neighborhoods are being developed by Tri Pointe Homes while the third neighborhood is currently being developed by Woodside Homes. One tract is sold out while the other two are marketing homes with approximately one-third of the homes completed and closed to individual homebuyers.

The valuation method used in this report is the Sales Comparison Approach along with utilizing a mass appraisal technique as defined within this report. A minimum market value for the completed homes will be reported utilizing the base plan concluded market value within each neighborhood, considered a minimum market value as most homebuyers purchase some upgrades or pay for some premiums which are not considered in this analysis. The fee simple estate of the property has been valued subject to the City of Riverside CFD No. 2006-1 IA1 special tax lien.

As a result of our investigation, the concluded market value for the subject property is:

<b>Tract 32772-1:</b> Individual Owned	\$12,860,021		
TRI Pointe Owned		\$9,740,000	
Subtotal 32772-1			\$22,600,021
<b>Tract 32772-2:</b> Individual Owned	\$10,679,698		
TRI Pointe Owned		\$4,505,000	
Subtotal 32772-2			\$15,184,698
<b>Tract 32772-3:</b> Individual Owned	\$4,002,353		
Mrec Owned		\$785,000	
Woodside Owned		\$6,210,000	
Subtotal 32772-3			<u>\$10,997,353</u>
<b>CFD 2006-1 IA 1 Aggregate Total</b>			<b>\$48,782,072</b>

The values are stated subject to the Assumptions and Limiting Conditions of this report, the Appraiser's Certification and as of March 22, 2013.



Mr. Brent Mason  
City of Riverside  
April 5, 2013  
Page Two

This Summary Appraisal Report is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it might not include full discussions of the data, reasoning and analyses that were used in the appraisal process to develop the appraiser's opinion of value.

Supporting documentation concerning the data, reasoning and analyses is retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The report is intended to comply with the appraisal standards of the California Debt and Investment Advisory Commission. The appraiser is not responsible for unauthorized use of this report.

This letter of transmittal is part of the attached report, which sets forth the data and analyses upon which our opinion of value is, in part, predicated.

Respectfully submitted,

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**KITTY SIINO & ASSOCIATES, INC.**



Kitty S. Siino, MAI  
California State Certified General  
Real Estate Appraiser (AG004793)

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### **ADDENDA**

City of Riverside CFD No. 2006-1 Boundary Map  
Discounted Cash Flow Analyses  
Finished Lot Land Sales Map and Summary Chart  
Improved Residential Sales Map and Summary Chart  
FEMA Map  
Appraiser's Qualifications

## **ASSUMPTIONS AND LIMITING CONDITIONS**

1. This report is a Summary Appraisal Report that is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it might not include full discussions of the data, reasoning and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning and analyses is retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
3. The property is appraised subject to the special tax lien of City of Riverside CFD No. 2006-1 IA1.
4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
5. The information furnished by others is believed to be reliable; however, no warranty is given for its accuracy.
6. All engineering is assumed to be correct. Any plot plans and illustrative material used in this report are included only to assist the reader in visualizing the property and may not be to scale.
7. It is assumed that there are no hidden or unapparent conditions of the property, subsoil or structures that would render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
8. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in this report.
9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined and considered in this appraisal report.
10. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.

11. Any sketch or photograph included in this report may show approximate dimensions and is included only to assist the reader in visualizing the properties. Maps, photographs and exhibits found in this report are provided for reader reference purposes only. No guarantee regarding accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.
12. It is assumed that the utilization of the land and improvements (if any) are within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
13. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert relating to asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials that may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
14. Proposed improvements, if any, are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
15. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings, if any, must not be used in conjunction with any other appraisal and are invalid if so used.
16. The Americans with Disabilities Act ("ADA") became effective on January 26, 1992. The appraiser has made no specific compliance survey and analysis of the property to determine whether they conform to the various detailed requirements of the ADA, nor is the appraiser a qualified expert regarding the requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the ADA. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, a possible noncompliance with requirements of the ADA in estimating the value has not been considered.
17. It is assumed that all improvements and benefits to the subject property, which are to be funded by the City of Riverside CFD No. 2006-1 IA1 Special Tax Bond proceeds are completed and in place.

18. It is assumed there are no environmental concerns that would slow or thwart development of the subject property and that the soils are adequate to support the highest and best use conclusion.
19. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with proper qualification and only in its entirety. Permission is given for this appraisal to be published as a part of the Official Statement or similar document for the City of Riverside CFD No. 2006-1 IA1 Special Tax Bonds.



3-23-13 Airviews Aerial Photography

## PURPOSE OF THE APPRAISAL

The purpose of this appraisal report is to estimate the value of the fee simple interest of the subject property, subject to the special tax lien of the City of Riverside CFD No. 2006-1 IA1 Special Tax Bonds.

## THE SUBJECT PROPERTY

The subject property encompasses three tracts of land within the master planned community known as Riverwalk Vista. The three tracts are proposed for a total of 185 single-family homes. TRI Pointe Homes is marketing Tract 32772-1 consisting of 79 single family detached homes known as TopazRidge and Tract 32772-2 consisting of 47 single family detached homes known as SageBluff. Woodside Homes is marketing Tract 32772-3 consisting of 59 proposed single family detached homes known as Promenade at Riverwalk Vista. The neighborhoods are detailed as follows.

Lot and Tract Numbers	Owner	Total Lots	Condition
<b>TopazRidge – Tract 32772-1</b>			
Lots 1-11, 30-32, 52, 54, 56-67, 69-70	Individual Owners	30	Completed Homes
Lots 14, 15 and 16	TRI Pointe Homes	3	Model Homes
Lots 53, 55 and 68	TRI Pointe Homes	3	Homes 95%+ complete
Lots 33-35, 50-51 and 71-79	TRI Pointe Homes	14	Homes under Const.
Lots 12-13, 17-29, 36-49	TRI Pointe Homes	<u>29</u>	Finished Lots
	Subtotal	79	
<b>SageBluff – Tract 32772-2</b>			
Lots 10-30 and 40-47	Individual Owners	29	Completed Homes
Lots 1-3	TRI Pointe Homes	3	Model Homes
Lots 31-39	TRI Pointe Homes	9	Homes 95%+ Complete
Lots 4-9	TRI Pointe Homes	<u>6</u>	Homes under Const.
	Subtotal	47	
<b>Promenade – Tract 32772-3</b>			
Lots 1-14	Individual Owners	14	Completed Homes
Lots 52, 54 and 57	Mrec-Riverwalk LLC	3	Model Homes
Lots 15-25	Woodside Homes	11	Homes 95%+ complete
Lots 26-37	Woodside Homes	12	Homes under Const.
Lots 38-51, 53, 55-56, 80-81	Woodside Homes	<u>19</u>	Finished Lots
	Subtotal	59	
<b>Total</b>		<b>185</b>	

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## INTENDED USE OF THE REPORT

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It is the appraisers understanding that the client, the City of Riverside, will utilize this report in disclosure documents related to selling the Special Tax Bonds for City of Riverside CFD No. 2006-1 IA1. This report is to be included in the Official Statement or similar document to be distributed in connection with the offering of the bonds with no other intended uses of this report.

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## DEFINITIONS

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### **Market Value**

The term "Market Value" as used in this report is defined as:

*"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:*

- 1. buyer and seller are typically motivated;*
- 2. both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;*
- 3. a reasonable time is allowed for exposure in the open market;*
- 4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- 5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."<sup>1</sup>*

Inherent in the Market Value definition is exposure time or the time the developer owned property would have had to have been exposed on the open market prior to the appraisal in order to sell at the concluded values. In the case at hand and considering current market conditions the exposure time for the developer owned property is estimated at six months.

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<sup>1</sup> The Appraisal of Real Estate, 13<sup>th</sup> Edition



### **Minimum Market Value**

The term "Minimum Market Value" as used in this report is defined as:

*The base market value of a new home. That is, most buyers purchase some upgrades, options and/or lot premiums when purchasing a new home. The sales price for the new home typically includes the base price for the plan, plus any upgrades, options or lot premiums, less concessions, if any, which were given or paid for by the builder. The concluded minimum market value is for the base value of the plan only, not taking into consideration any upgrades, options or premiums.*

### **Mass Appraisal**

The term "Mass Appraisal" as used in this report is defined as:

*"The process of valuing a universe of properties as of a given date using standard methodology employing common data and allowing for statistical testing"<sup>2</sup>*

In the case at hand, the statistical testing included reviewing all original builder sales of each plan type and determining the actual range of sales prices for each plan type which is utilized in the valuation process.

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### **PROPERTY RIGHTS APPRAISED**

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The property rights being appraised are of a fee simple estate interest, subject to easements of record and City of Riverside CFD No. 2006-1. The definition of "fee simple estate" 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."<sup>3</sup>*

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### **EFFECTIVE DATE OF VALUE**

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The subject property is valued as of March 22, 2013.

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<sup>2</sup> USPAP 2012-2013 Edition

<sup>3</sup> The Appraisal of Real Estate, 13<sup>th</sup> Edition

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## DATE OF REPORT

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The date of this report is April 5, 2013.

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## SCOPE OF APPRAISAL

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As previously stated, the purpose of this appraisal is to report the appraiser's best estimate of the market value for the subject property. This appraisal will be presented in the following format:

- County of Riverside Description
- City of Riverside Description
- Discussion of the Immediate Surroundings
- Riverside County Housing Market Analysis
- Brief Description of City of Riverside CFD No. 2006-1
- Subject Property Descriptions
- Highest and Best Use Analysis
- Valuation Procedure, Analysis and Conclusions
- Appraisal Report Summary
- Appraiser's Certification

The subject property consists of 185 proposed single family residential lots within three tracts. All three neighborhoods are currently marketing homes with development within each tract ranging from completed, individually owned homes to finished lots.

In valuing the subject property, the value estimates will be based upon the highest and best use conclusion using the Sales Comparison Approach. The Sales Comparison Approach to value is defined as:

*"...a set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, then applying appropriate units of comparison and making adjustments to the sales prices of the comparables based on the elements of comparison. The Sales Comparison Approach may be used to value improved properties, vacant land or land being considered as though vacant; it is the most common and preferred method of land valuation when an adequate supply of comparables is available."<sup>4</sup>*

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<sup>4</sup> Dictionary of Real Estate Appraisal, Fourth Edition, 2002

In the Sales Comparison Approach, market value is estimated by comparing properties similar to the subject property that have recently been sold, are listed for sale or are under contract. Neither a cost or income approach was utilized as they were not considered necessary to arrive at credible results.

The due diligence of this appraisal report included the following:

1. Compiled demographic information and related that data to the subject properties to perform a feasibility/demand analysis.
2. Gathered and analyzed information on the subject marketplace, reviewed several real estate brokerage publications on historical and projected growth in the subject market and researched the micro and macro economics within Riverside County and the City of Riverside area.
3. Inspected the subject properties between March 20, 2013 and March 25, 2013.
4. Interviewed representatives from TRI Pointe Homes and Woodside Homes to obtain available information on each of their respective projects within Riverwalk.
5. Reviewed Preliminary Title Reports on the subject properties.
6. Reviewed Geotechnical Reports on the subject properties.
7. Reviewed FEMA Maps on the subject properties.
8. Searched the area for relevant comparable new home residential projects, including sales prices and concessions and interviewed representatives from each comparable.
9. Searched the area for relevant comparable mapped, residential land sales within the subject area and interviewed representatives from each to ascertain details on the transactions.
10. Reviewed sales brochures and asking prices on Topazridge and Sagebluff by TRI Pointe Homes and Promenade at Riverwalk Vista by Woodside Homes
11. Reviewed developer sales information and public records, when available, on closed homes.

In developing the base plan values within each project, we analyzed comparable new home sales, their absorption rates and considered varying factors in determining a base plan value conclusion. In addition, if there is a "bulk ownership" (more than a couple

homes owned by a single entity), a discounted cash flow analysis was also considered. Finally, actual sales prices were considered and compared to the individually owned homes concluded values to further review the conclusions.



## COUNTY OF RIVERSIDE AREA DESCRIPTION

### **Location**

The subject property is located in the northwestern portion of Riverside County (the "County"). The County encompasses approximately 7,300 square miles, which includes large expanses of undeveloped deserts, valleys, canyons and mountains. The County is the major recipient of outward urban pressure from Orange and Los Angeles Counties as well as growth from San Diego County to the south. Although located at the periphery of most urban activity in Southern California, Riverside County, in particular the westerly region, is perceived by most observers as a major growth area well into the foreseeable future. Because of mountain ranges limiting road access into Los Angeles and Orange Counties, Riverside and San Bernardino Counties belong to the same Metropolitan Statistical Area ("MSA"). This MSA consisting of San Bernardino and Riverside Counties is designated as and commonly called the Inland Empire. The subject property is located at the corner of La Sierra and Indiana within ¼ mile of the 91 Freeway in the southwestern portion of the City of Riverside in the western portion of Riverside County.

### **Transportation**

The subject property is situated approximately 1/4 mile east of the 91 Freeway via La Sierra Boulevard approximately 10 miles south of the 60 Freeway. The County has several major freeways. The 91 Freeway travels in a northeasterly/westerly direction, provides access to Orange and Los Angeles Counties to the west and connects with the 60 Freeway and Interstate 215 ("I-215") to the north. Interstate 15 ("I-15") travels in a northerly/southerly direction and provides access to Barstow and Nevada to the north and San Diego to the south. Interstate 215, travels in a northerly/southerly direction in the County and generally parallels I-15 to the east. The State Highway 60 Freeway provides access to the west (Los Angeles) and to the east where it combines with Interstate 10 ("I-10") providing access to Arizona.

The County is served by Amtrak and Metrolink as well as several rail freight lines. The Ontario International Airport provides air service and is located approximately five miles north of the subject property. The County has extensive trucking corridors from the aforementioned interstates and State freeways.

### **Population**

The County has experienced increasing population for several decades and is anticipated to continue to do so in the foreseeable future. There has however, been a slowdown in the past five years. Per the California Department of Finance, the July 1, 2012 County population was 2,244,399. This represents a one year increase of 1.08 percent and an average annual growth rate of approximately 2.7 percent for the previous ten year period. The slowdown in recent growth is due to the economic recession which hit the Inland Empire particularly hard. Per County 2010 projections, the population is anticipated to reach approximately 2.65 million by 2020, indicating an average annual increase of approximately 2.2 percent. The 2020 projection, completed in 2010, was decreased 200,000 from the previous County projections.

### **Economy**

As with the rest of the nation, the Inland Empire experienced a strong recession. Although the MSA had a strong employment record between 1995 and 2006, unemployment rates increased significantly between April 2007 and summer of 2011 with unemployment dropping since then. The seasonally adjusted unemployment rate for the MSA was estimated at 10.9 percent (per the Employment Development Department – December 2012). This reflects a significant increase from April 2007, when rates were 4.8 percent, however generally a decrease since August 2011 when rates were 14.1 percent. Respectively, Riverside County has a 11.1 percent unemployment rate while San Bernardino County has an 10.8 percent rate. The current MSA unemployment rate of 10.9 percent is higher than both the California rate of 9.7 percent and the December 2012 national rate of 7.6 percent. Below is a table depicting Riverside County in relationship to unemployment rates of the surrounding counties:

<u>Jurisdiction</u>	<u>As of</u>	<u>Unemployment Rate</u>
Los Angeles County	12/12	10.2%
<b>Riverside County</b>	<b>12/12</b>	<b>11.1%</b>
San Bernardino County	12/12	10.8%
Orange County	12/12	6.8%
San Diego County	12/12	8.1%

Source: State of California E.D.D.

Over the past 15 years, the County economy has had significant ups and downs. From 1997 through 2000, the economy grew at a rapid pace. The year 2001 saw the national economy enter a slight recession which rebounded in 2002 due to low interest loans with home sales a strong force in the economy between 2002 and 2005. During this period, home values increased almost 100 percent in the County. However, beginning in 2005 there were significant decreases in the new home market with sales and prices falling upwards of 50 percent taking prices back to 2002 levels. Home values appeared to hit bottom in 2009 and remained essentially flat for three years with the exception of certain pockets of development such as Eastvale where stabilization and increases in home prices and sales began in 2012. Thus far in 2013 both prices and sales appear to be increasing.

In the fall of 2008 the national economy was shaken by the failure of several national banks and insurance companies caused by loan failures related to sub-prime mortgage financing. This created a panic not only in the nation's financial markets but also around the world. The Dow Jones Industrial Average ("DJIA") fell over 40 percent between January 2008 and early 2009 when the market seemed to gain its balance. Since early 2009 the DJIA is up over 50 percent, however the past two years had seen a volatile stock market due to the shaky world economy coupled with a substantial increase in national debt. Within the U.S. some banks are still struggling with the FDIC needing to step in and take over 140 banks in 2009, 157 banks in 2010, 89 banks in 2011, 51 in 2012 and three thus far in 2013 (through February 15, 2013).

The federal government attempted to correct the struggling economy by implementing several economic stimulus packages. The main stimulus successes visible to Main Street America include both federal and state tax credits for first-time or move-up



homebuyers in 2009. It is now apparent that these tax credits fueled the housing market in late 2009 and early 2010. In November 2010 the Federal Reserve began QE2 (Quantitative Easing Two) which included the expansion of the Fed's balance sheet through the purchase of intermediate-term bonds in an effort to lower long-term interest rates. QE2 was followed by Operation Twist where the government substituted long term debt for short term debt in its bond portfolio and then by QE3. QE3 includes the Federal Reserve buying mortgage backed securities in order to keep interest rates low in an effort to stimulate the economy. This appears to be working, however most economists opine that the creation of jobs will be the real catalyst in re-charging the economy.

At a recent conference by the Federal Reserve Chairman (Washington D.C., September 13, 2012), Ben Bernanke stated that economic growth continued at a moderate rate in 2012, however; even though unemployment rates fell recently, the decline is due to declines in participation rather than an increase in jobs. He opined that inflation will remain close to the Fed's two percent target rate and that the federal funds rate will remain at or near the existing 0 – ¼ percent rate until 2015 if needed. He stated that policy makers need to keep several things in mind, keeping rates low; watching inflation, assuring the public that the Feds will not let the economy falter and hopefully all of this will lead to a recovery. At the December 2012 meeting the Federal Reserve said it plans to hold short-term interest rates near zero until the unemployment rate reaches 6.5 percent or less as long as expected inflation remains near their two percent target. The Federal Reserve also indicated they will keep spending approximately \$85 billion a month on bond purchases to drive down long-term borrowing costs in order to stimulate economic growth (QE3). While the 2012 year-end "fiscal cliff" was averted, the spending issues still need to be addressed. Recently the government began the budget sequestration which capped the amount the government can spend by instituting across the board budget reductions. It's too early to see how or if this is going to affect the economy.

California's labor markets make it easy to understand why the mid-2000s downturn is being called the "Great Recession". After peaking at 15.212 million jobs in July 2007,

the state shed over 1.37 million nonfarm positions by February 2010. Since hitting bottom, California added back 556,000 jobs through December 2012. With current employment growth forecasts, several economists are forecasting that total nonfarm employment won't reach its pre-recession peak of 15.212 million until 2015 or 2016.

According to the most recent UCLA Anderson Forecast (*"National and Statewide Outlooks Anticipate Modest Growth in GDP, Housing and Employment Next Year - December 2012*), both Gross Domestic Product (GDP) and job formation will grow at less than two percent through mid-2013 followed by a three percent growth rate for most of 2014 with housing activity leading the way. According to Ed Learner (UCLA Anderson Forecast Director), within the national economy, there has been no real recovery from the "Great Recession" of 2008/09. In each of the previous 10 recessions, GDP returned to its previous peak within two years while this recession has taken four years. Using current lags in GDP recovery and payroll recovery, Learner says this recession could take seven or eight years rather than the typical two to two and a half years to return to previous peaks. UCLA economists also write that the average home price in the US has declined by one-third and that, mostly due to foreclosures, home ownership has declined from a peak of 69 percent in 2004 to approximately 65 percent at the end of 2012. Even with these declines, UCLA states the recovery of the housing market is underway with foreclosures appearing to have peaked and existing home sales on the rise. This is bolstered by a gradually improving labor market, a rebound in household formations and record low mortgage rates. Although these are some positive factors, the recovery will be "gradual and uneven" per Learner.

The UCLA Forecast on California, written by Senior Analyst Jerry Nickelsburg, states that the economic consequence of Proposition 30, which passed in November, will provide a way forward of funding state investment in education and a funding for the realignment of government services. However, he states on the negative side, the passing of Proposition 30 does not address the issues of the way the state funds government for the long run. Additionally, they are estimating employment to grow 1.3 percent in 2013 and 2.4 percent in 2014 bringing the unemployment rate down to 8.4 percent in 2014.

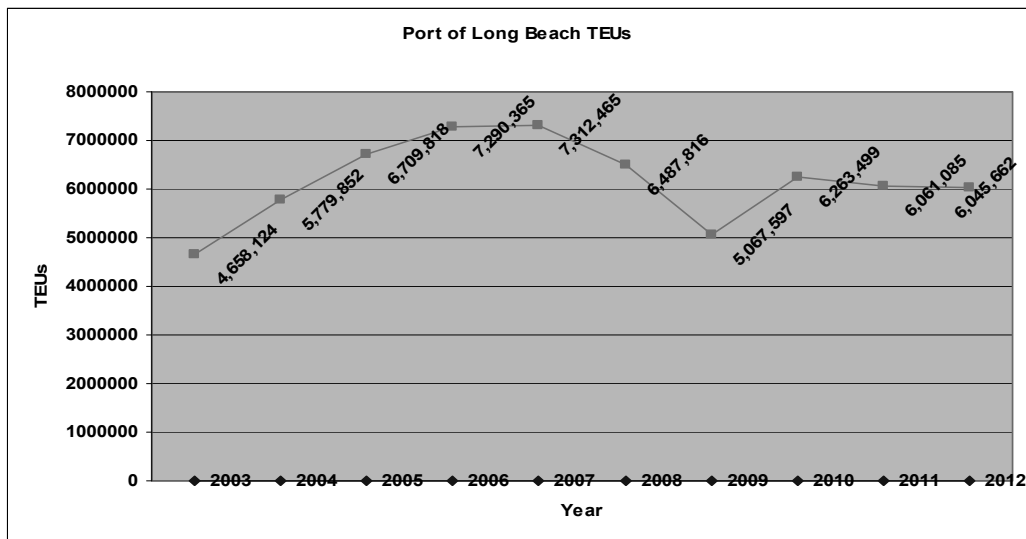
Beacon Economics, a Southern California company providing research and economic analysis and financing, completed a Summer 2012 Regional Outlook for the Inland Empire. According to their study, the Inland Empire's labor market is steadily but slowly gaining steam. They believe that the unemployment rate will drop below double digits near the end of 2014 and return to its pre-recession peak in either 2015 or 2016. While the labor market is still sluggish, it has been generally positive. Beacon Economics is predicting a faster and more consistent employment growth in 2013. Also noted in their outlook on a positive note, forty percent of Riverside/San Bernardino employed residents currently go outside of the counties for their primary job. This creates the possibility of economic expansion for the area by analyzing the skills of this commuting population and looking for economic development opportunities to bring employers to the area. This suggests a positive employment outlook for the region.

One of the main reasons the MSA has not yet emerged from the broader economic downturn is related to housing. Both Riverside and San Bernardino saw a considerably steeper rise then fall of prices than almost anywhere else in the state. In July 2012 California ranked No. 1 in total foreclosures, though the numbers have been decreasing since that time. More recently short sales are playing a larger part in the housing market which may have had a hand in slowing the flow of foreclosure activity (*Focus Shifts to Short Sales, Press Enterprise* – December 6, 2012). According to the article foreclosure related sales across California fell 12 percent from the previous year while non-foreclosure short sales in California rose 20 percent over the same period. In Riverside County foreclosure related sales were down 8.8 percent from the previous year while short sales also increased. The current Mortgage Forgiveness Debt Relief Act, which allows a short sale to occur without the original borrower paying federal taxes on the shortage amount, was extended into 2013 along with the temporary resolution of the fiscal cliff. The average short sale in California is \$107,972 below what the short seller owned on the house.

Commercial real estate appears to have hit bottom in 2010 with local absorption levels returning to positive territory. However, anemic job growth coupled with restrictive

financing is still affecting both commercial vacancies and lease rates. Office vacancy rates appear to have stabilized with rents not expected to increase until 2013. Retail vacancies remain high due to minimal job growth. The industrial sector is tied to the global marketplace which has been profoundly impacted by declines in retail spending, wholesale distribution and import/export flow.

As a final indicator of overall economic activity for the region we have reviewed the rise or fall of TEUs (Twenty-foot Equivalent Units – i.e., containers) being processed in the local ports. This is especially important for the inland communities as it represents much of the growth in development of West Coast distribution centers and warehouses linked to supply-chain nodes in the Pacific Rim. The chart on the following page shows activity at the Port of Long Beach, a key economic indicator for Southern California. The activity resulted in a flattening of TEUs during 2006 and 2007, decreases occurring in 2008 and 2009, an increase in 2010 followed by slight decreases since that time. It is interesting to note that the 2012 activity is still between 2004 and 2005 levels.



## **Government**

The County is overseen by a Board of Supervisors that is the governing body of the County, certain County special districts and the County housing authority. The Board enacts ordinances and resolutions, adopts the annual budget, approves contracts and appropriates funds, determines land use zoning for unincorporated areas, appoints

certain County officers and members of various boards and commissions. The Board of Supervisors are elected from five different districts within the County.

The County reduced development impact fees in an attempt to stimulate housing construction during the recession. In July 2009 the County voted to lower some development fees by 50 percent which reduced the cost to build a single-family home by about \$2,100. This reduction was extended and is now set to expire in June 2013. In addition, the Western Riverside Council of Governments adopted a temporary reduction of the Traffic Uniform Mitigation Fee (TUMF) from \$8,873 to \$4,437 per single-family residence. The TUMF fee began phase increases in January 2013 and is projected to be at 100 percent in April 2013.

### **Education**

The subject area is served by the Alvord Unified School District ("AUSD"). In 1908 the Riverside County Board of Trustees originally established the Alvord School District. As Alvord grew, the state encouraged the district to organize and combine into a unified school district which occurred in 1960. In 1964 the La Sierra area (which encompasses the AUSD) was annexed into the City of Riverside, however AUSD kept separate from the Riverside Unified School District, thus there are two unified school districts servicing the City of Riverside. The AUSD operates 14 elementary schools, four traditional middle schools, two comprehensive high schools and one continuation high school with adult education. Hillcrest High School opened in 2012/13 school year with a freshman class. A new class will be added each year until Hillcrest is a total operating high school in 2015/16. There are approximately 18,000 students enrolled within AUSD.

Higher education is available within an hour's drive at the University of California campuses at Riverside and Irvine or California State University campuses in San Bernardino, San Marcos, Fullerton and Pomona. In addition the area offers community colleges as well as many excellent private colleges including La Sierra University in the subject area.

## **Conclusion**

Population in the County increased over the past 30 years. Predictions are for continued population growth in the County through 2020. The nation's economy stalled in 2006 due to the housing downturn, unemployment and the credit crisis. The federal government's attempts to stabilize the national economy with stimulus packages and government bail-outs may have assisted the housing market in late 2009 and early 2010, however 2011 saw a flattening due to global economic instability and slow growth coupled with historically slow housing sales. While the beginning of 2012 saw a reduction in unemployment, second-half of the year statistics did not show much improvement. It appears however, a bottom of the housing market suggests the economy may be turning. The economy typically has cycles and most economists are now predicting that the U.S. economy has hit bottom. Slow growth is anticipated for 2013 with the U.S. economy growing at a better rate in 2014. In addition, the County is expected to continue to grow in population due to its Southern California location, the availability of land and the relative lower land prices in comparison to adjacent Orange, Los Angeles and San Diego Counties.

# City of Riverside and Surrounding Area



## CITY OF RIVERSIDE

The subject property is located in the southwestern portion of the City of Riverside ("Riverside"). Riverside was incorporated on October 11, 1883 and is located 50 miles east of Los Angeles and 100 miles north of San Diego. The growing City is the 12<sup>th</sup> largest City in California, 6<sup>th</sup> in Southern California and the largest City in Riverside County with a present land area of approximately 81 square miles. Originally an agricultural (citrus) center, Riverside has evolved into a commercial and governmental center as the City is the County seat. Riverside is surrounded by the cities of Norco and Corona to the west, Jurupa Valley and unincorporated Riverside County to the north, the City of Moreno Valley and unincorporated areas of Riverside County to the east and unincorporated areas to the south.

### **Population**

Riverside has an estimated population of 308,511 per the California Department of Finance as of January 1, 2012. The following chart depicts population growth in Riverside.

<b>Year</b>	<b>Population</b>	<b>Avg. Annual % Increase</b>
1960	84,332	---
1970	140,089	5.2%
1980	170,876	2.0%
1990	209,700	2.1%
2000	262,744	2.3%
2010	303,871	1.5%
2012	308,511	0.8%

The slow down in the past twelve years is due to the essential build-out of Riverside coupled with the recession. The past two years of growth at 0.8 percent in Riverside compares to the County growth rate of 1.08 percent last year. The higher County rate is due to the availability of land for development outside of the City limits.



## **Housing**

Housing costs within the City decreased in the past five years as with the rest of Southern California and the nation. Residential housing costs within Riverside are still considered moderate in relation to some surrounding counties. Riverside formerly had abundant land, which created a lower housing cost in relationship to more intensely populated areas in Southern California especially when compared to the neighboring counties of Orange, Los Angeles and San Diego. However, Riverside has now essentially been built-out leaving little land for development. According to Dataquick during January 2013 in Riverside there were 334 home sales with an average price of \$225,500 which is up 15.64 percent from one year prior (average price was \$195,000) however still down 43.5 percent from September 2007 when the average home price was \$399,500. Within the subject ZIP Code (92503) the average price is higher. There were 56 home sales within the ZIP Code during January 2013 with an average price of \$235,000 reflecting an increase of 27.0 percent from the previous year. It appears the market has hit bottom and is increasing or at least stabilizing. It should be noted that the subject Zip Code encompasses mostly older homes which contrasts the subject property's new homes.

According to Housing Intelligence, an Independent Real Estate Research Firm, there has been a significant increase in closings over the past year. New homes represent approximately 7.4 percent of all home sales in Riverside while single family homes represent 90.4 percent of new home closings.

## **Economy/Commercial Land Uses**

The economy and labor force for Riverside have changed with growth. Historically hailed as the citrus capital of the world, Riverside has evolved into the business and industrial center of the Inland Empire. There are well over 100 manufacturing firms in the community. Leading group classes or products are aerospace and electronic components; mobile homes and RVs; printing, publishing and foam products. Additionally Riverside offers an impressive choice of industrial sites and buildings.

The labor force is divided generally between the manufacturing, retail, services, and construction trades, however the construction trade has slowed considerably along with the housing market slowdown. There are abundant skilled and semi-skilled workers in the local labor pool with a scattering of skills. The City houses the County seat which creates a financial and professional center offering the support of numerous legal, accounting, brokerage, architectural, engineering and technology firms as well as banking institutions. Businesses in the City also benefit from the exceptional freeway system, rail access, high-speed fiberoptic telecommunications, city-owned electrical and water systems, and a corporate jet and general aviation airport.

### **Transportation**

Riverside is well served by the California freeway system, being bisected by the Riverside Freeway (“91”) and 60 Freeways and by Interstates 10 and 15. The 91 Freeway connects Riverside to Orange County on the southwest and to San Bernardino County on the northeast. The 91 is one of the area’s busiest freeways with a substantial amount of congestion in the westbound direction during the morning hours and in the eastbound direction during the evening hours. This is due to the number of commuters living in Riverside County and employed in Orange and Los Angeles Counties. Two toll roads (the 91 express lane and 241) opened during the latter half of the 1990s that help alleviate the traffic congestion. I-15 connects Riverside to San Diego County to the south and San Bernardino County to the north. I-10 connects Riverside to Los Angeles County to the west.

The Burlington-Santa Fe and the Union Pacific Railroads along with over 20 daily truck carriers serve Riverside. Ontario International Airport is 15 miles to the west and is served by most major airlines. The Riverside Municipal Airport serves general aviation.

### **Summary**

In summary, the future population growth of Riverside should parallel that of the County, albeit at a lower rate due to the limited availability of land for development within the City limits. The location along with being the County seat has established Riverside as a continuing and prospering City.



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## IMMEDIATE SURROUNDINGS

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The subject property is encompassed within a master planned community known as Riverwalk Vista located at the southeast corner of Indiana Avenue and La Sierra Avenue in the City of Riverside. Riverwalk Vista advertises its location which provides excellent access to Metrolink (walking access), freeways and toll roads and where shopping, casual dining, regional shopping malls, Castle Park and Riverside's newest sports park are all within five minutes. The gated community is built around a recreation center that boasts a resort-style pool with a grand waterfall, playgrounds, a gazebo and BBQ area along with neighborhood parks and tot lots all connected by greenbelts and winding paths.

The Riverwalk Vista Specific Plan was approved in September 2005 and includes a total of 120.2 acres and is proposed for a total of 402 single family detached homes. This appraisal refers to Improvement Area 1 of Riverwalk Vista which encompasses 52.95 acres (per recorded tract maps) and 185 proposed single family detached homes. Riverwalk Vista is served by the Alvord Unified School District including Orrenmaa Elementary School, the recented updated Arizona Middle School and Hillcrest High School, a state of the art campus that opened for its first freshman class in 2012/13.

The area surrounding Riverwalk Vista is made up of existing housing, the Riverside-La Sierra Metrolink Station, two neighborhood shopping centers, Castle Park, Kaiser Permanente Medical Center and the Galleria at Tyler (formerly known as the Tyler Mall), vacant lands, Arizona Middle School and both commercial and industrial properties. In addition there is a bowling alley located across Indiana from the subject.

The subject property is bounded to the northeast by existing housing; to the southeast by the Riverside Canal and undeveloped lands beyond which is Victoria Avenue, the main access into the Victoria neighborhoods of Riverside; to the south by Arizona Middle School; and to the southwest by La Sierra Avenue beyond which are two neighborhood shopping centers. The first center located at the northwest corner of

Indiana and La Sierra Avenues is anchored by a Stater Brothers supermarket while the second located at the southwest corner of Indiana and La Sierra Avenues is anchored by Ralph's Supermarket. Northwest of the subject property is Indiana Avenue beyond which is the Riverside-La Sierra Metrolink Station and the Riverside Freeway. Hillcrest High School is located approximately ¼ mile west on Indiana Avenue.

The subject property has excellent access from the Riverside Freeway with on/off ramps at La Sierra Avenue within ¼ mile of the subject property. The subject is across Indiana Avenue from the Riverside-La Sierra Metrolink Station. Shopping is available across La Sierra Avenue. Downtown Riverside is approximately seven miles northeast of the subject property.

## RIVERSIDE COUNTY HOUSING MARKET

In reviewing the County's housing market, a study of population and economic growth needs to be conducted. As of July 1, 2012, the County had a population of 2,244,399, which is a 1.08 percent increase from July 2011, a decrease from the 2.7 percent average annual percentage increase of the previous ten years. The recent slowdown in population growth is primarily due to the national recession.

Over the past twenty years the Inland Empire has seen ups and downs in the housing market. The recession of the early 1990s impacted the Inland Empire significantly and included a longer recovery period than in other areas of Southern California. The rise and fall of housing prices in the Inland Empire between 2004 and 2009 was considerably steeper than almost anywhere in the State. Unfortunately, this means that the people who bought near the peak of the market likely faced significant negative equity. Currently approximately 43 percent of all mortgages in the Inland Empire exceed the corresponding value of the home. On the positive side the total percentage of underwater mortgages is significantly less than the 55 percent peak in 2009 and the increasing prices in 2013 will continue to decrease the negative equity.

Economic growth in the Inland Empire was strong between 1998 and 2007 with job losses only occurring between 2007 and 2009, a leveling out in 2010 and slight upturns in 2011 and 2012. It should be noted that a portion of the increases in 2011 and 2012 were due to a variation in calculating the unemployment rate at the Employment Development Department ("EDD") due to new reporting guidelines. On the following page is a table depicting job growth in the Inland Empire since 1998.

<b>Inland Empire Job Growth</b>			
<b>Year</b>	<b>Employment</b>	<b>Increase</b>	<b>% Increase</b>
2012	1,602,600	44,800	2.87%
2011	1,557,800	17,300	1.12%
2010	1,540,500	(800)	(0.01%)
2009	1,541,300	(88,200)	(5.41%)
2008	1,629,500	(34,500)	(2.07%)
2007	1,664,000	4,300	0.26%
2006	1,659,700	43,100	2.67%
2005	1,616,600	60,700	3.90%
2004	1,555,900	67,700	4.55%
2003	1,488,200	43,200	2.99%
2002	1,445,000	48,400	3.47%
2001	1,396,600	48,400	3.59%
2000	1,348,200	(18,000)	(1.32%)
1999	1,366,200	70,300	5.4%
1998	1,295,900	N/A	N/A

\*Based on Revised November numbers per Employment Development Department

The unemployment rate for the MSA was 10.9 percent in December 2012, lower than the high of 15.1 percent in July 2010. This rate however, is higher than both the current California unemployment rate of 9.7 percent and the December 2012 national rate of 7.6 percent. As shown on the above table, employment is near 2004 levels. Estimates are for employment not to reach the previous peak until at least 2015, however it is important to note the current unemployment rate is over four percent below the highest level.

The Federal Reserve increased interest rates multiple times between June 2004 and mid-2006. In reaction to the rate increases, coupled with increasing housing prices, the market reaction created non-conventional financing alternatives such as 40-year amortized loans, variable loans, teaser rate loans and 100 percent loans to maintain the housing market of 2004 and 2005. New home price appreciation hit highs in mid-to-late 2005 which began a slowing of sales. Higher interest rates began making an impact on home sales in 2006 when sales prices began to decline in some areas and a significant sales slowdown began to occur. In 2007 the housing market saw a shake-up due to sub-prime and non-conventional mortgages. Non-conventional mortgages include home loans which were obtained for 100 percent of the sales price or which used teaser rates or buy-down rates. Sub-prime mortgages used these buy down rates to qualify buyers that could not have qualified for a conventional mortgage or could not verify income. Many homes were purchased in 2005, 2006 and the first few months of 2007

utilized mortgages with purchasers assuming the market would continue to appreciate and borrowers would then be able to re-finance before their payment obligations increased. This appreciation did not occur however and home prices began dropping. In March 2007 the Federal Government initiated efforts to stop or limit sub-prime mortgages. Unfortunately the damage had already been done with sub-prime mortgages playing a role in the 2008 shake out of Wall Street and contributing significantly to the economic downturn. Due to stricter income verification on new loans and the lack of available credit, coupled with job losses and declining home prices, sales of new homes slowed for the remainder of 2007, all of 2008 and the majority of 2009. Declining home prices coupled with the government offering homebuyer tax credits and historically low interest rates, led to sales increasing in the second half of 2009 and continued into the first half of 2010. However, as prices began to rise and the government tax credit ended, sales for the second half of 2010 slowed once again with sales in 2011 and the first half of 2012 still well under historical averages. Despite this, homebuilders have indicated improvements with the second half of 2012 showing positive sales and price indications. Thus far 2013 is showing both stronger sales and pricing.

Foreclosures are still playing a part in the current real estate market; however, foreclosure information is sending mixed signals regarding the strength of the California housing market. Within Southern California in January 2013 an estimated 15.0 percent of home re-sales were foreclosures while short sales were an estimated 25.9 percent of total re-sales. At the peak in 2009 the combined percentage of foreclosures and short sales hovered around 70 percent of the total sales. Absentee buyers (investors and second-home purchasers) bought 30.4 percent of homes in January 2013 while buyers using 100 percent cash accounted for 34.9 percent of the purchases suggesting investors are a large part of the current housing market rebound.

While the government has tried to help underwater homeowners via HARP2 (Homeowner Assistance Refinance Program) and the settlement between the government and the five major mortgage servicers over “robo-signing” foreclosure practices, it appears that the new foreclosure to rental program coupled with short sales



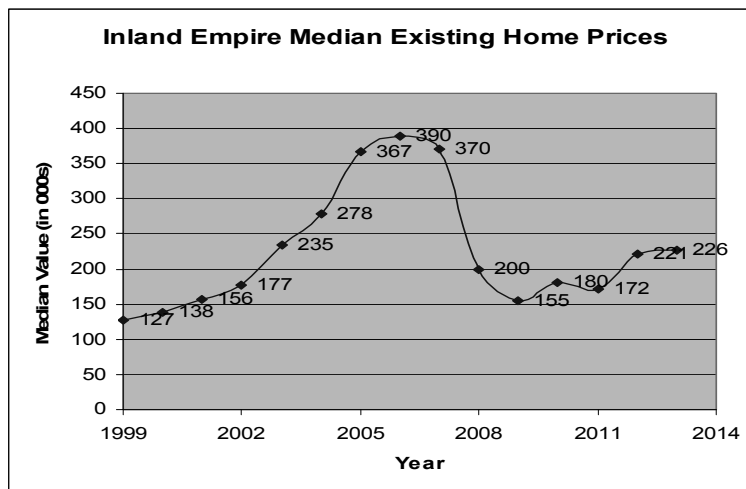
is partially what has stalled the foreclosure inventories from entering the real estate market at this time. Early in 2012 the government approved a foreclosure to rental program in an attempt to help keep negative equity homeowners in their homes by signing over the deed to the bank and agreeing to rent the home. Investor demand for this new program was robust. The Federal Housing Finance Agency (FHFA) began a pilot program in February with 2,500 foreclosed homes held by Fannie Mae to be sold in bulk to an investor who could then rent them out. Several banks participated with Citigroup and Bank of America leading the way. It appears that banks are waiting to see how this plays out and have not been releasing the “shadow inventory” of bank-owned properties. While most large banks are adopting pilot programs, it is still unknown if the foreclosure to rental program will succeed.

The shadow inventory is made up of homes that were believed to have not hit the market, but probably would soon either because they were already in foreclosure or because the homeowners were behind on payments and foreclosure was imminent. It was thought that as the shadow inventory was released, homes would flood the market. According to CoreLogic, shadow inventory has been dropping with an 18 percent decline between January 2012 and January 2013 and a reduction of 28 percent over the past three years. The reduction of shadow inventory is due to investors buying up foreclosed and REO properties coupled with the beginning recovery in the housing market as seen in rising prices.

The housing market in Riverside and San Bernardino appears to have momentum for the first time in the past few years. Price hikes are causing some to question whether it's sustainable or whether it's a “bubble”. It needs to be noted, however, that we are still climbing out of a deep hole from the housing downturn with prices in many areas still 30 – 40 percent below their peaks. Home sales in Southern California rose above year-ago levels for thirteen months in a row as of February 2013 while the median price paid for a home in the six-county area was near a 4-year high at \$320,000, off \$3,000 from the December median price however still near the highest since August 2008 when it was \$330,000. As the market continues to rise, more owners are interested in selling and more homeowners will shift from a negative equity position to a positive equity

position, enabling them to sell. In contrast, if homebuilders rev up operations and lenders push more distressed properties onto the market, it could tame the recent price appreciation we have seen. It should be noted that a portion of the median price increases are due to larger homes and non-foreclosure homes selling once again.

According to the National Association of Realtor’s Housing Affordability Index, housing is the most affordable that it has been in at least a generation. In 2011, 88.9 percent of households in the Inland Empire are able to buy a median priced house. This is up from 82.2 percent in 2010 and 83.3 percent in 2009. According to John Husing (Inland Empire economist), “we are looking at the most affordable housing market in the modern history of the Inland Empire”. The median existing home price in the Inland Empire of \$226,000 (as of January 2013 per California Association of Realtors) is up 25.2 percent from the previous year. However, the median existing home price in the Inland Empire is still down 42 percent from the median price at the peak in 2006 (\$390,000). Thus, even though the housing market appears to be recovering, it still is a long way from the previous peak. Below is a chart showing median home prices in the Inland Empire over the past decade.



According to DataQuick, within Southern California (Los Angeles, Riverside, San Diego, Ventura, San Bernardino and Orange counties) the median price paid for a home (both new and existing) in February 2013 (\$320,000) is up 20.9 percent from the previous year. Such median existing home price is 36.6 percent below the peak in mid-2007

when the median price was \$505,000; however up 29.5 percent from the low point of the cycle which was a \$247,000 median price in April 2009. Home sales in Southern California were up 1 percent in February 2013 (15,945 new and existing home sales) as compared to one-year prior (15,780 new and existing home sales). Sales rose in Los Angeles, Orange, San Diego and Ventura however fell in both Riverside and San Bernardino. According to DataQuick the median and other price gauges are rising due primarily to two reasons: First, higher demand triggered largely by ultra-low mortgage rates has coincided with a dwindling supply of homes for sale resulting in rising prices. Second, the market is rebalancing with discounted foreclosures becoming a smaller portion of sales while more expensive move-up home sales are growing. Below is a table comparing February 2013 to February 2012 for both new and existing home sales and pricing in Southern California by county and for Southern California as a whole.

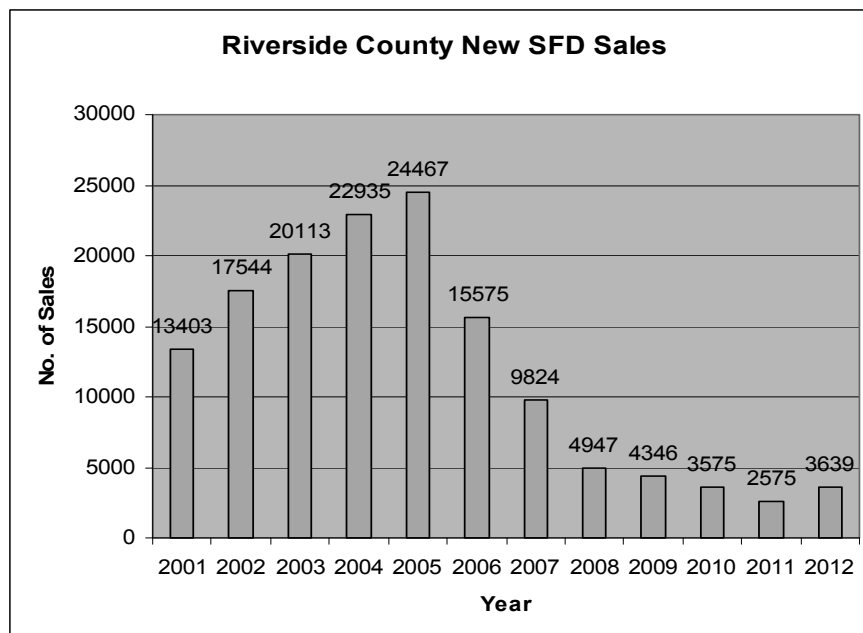
<b>Southern California (New and Used) Home Sales</b>						
<b>County</b>	<b>No. Sold Feb 12</b>	<b>No. Sold Feb 13</b>	<b>Percent Change</b>	<b>Median Feb 12</b>	<b>Median Feb 13</b>	<b>Percent Change</b>
Los Angeles	5,261	5,481	4.2%	\$299,000	\$350,000	17.10%
Orange	2,111	2,252	6.7%	\$390,000	\$477,000	22.3%
Riverside	3,011	2,833	-5.9%	\$193,000	\$228,000	18.1%
San Bernardino	2,082	1,959	-5.9%	\$148,000	\$175,000	18.2%
San Diego	2,709	2,779	2.6%	\$305,000	\$359,000	17.7%
Ventura	606	641	5.8%	\$325,000	\$389,000	19.7%
<b>SoCal</b>	<b>15,780</b>	<b>\$15,945</b>	<b>1.0%</b>	<b>\$264,750</b>	<b>\$320,000</b>	<b>20.9%</b>

Source: DataQuick

Based on February 2013 median new and existing homes prices, in comparison to the majority of the surrounding counties, Riverside County has a definite price advantage. The "Riverside County Advantage" (price difference between Riverside and surrounding counties) is \$122,000 as compared to Los Angeles County, \$131,000 as compared to San Diego County, \$161,000 as compared to Ventura County and \$249,000 as compared to Orange County. That is, in February 2013, the median priced home in Riverside County was \$228,000 (52.2 percent) less than the median priced home in Orange County. However, San Bernardino County has a \$53,000 price advantage over Riverside County.

Home loan rates are playing a large part in the housing market. The Federal Reserve has held mortgage rates at all time lows for the past few years in an attempt to assist the housing market. Rates are at or near historical lows with conventional 30-year fixed rates in the 3.0 to 4.0 percent range. The Federal Reserve has stated rates will be kept low until 2015 which appears to be fueling the refinancing market once again while making affordability the highest its been in decades. The Feds are making it clear to investors and consumers that it will link its actions to specific economic markers such as employment and inflation.

While there has been little land development going on in most of the Inland Empire, there are some pockets of development where raw land is once again being developed. These appear to be in areas closer to Orange and Los Angeles Counties such as Eastvale, Corona and Riverside with several builders going forward with projects. Sales of new-detached homes within the County rose between 2000 to 2005 followed by declines in 2006, 2007 and 2008. The market was thought to have hit bottom in 2009, however decreases continued through 2011 with an increase in 2012. Below is a graph showing Riverside County detached new home sales over the past twelve years.



In a separate attempt to capture the decrease in home prices, the resale activity of existing homes in the subject area (per DataQuick) has been reviewed. The number of sales and sale prices of existing homes within ZIP Codes in the immediate area of the subject are shown in the table below. It should be noted that the resale activity includes foreclosure properties. However, foreclosures are playing a lessening part in today's housing market than in the past few years.

<b>Community</b>	<b>ZIP Code</b>	<b>Border to Subject</b>	<b>SFD Sales Feb 2013</b>	<b>Median SFR Price Feb 2013</b>	<b>Median Price/Sq.Ft. Feb 2013</b>	<b>Price % Change from Feb. 2012</b>
Riverside	92503	Subject	56	\$235,000	\$134	27.0%
Corona ..	92881	Southwest	26	\$360,000	\$155	28.6%
Norco	92860	Northwest	21	\$385,000	\$164	20.3%
Riverside	92505	North	23	\$199,000	\$141	11.8%
Riverside	92504	Northeast/East	25	\$221,000	\$144	26.3%
Corona	92882	South/Southwest	55	\$345,000	\$176	12.4%
Source: DataQuick March 2013						

The table depicts price changes over the past year on existing single-family detached home sales prices. It should be noted that the subject's ZIP Code shows the price per square foot at the low end of the range of the varying neighborhoods. The above price increases and decreases relate to DataQuick's overall Riverside County increase of 20.9 percent year over year.

In summary, both the Inland Empire and the subject sub-market which had seen substantial decreases in pricing and sales more recently are seeing increases suggesting that the bottom of the market has been reached. The tightening of financing requirements had depleted the number of buyers in the marketplace and underwater mortgages slowed the move-up buyers; however, it is now apparent this trend is reversing with low interest rates coupled with limited inventory providing for sales and price increases for the first time in over five years. Current economic factors placing a strain on the economy include historically high unemployment and both an uncertain global and national economy. On a positive note, lower priced housing has increased the affordability index with substantially more people being able to afford a home in the area.

In conclusion, although uncertainty is clouding the 2013 housing market forecast, most observers are in agreement that both new home sales and pricing are on the rise. This is encouraging after six years of either declining or essentially flat sales and pricing. However, there is caution on the recent significant appreciation with the economy still struggling. Nevertheless, population continues to increase, thus housing growth will continue, however at much slower rates than previous years.

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## COMMUNITY FACILITIES DISTRICT NO. 2006-1

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City of Riverside CFD No. 2006-1 was formed in order to fund public City facilities and school facilities related to the development of Riverwalk Vista. The CFD was created with two separate improvement areas. This appraisal refers to CFD No. 2006-1 Improvement Area 1 and was created in regards to the issuance of the 2013 Special Tax Bonds.

City of Riverside CFD No. 2006-1 was established on January 16, 2007 as Resolution No. 21317 of the City of Riverside. Resolution No. 21318 (also adopted January 16, 2007) determined the necessity for CFD No. 2006-1 to incur a bonded indebtedness in the aggregate principal amount not to exceed \$25,000,000 with a division of \$12,500,000 for Improvement Area No. 1 and \$12,500,000 for Improvement Area No. 2. In October 2011 the City undertook change proceedings at the request of the property owners to reduce the special taxes on the property. Accordingly, it should be noted that the current bond amounts are estimated to be significantly less than the not to exceed amounts. This is the first series of bonds associated with City of Riverside CFD No. 2006-1.

The types of public facilities proposed to be provided for and financed by CFD 2006-1 include:

City Facilities - Street and road facilities, including street lights and traffic signals, storm water drainage facilities, water system facilities, including capacity in existing facilities, sewer system facilities including capacity in existing facilities and sewage treatment capacity, parks and park and recreation facilities, transportation facilities, and electric transmission and distribution facilities.

School District Facilities – the design, construction and acquisition of certain public school facilities of Alvord Unified School District for elementary school, middle school and high school facilities.

Per the latest Sources and Uses of Funds dated April 1, 2013, City of Riverside CFD No. 2006-1 IA 1 Special Tax Bonds are anticipated to have a par amount of \$4,545,000 which reflects estimated net construction proceeds of \$3,910,279 (amounts subject to change). The difference between the par amount and the construction proceeds includes original discount, underwriter discount, debt service reserve fund, costs of issuance and deposit to the CFD administration account. A copy of the CFD boundary map is located in the Addenda for your review.



## SUBJECT PROPERTY DESCRIPTIONS

There are three residential tracts located within City of Riverside CFD No. 2006-1 IA 1. Each tract is described in detail below.

### **TRACT 32772-1 – TopazRidge by TRI Pointe Homes**

**Location:** Surrounded by Grande Vista Parkway between La Sierra Avenue and Vallejo Avenue, south of Indiana Avenue, City of Riverside, Riverside County, California

**Thomas Guide:** 744-2 F/G

**Legal Description:** Lots 1-79 of Tract 32772-1, City of Riverside, Riverside County, California

**Owner of Record:** Individual Owners as to Lots 1-11, 30-32, 52, 54, 56-67 and 69-70; TRI Pointe Homes, LLC as to the remainder of the lots.

**Three-Year Sales History:** TRI Pointe Homes LLC purchased the 79 lots on April 1, 2011 for \$9,650,000 from Wells Fargo Bank who had taken the property back from Griffin Communities who began the project. At time of purchase by TRI Pointe there were three model homes complete and eight production homes that needed to be finished (countertops, flooring, plumbing fixtures, tub surrounds, driveways, fencing and front yard landscaping). TRI Pointe Homes completed construction of the eight production homes and sold them along with the previous three model homes to individual homebuyers. TRI Pointe Homes then constructed new models. Including 11 of the sales listed above, TRI Pointe Homes has closed 30 homes to individuals between February 2012 and January 2013. There are another 12 homes which are in escrow and due to close upon completion within the next 90 days.

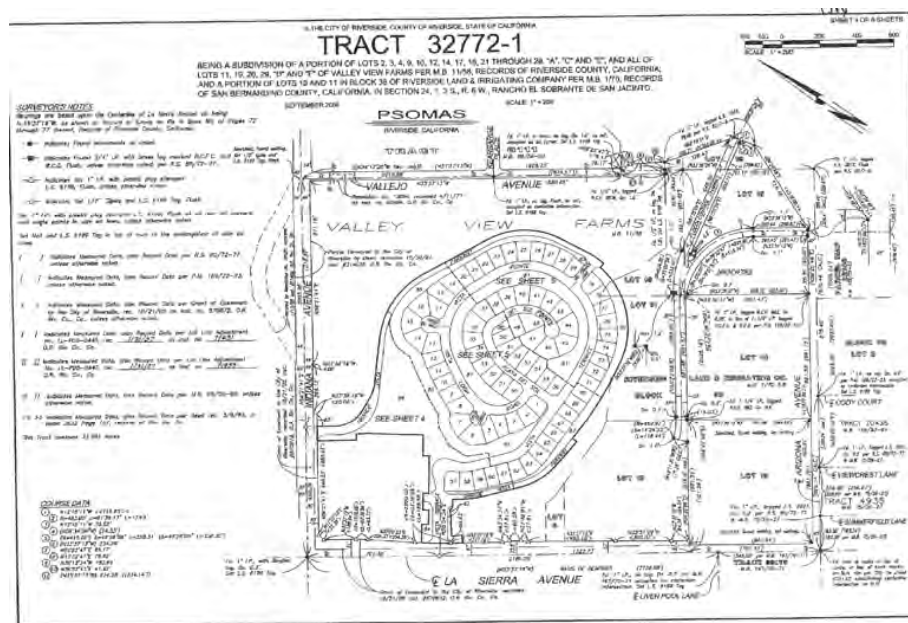
**Assessor Parcel Nos.:** 138-440-001 thru 065; 138-450-001 thru 014.

**Property Taxes:** Using APN 138-440-049-1 (3214 Vista Terrace; Lot 5 of Tract 32772-1) as a sample, the 2012/13 property taxes are \$7,647.60 which includes a supplemental bill for the reassessment due to the property being purchased. The supplemental bill includes a penalty of \$49.92 for non-payment of the 1<sup>st</sup> Installment by December 31, 2012. The property taxes include ad valorem taxes of \$5,105.12 (based on a tax rate of 1.1446 percent) and special taxes and

assessments of \$2,492.56 which includes \$2,437.00 for City of Riverside CFD No. 2006-1.

**Flood Zone:** Per FEMA Panel 715 of 3805 (Map Number 06065C0715G) the subject is located within Flood Zone X which is outside of the two percent annual chance of flooding and insurance is not required. A copy of the FEMA Map is located in the Addenda for your review.

**Size and Shape:** The subject property is irregular in shape and contains 33.561 acres per the recorded tract map as shown below which includes internal streets, terraced hillsides and a large open space lot which houses the community pool, BBQ area and park.



**Zoning:** Per the City of Riverside Zoning Map the subject property is zoned R-7,000 which allows for a maximum density of 6.2 dwelling units per acre and a 7,000 square foot minimum lot size. Per the General Plan, the property is shown as MDR which allows for a maximum of 6.2 dwelling units per acre unless a PRD (Planned Residential Development) is approved which allows for a maximum of 8.0 dwelling units per acre. Per the City Planning Department if a PRD is approved the lot sizes may be smaller than allowed per the zoning as other amenities are required of the developer to make up for the smaller lot sizes. The subject property and surrounding lands are also covered by the Riverwalk Vista Specific Plan (a PRD) which was approved in September 2005 allowing for 402 total units over the entire 120.2 acres (averages 3.34 dwelling units per acre), a recreation center including a resort pool complex, picnic areas, BBQs, a pocket park, tot lot and open lawn areas.

**Entitlements:** The subject property is covered by Tract Map 32772-1 allowing for 79 single-family detached lots on 33.561 acres with a minimum lot size of 6,825 square feet (average of 2.35 dwelling units per acre which is consistent with the General Plan allowed uses as stated above). Tract Map 32772-1 recorded February 16, 2007.

**Topography:** The subject property was hilly above street grade of La Sierra and Indiana Avenues. Tract 32772-1 has been mass graded and developed into finished lots which have been terraced due to the hill. The terracing has allowed for good to excellent views of mountains and city lights depending on the configuration from most of the lots. Drainage is in an engineered street drainage system.

**Soils Condition:** We have reviewed a Geotechnical Report for the entire Riverwalk Vista project prepared by Gorian & Associates, Inc. of Thousand Oaks, California and dated March 26, 2004. The report concludes that the proposed development is feasible from a geotechnical point of view provided the recommendations made in the report are incorporated into the design and construction of the project.

In addition we have reviewed two geotechnical Reviews of Precise Grading Plans for Phase I of Tract 32772-1 (Lots 57-64) and Phase 2 (Lots 1-4, 6, 9-56 and 65-79 of Tract 32272-1, both prepared by PETRA Geotechnical of Costa Mesa, CA and both dated August 30, 2011. The purpose of the reports was to review the geotechnical recommendations for site precise grading and design of building foundations for the lots. The reports state recommendations for varying factors including drainage, retaining walls and foundation structure. The reports conclude that the project, from their understanding, is considered feasible and practical from a geotechnical standpoint if accomplished in accordance with the City of Riverside requirements and the recommendations contained in the reports.

It is an assumption of this report that the soils are adequate to support the highest and best use conclusion and that all recommendations made in the above referenced geotechnical reports were incorporated in the project.

**Seismic Conditions:** No active faults were observed during grading operations per the above referenced geotechnical reports. As with all of Southern California, the subject property will be subject to ground shaking due to earthquakes.

**Environmental Concerns:** We have reviewed a Phase I Environmental Site Assessment prepared by GeoTrans, Inc. of Irvine, California dated June 21,

2010 which covers Tract 30772-1. The Phase I did not reveal the presence of Recognized Environmental Conditions in connection with the property. There are two listed properties (Chevron station located west of the property and Alpha Cleaners located 0.26 miles northwest of the property) however neither is expected to impact the subject site.

This appraisal assumes that there are no environmental issues that would slow or thwart development of the site as evidenced by existing development on the site.

Easements/  
Encumbrances:

We have reviewed Chicago Title Company's Preliminary Title Report No. 930022823-U50 dated May 10, 2012 which covers Lots 1-4, 6, 9-56, 60, 63-86 of Tract 32772-1 (Lots 80-86 are common area lots). The exceptions were as follows:

Item Nos. 1, 1A and 2 pertain to property taxes on the site including supplemental taxes, if any and the subject CFD. Item No. 3 states the subject is located within the City of Riverside Redevelopment Project Area. Item No. 4 refers to a school mitigation agreement. Item Nos. 5, 6, 7, 8, 24, 32, 33, 34, 35, 36, 37, 41 and 44 refer to easements on the property. Item No. 9 pertains to dedication statements on the tract map. Item No. 10 pertains to a document entitled "Notice Pursuant to California Civil Code Section 912(f) dated March 21, 2007 executed by Riverwalk Vista LLC, a previous owner of the property. Item Nos. 11-23, 25-27 and 43 pertain to exceptions which were omitted. Item No. 28 refers to a resolution of the City Council of the City of Riverside regarding weed abatement on the site. Item No. 29 pertains to water rights. Item Nos. 30 and 46 refer to any rights of parties in possession of land based on an unrecorded lease. Item No. 21 pertains to the rights of adjacent land owners for access to and from Indiana Avenue and La Sierra Avenue. Item No. 38 refers to a Cost Sharing Agreement (per TRI Pointe Homes this cost sharing is for the DRE processing and recreation center and other common area amenities within the community and will be terminated once the HOA takes over). Item No. 39 refers to the CC & Rs recorded on the property. Item No. 42 is in reference to a deed of trust on the property. Item No. 45 refers to any matters which may be disclosed by an inspection or a correct ALTA/ACSM Land Title Survey.

This appraisal assumes that the subject property is free and clear of any liens and/or encumbrances with the exception of the existing lien of City of Riverside CFD No. 2006-1 IA1 (subject CFD).

Utilities:

All normal utilities are available to serve the subject site by the following companies:

Electrical: City of Riverside Public Utilities  
Natural Gas: The Gas Company  
Water: City of Riverside Public Utilities  
Sewer: City of Riverside Public Utilities  
School District: Alvord Unified School District

**Streets/Access:** The subject property has access from the Riverside Freeway (91) via La Sierra, south to Indiana. The property is located within ¼ mile of the 91 Freeway offramp.

Riverside Freeway (91) is a major east/west freeway providing access to Orange County and Los Angeles to the west with connections to I-10, I-215 and I-15 to the east.

La Sierra Avenue is a main arterial through the City of Riverside beginning at Arlington Avenue about three miles north of the subject providing access through the communities of La Sierra, Riverwalk and around the west side of Lake Matthews before terminating at Cajalco Road in unincorporated Riverside County.

Indiana Avenue begins approximately three miles southwest at Grant Street, is generally parallel to the 91 Freeway ¼ mile south east of the Freeway, crosses La Sierra Avenue and terminates at Tyler Street approximately ½ mile northeast of the subject. Indiana Avenue is a mix of commercial and older existing residential

**Current Condition:** As of the appraisal date of value, the subject property has been developed into 79 single family detached lots which are terraced allowing for good to excellent views of surrounding city lights and/or mountains from the majority of the homesites. There are 30 completed homes that have closed to individual homeowners, six homes over 95 percent complete owned by the builder (three models and three production homes one that is in escrow and two available for sale), 14 additional production homes under construction and 29 remaining finished lots.

**Development Costs:** The lots are all in a finished lot condition and all fees paid per the developer. This is evidenced by all building permits pulled on the 79 lots, thus there are no remaining development costs.

**Improvement Description:** Tract 32772-1 is being developed into 79 single family detached homes known as TopazRidge. The lots are terraced on single sided streets creating good to excellent views for the majority of the homes. TopazRidge originally began in 2007 by Griffin Communities who constructed the three original model homes and began eight production homes. The property went back to the

lender and TRI Pointe purchased the property March 31, 2011, finished the eight production homes and sold the 11 Griffin Community product between February and October 2012. During this time TRI Pointe constructed three new models and began production homes.

TopazRidge is located within the gated community of Riverwalk Vista with a community pool, meandering walkways, a tot lot and a barbeque area. Exteriors include front yard landscaping, covered front porches on select residences, concrete tile roofing, shutters, full length concrete driveways, insulated sectional garage doors with openers, integrated stucco color selected and ornamental iron, stone and brick. Interiors include raised panel interior doors, ceramic tile in entries, fireplaces, central air conditioning with 2 systems in larger residences, energy saving forced air heating, tankless gas water heaters in some residences, bullnose drywall corners, interior laundry room and generous closet and storage space throughout. Kitchens include built-in desk, granite countertops, pantry and stainless appliances and sinks. The homes range in size from 2,567 to 4,291 square feet. The plans shown as 4, 5 and 6 are the original Griffin Community product. Plans 5 and 6 have optional rooms resulting in two sizes for each plan. The plans shown as 1, 2 and 3 refer to the TRI Pointe product which is now selling. The plans are detailed as follows:

<b>Plan</b>	<b>Room Count*</b>	<b>Floors/ Parking</b>	<b>Square Feet</b>	<b>Bldr. Owned</b>	<b>Ind. Owned</b>
1	4 / 2.5	1 / 3	2,567	1	3
2	6 / 3	2 / 3	3,426	2	8
3	7 / 3	2 / 3	3,773	3	8
4	3 / 2	1 / 3	2,713	0	2
5a	5 / 3	2 / 3	3,753	0	1
5b	6 / 3	2 / 3	4,191	0	3
6a	5 / 3	2 / 3	4,007	0	1
6b	6 / 3	2 / 3	4,291	0	4

\*Room Count includes den, office, game room or parlour. One of Plan 1, 2 and 3 are model homes. In addition to the above there are 14 houses under construction and 29 finished lots.

All of the homes are of good design and appear to be of good workmanship. Little to no deterioration of the structures was apparent upon inspection.

**TRACT 32772-2 – SageBluff by TRI Pointe Homes**

Location: Southwest corner of Indiana and Vallejo Avenues, City of Riverside, Riverside County, California

Thomas Guide: 744-2 F

Legal Description: Lots 1-47 of Tract 32772-2, City of Riverside, Riverside County, California

Owner of Record: Individual Owners as to Lots 10-30 and 40-47; TRI Pointe Homes, LLC as to the remainder of the lots.

Three-Year

Sales History: TRI Pointe Homes LLC purchased the project on July 22, 2011 for \$5,575,000 from City National Bank who had taken the property back from Griffin Communities which began development of the property. At time of purchase there were three completed model homes, eight substantially complete production homes and 36 finished lots. TRI Pointe Homes completed construction of the eight production homes and has continued the same product while using the original models. TRI Pointe Homes has closed 29 homes (including aforementioned eight homes) to individuals between March 2012 and February 2013. All 47 homes are "sold" and are anticipated to close upon completion within the next 90 days.

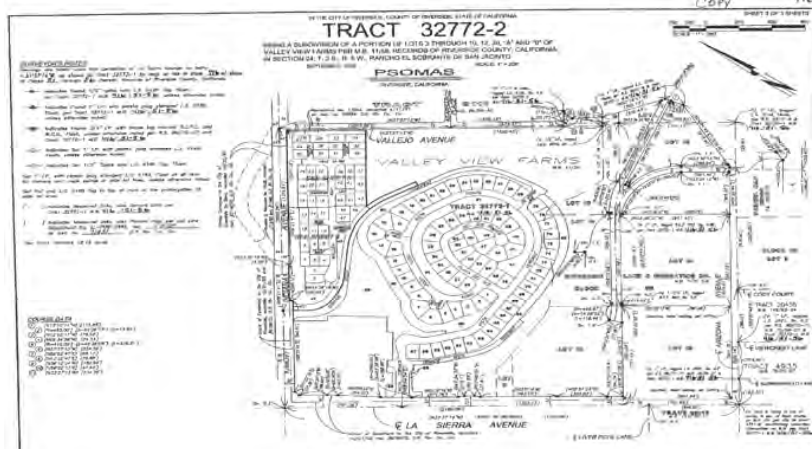
Assessor

Parcel Nos.: 138-460-001 thru 047.

Property Taxes: Using APN 138-460-013-0 (3381 Bliss Court; Lot 13 of Tract 32772-2) as a sample, the 2012/13 property taxes are \$5,604.78. The property taxes include ad valorem taxes of \$3,513.26 (based on a tax rate of 1.1446 percent) and special taxes and assessments of \$2,091.52 which includes \$2,042.00 for City of Riverside CFD No. 2006-1.

Flood Zone: Per FEMA Panel 715 of 3805 (Map Number 06065C0715G) the subject is located within Flood Zone X which is outside of the two percent annual chance of flooding and insurance is not required. A copy of the FEMA Map is located in the Addenda for your review.

Size and Shape: The subject property is irregular in shape and contains 12.16 acres per the recorded tract map as shown on the following page.



**Zoning:** Per the City of Riverside Zoning Map the subject property is zoned R-7,000 which allows for a maximum density of 6.2 dwelling units per acre and a 7,000 square foot minimum lot size. Per the General Plan, the property is shown as MDR which allows for a maximum of 6.2 dwelling units per acre unless a PRD (Planned Residential Development) is approved which allows for a maximum of 8.0 dwelling units per acre. Per the City Planning Department if a PRD is approved the lot sizes may be smaller than allowed per the zoning as other amenities are required of the developer to make up for the smaller lot sizes. The subject property and surrounding lands are also covered by the Riverwalk Vista Specific Plan (a PRD) which was approved in September 2005 allowing for 402 total units over the entire 120.2 acres (averages 3.34 dwelling units per acre), a recreation center including a resort pool complex, picnic areas, BBQs, a pocket park, tot lot and open lawn areas.

**Entitlements:** The subject property is covered by Tract Map 32772-2 allowing for 49 single-family detached lots on 12.16 acres with a minimum lot size of 4,400 square feet (average of 4.03 dwelling units per acre which is consistent with the General Plan allowed uses as stated above). Tract Map 32772-2 recorded February 16, 2007.

**Topography:** The subject property was above street grade of Indiana Avenue. Tract 32772-2 has been mass graded and developed into finished lots which have an average size of 4,675 square feet. Drainage is in an engineered street drainage system.

**Soils Condition:** We have reviewed a Geotechnical Report for the entire Riverwalk Vista project prepared by Gorian & Associates, Inc. of Thousand Oaks, California and dated March 26, 2004. The report concludes that the proposed development is feasible from a geotechnical point of view provided the recommendations made in the report are incorporated into the design and construction of the project.



In addition we have reviewed a Geotechnical Review of Precise Grading Plans for Tract 32772-2 Lots 4-9 and 16-45 prepared by Petra of Costa Mesa, California and dated September 8, 2011. The report presented geotechnical recommendations for site precise grading and design of building foundations for the remaining 36 lots (after the three models and eight production homes were developed). The property was originally graded in January 2007 by Griffin Communities. Since that time erosion had occurred creating the need for additional precise grading. The report concludes that based on the proposed construction of single-family residences, the project is feasible and practical from a geotechnical standpoint if done in accordance with the City of Riverside requirements and the recommendations contained in the report.

It is an assumption of this report that the soils are adequate to support the highest and best use conclusion and that all recommendations made in the above referenced geotechnical reports were incorporated in the project.

Seismic  
Conditions:

No active faults were observed during grading operations per the above referenced geotechnical reports. As with all of Southern California, the subject property will be subject to ground shaking due to earthquakes.

Environmental  
Concerns:

We have reviewed a Phase I Environmental Site Assessment ("ESA") prepared by Meredith & Associates of Los Angeles, California and dated April 22, 2004 which covered the entire Riverwalk Vista site. Meredith & Associates performed a Phase I ESA. The assessment revealed no evidence of recognized environmental conditions in connection with the site and they concluded the site was suitable for its intended purpose of single family residences.

This appraisal assumes that there are no environmental issues that would slow or thwart development of the site as evidenced by existing development on the site.

Easements/  
Encumbrances:

We have reviewed Chicago Title Company's Preliminary Title Report No. 930022822-U50 dated May 10, 2012 which covers Lots 1-12, 14 and 16-45, 47, 48, 49 and lettered lots C through L of Tract 32772-2 (Lots 48, 49 and lettered lots are common area lots). The exceptions were as follows:

Item Nos. 1, 1A and 2 pertain to property taxes on the site including supplemental taxes, if any and the subject CFD. Item No. 3 states the subject is located within the City of Riverside Redevelopment

Project Area. Item No. 4 refers to a school mitigation agreement. Item Nos. 5, 6, 6A, 10, 15, 22, 23, 24, 27, 28, 29 and 31 refer to easements and easement agreements on the property. Item Nos. 7, 11-14 and 16-21 refer to items intentionally omitted. Item No. 8 pertains to a document entitled "Notice Pursuant to California Civil Code Section 912(f) dated March 21, 2007 executed by Riverwalk Vista LLC, a previous owner of the property. Item No. 9 refers to water rights on the property. Item No. 25 refers to a Cost Sharing Agreement (per TRI Pointe Homes this cost sharing is for the DRE processing and recreation center and other common area amenities within the community and will be terminated once the HOA takes over). Item No. 26 refers to the CC & Rs recorded on the property. Item No. 30 is in reference to a deed of trust on the property. Item No. 32 refers to any matters which may be disclosed by an inspection or a correct ALTA/ACSM Land Title Survey. Item No. 33 pertains to any rights of parties in possession of said land based on any unrecorded lease or leases.

This appraisal assumes that the subject property is free and clear of any liens and/or encumbrances with the exception of the existing lien of City of Riverside CFD No. 2006-1 IA1 (subject CFD).

**Utilities:** All normal utilities are available to serve the subject site by the following companies:

Electrical:	City of Riverside Public Utilities
Natural Gas:	The Gas Company
Water:	City of Riverside Public Utilities
Sewer:	City of Riverside Public Utilities
School District:	Alvord Unified School District

**Streets/Access:** The subject property has access from the Riverside Freeway (91) via La Sierra, south to Indiana. The property is located within ¼ mile of the 91 Freeway offramp.

Riverside Freeway (91) is a major east/west freeway providing access to Orange County and Los Angeles to the west with connections to I-10, I-215 and I-15.

La Sierra Avenue is a main arterial through the City of Riverside beginning at Arlington Avenue about three miles north of the subject providing access through the communities of La Sierra, Riverwalk and around the west side of Lake Matthews before terminating at Cajalco Road in unincorporated Riverside County.

Indiana Avenue begins approximately three miles southwest at Grant Street, is generally parallel to the 91 Freeway ¼ mile south

east of the Freeway, crosses La Sierra Avenue and terminates at Tyler Street approximately ½ mile northeast of the subject. Indiana Avenue is a mix of commercial and older existing residential

**Current Condition:** As of the appraisal date of value, the subject property has been developed into 47 single family detached lots with an average size of 4,675 square feet. There are 29 completed homes that have closed to individual homeowners, 12 homes over 95 percent complete owned by the builder (three models and nine production homes, all in escrow and due to close upon completion) and the final six homes are under construction.

**Development**

**Costs:**

The lots are all in a finished lot condition and all fees paid per the developer. This is evidenced by all building permits pulled on the 47 lots, thus there are no remaining land development costs.

**Improvement**

**Description:**

Tract 32772-2 is being developed into 47 single family detached homes known as SageBluff. SageBluff originally began in 2007 by Griffin Communities who constructed the three original model homes and began eight production homes. The property went back to the lender and TRI Pointe purchased the property July 22, 2011, finished the eight production homes and closed the eight production homes and 21 additional homes they developed between February 2012 and February 2013. TRI Pointe utilized the model complex and the previously developed plans for the homes.

SageBluff is located within the gated community of Riverwalk Vista with a community pool, meandering walkways, a tot lot and a barbeque area. Exteriors include front yard landscaping, covered front porches on select residences, concrete tile roofing, sectional garage doors with openers and integrated stucco color. Interiors include raised panel interior doors, ceramic tile in entries and kitchens, central air conditioning, energy saving forced air heating, tankless gas water heaters in some residences, bullnose drywall corners, interior laundry room and generous closet and storage space throughout. Kitchens include granite countertops, pantry and stainless appliances and sinks. The homes range in size from 2,883 to 3,206 square feet. Although there are only three plans, when TRI Pointe took over development they changed the reconfiguration a small amount which slightly changed the square footage of the homes. This resulted in two slightly different sizes for each plan which we show as "a" and "b" in the table below. The plans are detailed as shown on the following page.

Plan	Room Count*	Floors/ Parking	Square Feet	Bldr. Owned	Ind. Owned
1a	5 / 3	2 / 2+	2,883	1	2
1b	5 / 3	2 / 2+	2,866	3	4
2a	5 / 3	2 / 3	3,045	1	3
2b	5 / 3	2 / 3	3,068	4	9
3a	5 / 3	2 / 3	3,176	1	3
3b	5 / 3	2 / 3	3,206	2	8
				12	29

\*Room Count includes office, den and/or game room. The builder-owned Plan 1a, 2a and 3a are the model homes. In addition to the above listed homes there are six homes under construction.

All of the homes are of good design and appear to be of good workmanship. Little to no deterioration of the structures was apparent upon inspection.

**TRACT 32772-3 – Promenade by Woodside Homes**

Location: Southeast corner of La Sierra and Indiana Avenues, City of Riverside, Riverside County, California

Thomas Guide: 744-2 F

Legal Description: Lots 1-59 of Tract 32772-3, City of Riverside, Riverside County, California

Owner of Record: Individual Owners as to Lots 1-14; Woodside 05S LP as to lots 15-51, 53, 55, 56 and 59, Mrec Riverwalk LLC as to Lots 52, 54 and 57.

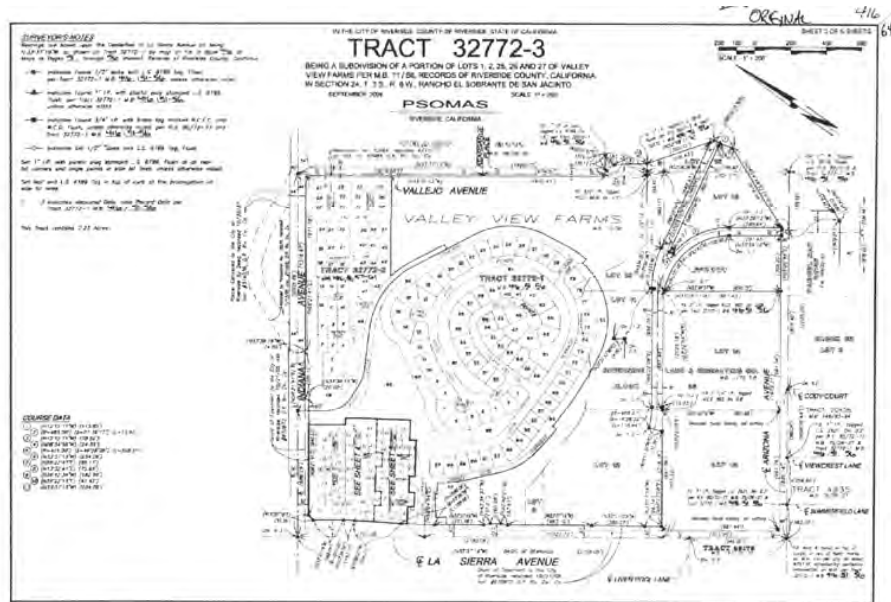
Three-Year Sales History: Woodside 05S LP purchased Lots 15-51, 53, 55-56 and 58-59 from Mrec Riverwalk LLC (“Mrec”) on August 29, 2012 for \$3,060,000. Mrec purchased the entire site from Bank of the West (entity named Riverwalk Village Three Holding) on June 23, 2011 who had taken the property back from Griffin Communities who originally began development of the property. At the time of the Mrec purchase from the bank there were three models complete and 14 homes partially complete. Mrec hired Artisan Builders as a fee builder to complete the 14 homes. Mrec sold the 14 production homes to individual homebuyers (closings between April 2012 and December 2012) and leased the three model homes to Woodside with the lease rate included in the sales price for the 42 finished lots. Nineteen of the 23 homes under construction (11 are over 95 percent complete) are in escrow and due to close upon completion estimated to be within the next 120 days.

Assessor  
Parcel Nos.: 138-450-023 thru 081.

Property Taxes: Using APN 138-450-030-4 (10987 Cedarhurst Way; Lot 8 of Tract 32772-3) as a sample, the 2012/13 property taxes are \$4,623.94. The property taxes include ad valorem taxes of \$3,202.32 which includes a supplemental bill due to the reassessment based on the sales price in 2012 (based on a tax rate of 1.1446 percent) and special taxes and assessments of \$1,421.62 which includes \$1,368.00 for City of Riverside CFD No. 2006-1.

Flood Zone: Per FEMA Panel 715 of 3805 (Map Number 06065C0715G) the subject is located within Flood Zone X which is outside of the two percent annual chance of flooding and insurance is not required. A copy of the FEMA Map is located in the Addenda for your review.

Size and Shape: The subject property is irregular in shape and contains 7.23 acres per the recorded tract map as shown on the following page.



Zoning: Per the City of Riverside Zoning Map the subject property is zoned R-7,000 which allows for a maximum density of 6.2 dwelling units per acre and a 7,000 square foot minimum lot size. Per the General Plan, the property is shown as MDR which allows for a maximum of 6.2 dwelling units per acre unless a PRD (Planned Residential Development) is approved which allows for a maximum of 8.0 dwelling units per acre. Per the City Planning Department is

a PRD is approved the lot sizes may be smaller than allowed per the zoning as other amenities are required of the developer to make up for the smaller lot sizes. The subject property and surrounding lands are also covered by the Riverwalk Vista Specific Plan (a PRD) which was approved in September 2005 allowing for 402 total units over the entire 120.2 acres (averages 3.34 dwelling units per acre), a recreation center including a resort pool complex, picnic areas, BBQs, a pocket park, tot lot and open lawn areas.

**Entitlements:** The subject property is covered by Tract Map 32772-3 allowing for 59 single-family detached lots on 7.23 acres with a minimum lot size of 2,743 square feet and the average lot size of 3,366 square feet (average of 8.16 dwelling units per acre). Tract Map 32772-3 recorded February 16, 2007.

**Topography:** The subject property is above street grade of La Sierra and Indiana Avenues. Tract 32772-3 has been mass graded and developed into finished lots which have an average size of 3,366 square feet. Drainage is in an engineered street drainage system.

**Soils Condition:** We have reviewed a Geotechnical Report for the entire Riverwalk Vista project prepared by Gorian & Associates, Inc. of Thousand Oaks, California and dated March 26, 2004. The report concludes that the proposed development is feasible from a geotechnical point of view provided the recommendations made in the report are incorporated into the design and construction of the project.

We have also reviewed a Rough Grading Compaction report from Gorian dated January 8, 2007 which concludes Lots 1-59 of Tract 32772-3 were substantially rough graded as recommended and are considered suitable for their intended use for proposed residential construction.

In addition we have reviewed a Geotechnical Update on the remaining 42 lots which were purchased by Woodside prepared by Leighton and Associated, Inc. of Temecula and dated August 14, 2012. Leighton reviewed site conditions, the existing soils reports and made geotechnical recommendations for foundation design and remedial grading to the remaining lots.

It is an assumption of this report that the soils are adequate to support the highest and best use conclusion and that all recommendations made in the above referenced geotechnical reports were incorporated in the project.

**Seismic Conditions:** No active faults were observed during grading operations per the above referenced geotechnical reports. As with all of Southern

California, the subject property will be subject to ground shaking due to earthquakes.

Environmental  
Concerns:

We have reviewed a Phase I Environmental Site Assessment (“ESA”) prepared by Meredith & Associates of Los Angeles, California and dated April 22, 2004 which covered the entire Riverwalk Vista site. Meredith & Associates performed a Phase I ESA. The assessment revealed no evidence of recognized environmental conditions in connection with the site and they concluded the site was suitable for its intended purpose of single family residences.

This appraisal assumes that there are no environmental issues that would slow or thwart development of the site as evidenced by existing development on the site.

Easements/  
Encumbrances:

We have reviewed Chicago Title Company’s Preliminary Title Report No. 126744120-X49 dated June 28, 2012 which covers Lots 15-51, 53, 55, 56 and 58 and 59 of Tract 32772-3. The exceptions were as follows:

Item Nos. A through D pertain to property taxes on the site including supplemental taxes, if any and the subject CFD. Item No. 1 states the subject is located within the City of Riverside Redevelopment Project Area. Item No. 2 refers to a school mitigation agreement. Item Nos. 3, 5-10 and 12 refer to easements and easement agreements on the property. Item No. 4 pertains to a document entitled “Notice Pursuant to California Civil Code Section 912(f) dated March 21, 2007 executed by Riverwalk Vista LLC, a previous owner of the property. Item No. 11 pertains to CC & R’s recorded on the property. Item No. 13 refers to water rights on the property. Item No. 14 refers to any matters which may be disclosed by an inspection or a correct ALTA/ACSM Land Title Survey. Item No. 15 pertains to any rights of parties in possession of said land based on any unrecorded lease or leases.

This appraisal assumes that the subject property is free and clear of any liens and/or encumbrances with the exception of the existing lien of City of Riverside CFD No. 2006-1 (subject CFD).

Utilities:

All normal utilities serve the subject site by the following companies:

Electrical:	City of Riverside Public Utilities
Natural Gas:	The Gas Company
Water:	City of Riverside Public Utilities
Sewer:	City of Riverside Public Utilities
School District:	Alvord Unified School District

**Streets/Access:** The subject property has access from the Riverside Freeway (91) via La Sierra, south to Indiana. The property is located within ¼ mile of the 91 Freeway offramp.

Riverside Freeway (91) is a major east/west freeway providing access to Orange County and Los Angeles to the west with connections to I-10, I-215 and I-15.

La Sierra Avenue is a main arterial through the City of Riverside beginning at Arlington Avenue about three miles north of the subject providing access through the communities of La Sierra, Riverwalk and around the west side of Lake Matthews before terminating at Cajalco Road in unincorporated Riverside County.

Indiana Avenue begins approximately three miles southwest at Grant Street, is generally parallel to the 91 Freeway ¼ mile south east of the Freeway, crosses La Sierra Avenue and terminates at Tyler Street approximately ½ mile northeast of the subject. Indiana Avenue is a mix of commercial and older existing residential

**Current Condition:** As of the appraisal date of value, the subject property has been developed into 59 single family detached lots with an average size of 3,366 square feet. There are 14 completed homes that have closed to individual homeowners, 14 homes over 95 percent complete owned by the builder (three models and 11 production homes, all in escrow and due to close upon completion). There are an additional 12 homes under construction and 19 remaining finished lots.

**Development Costs:** Per the builder there are \$128,495 remaining in costs to complete in the final lift, repair of curb/gutter and miscellaneous items on the remaining lots.

**Improvement Description:** Tract 32772-3 is being developed into 59 single family detached homes known as Promenade. Promenade originally began in 2007 by Griffin Communities who constructed the three original model homes and began 14 production homes. The property went back to the lender and Mrec-Riverwalk LLC purchased the property, hired Artisan as a fee building to complete the 14 homes. Mrec-Riverwalk sold off the 14 homes between April and December 2012 and sold the remaining 42 lots to Woodside Homes who is now developing them. Woodside Homes has generally continued the original product and is leasing the three model homes from Mrec-Riverwalk who plans to sell them at the end of the project.

Promenade is located within the gated community of Riverwalk



Vista with a community pool, meandering walkways, a tot lot and a barbeque area. Exteriors include front yard landscaping, covered porches on some residences, concrete tile roofing, sectional garage doors with openers and integrated stucco color. Interiors include raised panel interior doors, ceramic tile in entries and kitchens, central air conditioning, energy saving forced air heating, interior laundry room and generous closet and storage space throughout. The homes range in size from 1,519 to 1,981 square feet. Although there are only three plans, when Woodside Homes took over development they reconciled the square footage of the homes which slightly changed the square footage of the homes. This resulted in two slightly different sizes for each plan which we show as “a” and “b” in the table below. The plans are detailed as shown below:

<b>Plan</b>	<b>Room Count*</b>	<b>Floors/ Parking</b>	<b>Square Feet</b>	<b>Mrec Owned</b>	<b>Bldr. Owned</b>	<b>Ind. Owned</b>
1a	3 / 2.5	2 / 2	1,519	0	1	0
1b	3 / 2.5	2 / 2	1,544	1	2	5
2a	4 / 2.5	2 / 2	1,740	0	2	0
2b	4 / 2.5	2 / 2	1,754	1	1	4
3a	5 / 2.5	2 / 2	1,975	0	2	0
3b	5 / 2.5	2 / 2	1,981	1	3	5
Subtotal				3	11	14
*Room Count includes office, den and/or game room. The Mrec owned property are the model homes. In addition to the homes listed above there are 12 homes under construction and 19 finished lots.						

All of the homes are of good design and appear to be of good workmanship. Little to no deterioration of the structures was apparent upon inspection.

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## HIGHEST AND BEST USE ANALYSIS

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The highest and best use is a basic concept in real estate valuation due to the fact that it represents the underlying premise (i.e., land use) upon which the estimate of value is based. In this report, the highest and best use is defined as:

*"the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value"<sup>5</sup>*

Proper application of this analysis requires the subject property to first be considered "As If Vacant" in order to identify the "ideal" improvements in terms of use, size and timing of development. The existing improvements (if any) are then compared to the "ideal" improvements to determine if the use should be continued, altered or demolished preparatory to redevelopment of the site with a more productive or ideal use.

### **"As If Vacant"**

In the following analysis, we have considered the site's probable use, or those uses which are physically possible; the legality of use, or those uses which are allowed by zoning or deed restrictions; the financially feasible use, or those uses which generate a positive return on investment; and the maximally productive use, or those probable permissible uses which combine to give the owner of the land the highest net return on value in the foreseeable future.

### **Physically Possible Uses**

The subject property consists of three adjoining tracts of land ranging in size from 7.23 to 33.561 acres each. All three tracts have been graded into 185 single family detached lots of varying sizes. Surrounding streets are in place. All three tracts originally were sloping to hilly which provided for some good to excellent views. Soils reports and environmental reports on all three tracts have been reviewed. All reports concluded that the proposed development of each tract was feasible. Access to the subject property is considered to be good via State Route 91 (also known as the Riverside Freeway) to La

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<sup>5</sup> The Appraisal of Real Estate, 11<sup>th</sup> Edition

Sierra Avenue, exit south approximately ¼ mile to Indiana Avenue and the subject property. The neighborhood consists of residential development, new homes, a metrolink station, two neighborhood shopping centers anchored by major supermarkets, an existing middle school and some vacant lands. Across the 91 Freeway and within one mile of the subject property is the Galleria at Tyler, a regional mall anchored by Nordstrom's and Macy's and Castle Park, a theme, entertainment park.

It is an assumption of this report that the soils are adequate to support the highest and best use conclusion and that geotechnical recommendations have been or will be adhered to in the development of each tract. It is also assumed that no environmental issues exist which would slow or thwart development of the site.

The size, access, and topography of the subject properties makes them physically suited for numerous types of development, however, the grading and development that has occurred on portions of the property suggests single-family residential use. Although the property does have commercial uses in the immediate neighborhood, the property has been graded into a gated master planned community with walking access to the metrolink station making residential development appear feasible.

### **Legality of Use**

The subject property is located within the City of Riverside, the entity responsible for regulating land use through the implementation of general plans and zoning ordinances. Per the City, the property is zoned R-1-7,000 which allow for residential development with an average lot size of 7,000 square feet. Per the General Plan, the property is shown as MDR which allows for a maximum of 6.2 dwelling units per acre unless a PRD (Planned Residential Development) is approved which then allows for a maximum of 8.0 dwelling units per acre. As stated in the General Plan, the zoning of R-1-7,000 is considered to be consistent with the allowed uses in MDR. The subject property is also covered by the Riverwalk Vista Specific Plan (a PRD) which was approved in September 2005 allowing for a proposed total of 402 units over the entire 120.2 acres (averages 3.34 dwelling units per acre). The subject three parcels are a portion of the Riverwalk Vista Specific Plan. Tract Map 32772-1 (recorded February 16, 2007) contains 33.561 acres subdivided into 79 lots with a minimum lot size of 6,825 square

feet. Tract Map 32772-2 (recorded February 16, 2007) contains 12.16 acres subdivided into 47 lots with a minimum lot size of 4,400 square feet and an average lot size of 4,625 square feet. Tract Map 32772-3 (also recorded February 16, 2007) contains 7.23 acres subdivided into 59 lots with a minimum lot size of 2,743 square feet and an average lot size of 3,366 square feet. All tracts are consistent with the General Plan designation on the property.

Based on the legality of use analysis, the types of development for which the subject property can be utilized are narrowed to residential use per the approved specific plan, the general plan and zoning designations along with the approved mapping on the property. Residential use is consistent with the findings of the physically possible uses.

### **Feasibility of Development**

The third and fourth considerations in the highest and best use analysis are economic in nature, i.e., the use that can be expected to be most profitable. In the housing market, from the late 1990s residential housing prices generally escalated rapidly with good residential sale activity and a strong resale market drawing move-up residential buyers to the Inland Empire. In 2005 home sales volumes began to drop dramatically due to prices becoming unaffordable, however non-conventional mortgage financing and sub-prime mortgages allowed buyers to continue to purchase homes for a time. From a high of 27,420 new home sales in Riverside County in 2005, sales dropped to 2,717 new home sales during 2011, a reduction of over 90 percent from the peak. The average price of a new single-family detached home in Riverside County fell over 40 percent between its peak in third quarter 2006 and 1<sup>st</sup> quarter 2012 (from \$520,152 to \$303,250). In 2009 new home building was limited to pockets of development and product was smaller and less expensive than the homes constructed five years ago, however homebuilders are now looking at further out areas and seeing larger homes beginning to sell again. The market appears to have hit bottom with prices stabilizing in 2012 and beginning to increase in late 2012 and continue to increase in 2013. In addition to price increases, sales have picked up due to historically low interest rates. Current projections are for sales to remain steady or increase and for prices to continue to increase, however no big appreciation is anticipated in the near future.

The subject three tracts began development in 2007 by Griffin Communities who got caught in the falling real estate market of the great recession. The three tracts ended up being taken back by the lenders and re-sold to the current owners. Currently within City of Riverside CFD No. 2006-1 IA1, one of the tracts is sold out while the other two are currently selling homes. All homes appear to be in good condition with little to no physical depreciation apparent.

Within the new home market in Riverside, home prices which had fallen up to 50 percent are now increasing once again. Current pricing however is still 20 to 40 percent below the peak of the market. Sales have been steadily picking up for the past twelve months. The foreclosure market which had affected the new home market in Riverside appears to have worked through the issues and there are limited homes on the market in the immediate area. Population growth is still occurring in the area and will continue to create the need for housing, albeit it at a significantly slower pace than in the past few years.

Finished lot prices within Riverside decreased as much as 50 percent, however in late 2009 and early 2010 sales of lots increased with price increases following the sales due to the limited amount of land ready to develop. The subject three tracts plus additional tracts within Riverwalk Vista were all mass graded in early 2007 with most of the tracts developed into a blue-topped condition and some in a physically finished lot condition. The subject three tracts were all purchased by the current owners in 2011 or 2012. The remaining lands within Riverwalk Vista (currently mass graded and blue-topped condition) are going to be offered on the market in the near future. Brokers are anticipating numerous offers due to the limited land ready for development in the immediate area. There have been several raw land sales in the past 18 months suggesting that homebuilding may be financially feasible in the area once again.

Based on the above analysis, the subject property's highest and best use appears to be for single-family detached residential development for the existing finished lots.

### **Maximum Productivity**

The current housing market is giving some mixed messages. Market conditions of high unemployment and limited credit availability suggest that demand for residential development is low. However the limited availability of homes for sale, population growth and low interest rates all point to demand for new housing in the subject area with upward pressure being placed on prices for the first time in over five years. However, price points are still of a great concern to new-home buyers, partially due to the competition of distressed homes although the numbers of distressed properties is receding. Based on the recent finished lot land sales and land development in the area coupled with population growth projected in the subject marketplace, it is our opinion that the subject property's highest and best use is feasible for residential development at the right price points.

### **Highest and Best Use Conclusion – “As If Vacant”**

The final determinant of highest and best use, as vacant, is the interaction of the previously discussed factors (i.e., physical, legal, financial feasibility and maximum productivity considerations). Based upon the foregoing analysis, it is our opinion that the highest and best use for the subject property “As if Vacant” is for residential development at the right price points for the finished lots.

### **Highest and Best Use – “As Improved”**

The subject property is currently being marketed as three products: TopazRidge by TRI Pointe Homes, SageBluff by TRI Pointe Homes and Promenade by Woodside Homes. TopazRidge has released 47 of their 79 homes, including the original three models and eight production homes began by Griffin Communities (former builder). There have been 42 homes sold (30 closed and twelve in escrow). Based on the first “sold” date of October 2011 this suggests a sales rate of 2.8 homes per month. Sales prices range from \$370,000 to \$521,000. SageBluff has released all 47 homes and all 47 homes are sold (29 closed and 18 in escrow). Based on the first “sold” date of January 2012 and the final “sale” date of February 2013 the sales rate for the project is 3.35 homes per month. Sales prices range from \$326,336 to \$402,213. Promenade was purchased from the bank by an investor who hired a builder to complete the 14 original Griffin

Community constructed homes and sell them to individuals. They then leased the models and sold the remaining lots to Woodside Homes. Based on both the developers sales of the original homes and the Woodside Homes sales, 37 of the total 59 homes have been released for sale with 33 homes sold (14 closed and 19 in escrow). Based on the first closed date of April 2012 ("sold" date was unavailable from previous builder) the sales rate within Promenade is 2.75 homes per month. Sales prices range from \$249,500 to \$323,190. Over the past five months, base prices have increased approximately two percent. This sales activity depicts all three projects are being well received in the subject marketplace.

One project is sold out while the other two projects are selling at what is considered to be good sales rates. All homes appear in good condition with little to no physical depreciation visually apparent. Based on the current sales rates, it is our conclusion that the highest and best use for the subject property is for the continued use, as improved.

## VALUATION ANALYSIS AND CONCLUSIONS

The valuation of the subject property will be presented as follows. A valuation for each tract will be analyzed separately. First a finished lot value for the varying sized lots will be determined after analyzing the subject market. The Sales Comparison Approach method of valuation will be used. In determining the value for the lands, a unit of comparison needs to be addressed. For finished lots, the lands are typically bought and sold based on a finished lot price with the condition of the lots taken into account. The concluded finished lot value will be addressed for the remaining lots within each tract. In the case of the individually owned homes, a concluded base value will be used for each plan. Premiums and upgrades will not be considered in the valuation which will result in a minimum market value for the individually owned new homes. The base value will be determined by the Sales Comparison Approach utilizing new home base prices and sales in the area. A Discounted Cash Flow Analysis will also be considered within each tract due to the builders owning several houses over 95 percent complete along with the model homes. In regards to homes under construction, if a home is under 95 percent complete, the parcel will be valued as if a finished lot rather than attribute value to a partially complete improvement.

All of the value conclusions will take into consideration improvements funded by the bonds of City of Riverside CFD No. 2006-1 IA 1 and their lien. A summary of the final value conclusions for the subject property will be reported at the end of this valuation section.

### **Finished Lot Value Discussion and Analysis**

The subject three tracts sold within the past 24 months. We searched the immediate area and found few comparable sales, thus we expanded our search to include additional areas in Riverside County. The eight transactions summarized in the Addenda are considered to be most comparable to the subject property. The sales are reported on a sales price per lot when available along with the finished lot price. Rarely are lots sold in a true finished lot condition with all fees paid, thus a reconciliation of



remaining fees needs to be considered. Lots that have houses under construction will be valued on the basis of a finished lot rather than attribute value to a partially complete structure.

Each comparable market data will be discussed followed by a comparison to the subject property. The subject lots are in true finished lot condition with all streets completed, utilities stubbed to each lot and development fees paid. There are some slight remaining land development costs within Tract 32772-3 for the final asphalt lift and for minor repairs which will be addressed.

Market Data Nos. 1 and 2 are in regards to a sale and a recent offer on the re-entitlement of a site located on Deer Hollow Way in the master planned community of Redhawk in Temecula approximately 20 miles southeast of the subject property. The property was purchased by Ashbrook Communities (in conjunction with Cardinal Investment Properties) in November 2012 (Market Data No. 2). At time of the November purchase the property had been approved for 97 attached units, however the approvals had expired. Ashbrook purchased the site for \$27,835 per unit or an estimated finished price of \$95,000 per unit. Ashbrook is re-entitling the site for an estimated 79 single family detached lots with a minimum lot size of 2,600 square feet. The property has an offer at \$135,000 per finished lot for the property once the map is approved. The buyer is confidential at this point due to the current escrow. In comparison to the subject property this site is considered to be a slightly superior location in the established Redhawk community in Temecula.

Market Data No. 3 pertains to one of the subject properties. Woodside Homes purchased the property from Mrec for \$3,060,000 in August of 2012. At time of sale the property consisted of 42 generally physically finished lots. The seller had hired a builder (Artisan) to complete the 14 partially complete homes and they retained ownership of the model homes. Included in the purchase price for the 42 lots is the fee to lease the models which are being used by Woodside homes. Based on the purchase price the finished lot was estimated at \$115,000 per Woodside representatives. The minimum lot size is 2,743 while the average lot is 3,366 square feet. In comparison to the subject

property this sale is considered to be slightly dated as it closed escrow approximately seven months ago with the market moving upward since that time. In determining an appreciation factor, we have reviewed sales within the project of the first homes compared to escrows on the current homes. There is a 1-2 percent increase in prices between original sales in December 2012 and current escrows in March 2013.

Market Data No. 4 refers to the closing of Planning Area 4B in Roripaugh Ranch in Temecula approximately 20 miles southwest of the subject site. Van Daele Development purchased the 113 blue-topped lots in December 2012 from Sunwood Ventures, an investment real estate firm that purchased the site from a lender. The lots have a minimum lot size of 5,000 square feet and were purchased for \$8,000,000 or \$70,796 per lot with the finished lot value estimated at \$148,000. The lots are in the master planned community of Roripaugh Ranch. Roripaugh Ranch was tied up in judicial proceedings for several years and has recently been offered on the open market. In comparison to the subject property the location of Roripaugh Ranch would be considered superior, however due to the stopped construction for many years, this superior factor is offset.

Market Data No. 5, 7 and 8 all pertain to closings in Eastvale, approximately eight miles northwest of the subject. All three of the market data refer to lots with a minimum size of 7,200 square feet which are larger than the subject lots. Data No. 5 was purchased in October 2012 by Beazer Homes and consists of 63 lots in a true physically finished condition. The location is on the western border of Eastvale, not as coveted as the more central portions of the city. Beazer purchased the 63 lots on the basis of a \$177,000 finished lot. Data Nos. 7 and 8 refer to two purchases by Lennar for an assemblage of 198 lots in June 2012. The lots were all in a raw land condition at time of sale with mapping ready to record. The lots were all purchased on the basis of a \$180,000 finished lot. In comparison to the subject property these lots are larger, however the location in Eastvale is considered to be slightly inferior to the subject's gated community.

Market Data No. 6 refers to the September 2012 Woodside purchase of 115 single family detached lots located within Planning Area 15A of Sycamore Creek, approximately five miles south of the subject property. Sycamore Creek is a large master planned community in unincorporated Corona along the I-15 corridor. The lots were purchased in a rough graded condition for \$8,500,000 or for \$73,913 per lot based on a \$130,000 finished lot. In comparison to the subject property this location is considered to be slightly inferior.

The market data has a wide overall range of value for finished lots from \$95,000 to \$180,000. The lowest end of the range pertained to attached units, however the resale for the property is estimated at \$135,000 per a recent offer. The next lowest end of the value range pertains to the subject's smallest lots with a minimum lot size of 2,743 square feet. The highest end of the range refers to 7,200 square foot minimum lots which are larger than the subject lots. Data Nos. 5, 6 and 7 are the larger lots, however their location is considered to be slightly inferior due to the central location of the subject (i.e. metro link station within walking distance) and also due to the amenities associated with the subject's gated community (i.e. pools, clubhouse, parks, etc).

In addition to the above market data we have reviewed the actual sales and finished lot prices for the other two subject parcels. Per the owners representative, the prices are confidential, thus we have retained them in our files, however are using them in our analyses. Based on the market data coupled with the knowledge of the subject market, we have concluded that the subject lots have the below concluded values.

Tract 32772-1 (6,825 square feet with views)	\$175,000
Tract 32772-2 (4,400 minimum square feet)	\$135,000
Tract 32772-3 (2,743 minimum square feet)	\$120,000

### **TopazRidge – Tract 32772-1**

TopazRidge by TRI Pointe Homes consists of 79 proposed homes. As of March 22, 2013 (appraisal date of value), there are 30 individually owned homes, three completed models and three production houses over 95 percent complete owned by the builder, 14 houses under construction and 29 remaining finished lots. Rather than give a value to a partially complete improvement, the 14 houses that are under construction (under 95 percent complete) will be valued as a finished lot. First, a valuation for each plan within TopazRidge will be conducted. The concluded value for each plan will then be considered the retail value for the builder owned houses. A discounted cash flow analysis will then be considered in order to account for the absorption time to sell off the homes, the costs of marketing and carrying costs of the homes and a profit due to the developer in order to sell off the homes. Next the remaining finished lot valuation will be concluded based on the above valuation. Finally, the individually owned homes will be given the base plan concluded value in order to conclude on a minimum market value for the individually owned houses. The valuation of each plan will take into consideration new home sales data within the subject market area.

### **Valuation Analysis for Completed Houses**

Below is a summary of the floor plans within TopazRidge by TRI Pointe Homes. The previous owner constructed three models and began eight production homes. TRI Pointe purchased the entire tract, completed the eight production homes and sold them along with the original model homes, constructed new models and production homes and are now marketing the homes. Closings began in February 2012. There have been 30 home closings and there are 12 homes under contract that are due to close upon completion. Per our review of the MLS, there have not been any re-sales of homes within the project at this time. A review of comparable new home sales prices will be addressed. The homes are of good design and appear to be of quality workmanship. Plan numbers 4, 5a, 5b, 6a and 6b below pertain to the original models and production homes. The slight differences in square footage are due to options. A listing of the Improved Residential comparable properties is located in the Addenda of this report.

Plan	Room Count*	Floors/ Parking	Square Feet	Bldr. Owned	Ind. Owned
1	4 / 2.5	1 / 3	2,567	1	3
2	6 / 3	2 / 3	3,426	2	8
3	7 / 3	2 / 3	3,773	3	8
4	3 / 2	1 / 3	2,713	0	2
5a	5 / 3	2 / 3	3,753	0	1
5b	6 / 3	2 / 3	4,191	0	3
6a	5 / 3	2 / 3	4,007	0	1
6b	6 / 3	2 / 3	4,291	0	4
Subtotal				6	30
*Room Count includes den, office, game room or parlour. In addition to the above there are 14 homes U/C and 29 lots.					

The most appropriate new home comparable data for TopazRidge Plan 1 are:

Data	Model	Bd/Ba	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	1	4 / 2.5	1 / 3	2,567	--
1	1	3 / 2	1 / 2	2,320	\$168.10
1	2	3 / 2.5	1 / 2	2,488	\$164.79
2	1	4 / 3	2 / 2	2,866	\$126.31
5	1	4 / 3.5	1 / 3	2,541	\$147.91

Data No. 2 and Data No. 5 do not have views while Data No. 1 does include views such as the subject. Data No. 2 refers to a two-story home which are typically lower on a per square foot basis due to economies of scale. Adjustments have been considered for these differences along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The current base price for a Plan 1 within TopazRidge is \$407,900 less a \$15,000 concession or \$392,900 which equates to \$153.06 per square foot. There have been three sales of Plan 1 with sales prices ranging from \$157.16 to \$159.32 however these prices include upgrades and premiums.

The homes appear to be in good condition with little to no physical depreciation visible. It has been concluded that the TopazRidge Plan 1 has a current minimum market value of \$153.00 per square foot. This calculates as follows:

$$2,567 \text{ sf} \times \$153.00 = \$392,751$$

The most appropriate new home comparable data for TopazRidge Plan 2 are:

<b>Data</b>	<b>Model</b>	<b>Bd/Ba</b>	<b>Flrs/Pkg.</b>	<b>Sq. Ft.</b>	<b>Price/SF</b>
Subj	2	5 / 3	2 / 3	3,426	--
1	5	4 / 2.5	2 / 3	3,181	\$133.60
1	6	5 / 3	2 / 3	3,464	\$128.46
2	3	4 / 3	2 / 3	3,206	\$118.53
4	3	5 / 3	2 / 3	3,773	\$116.86

Data No. 2 does not have views while Data No. 1 does include views such as the subject (Data No. 4). Adjustments have been considered for these differences along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The current base price for a Plan 2 within TopazRidge is \$439,900 less a \$15,000 concession or \$424,900 which equates to \$124.02 per square foot. There have been eight sales of Plan 2 with sales prices ranging from \$119.76 to \$131.48 however these prices include upgrades and premiums.

The homes appear to be in good condition with little to no physical depreciation visible. It has been concluded that the TopazRidge Plan 2 has a current minimum market value of \$122.50 per square foot. This calculates as follows:

$$3,426 \text{ sf} \times \$122.50 = \$419,685$$

The most appropriate new home comparable data for TopazRidge Plan 3 are:

<b>Data</b>	<b>Model</b>	<b>Bd/Ba</b>	<b>Flrs/Pkg.</b>	<b>Sq. Ft.</b>	<b>Price/SF</b>
Subj	3	5 / 3	2 / 3	3,773	--
1	6	5 / 3	2 / 3	3,464	\$128.46
2	3	4 / 3	2 / 3	3,206	\$118.53
4	2	5 / 3	2 / 3	3,426	\$124.02

Data No. 2 does not have views while Data No. 1 does include views such as the subject. Adjustments have been considered for these differences along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The current base price for a Plan 3 within TopazRidge is

\$455,900 less a \$15,000 concession or \$440,900 which equates to \$116.85 per square foot. There have been eight sales of Plan 3 with sales prices ranging from \$115.38 to \$128.52 however these prices include upgrades and premiums.

The homes appear to be in good condition with little to no physical depreciation visible. It has been concluded that the TopazRidge Plan 3 has a current minimum market value of \$116.00 per square foot. This calculates as follows:

$$3,773 \text{ sf} \times \$116.00 = \$437,668$$

Plan 4 was the original builders plan and is not being offered any more. The most appropriate new home comparable data for TopazRidge Plan 4 are:

<b>Data</b>	<b>Model</b>	<b>Bd/Ba</b>	<b>Firs/Pkg.</b>	<b>Sq. Ft.</b>	<b>Price/SF</b>
Subj	1	4 / 2.5	1 / 3	2,713	--
1	1	3 / 2	1 / 2	2,320	\$168.10
1	2	3 / 2.5	1 / 2	2,488	\$164.79
2	1	4 / 3	2 / 2	2,866	\$126.31
5	1	4 / 3.5	1 / 3	2,541	\$147.91

Data No. 2 and Data No. 5 do not have views while Data No. 1 does include views such as the subject. Data No. 2 refers to a two-story home which are typically lower on a per square foot basis due to economies of scale. Adjustments have been considered for these differences along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The final base price for a Plan 4 within TopazRidge was \$390,000 less a \$15,000 concession or \$375,000 which equates to \$138.22 per square foot. There were two sales of Plan 4s with sales prices ranging from \$136.38 to \$162.34 however these prices include upgrades and premiums and the higher sale was the former model home with significant upgrades.

The homes appear to be in good condition with little to no physical depreciation visible. The sales of the Plan 4s occurred in January and April 2012. The market has increased since that time. It has been concluded that the TopazRidge Plan 4 has a current minimum

market value of \$148.00 per square foot. This calculates as follows:

$$2,713 \text{ sf} \times \$148.00 = \$401,524$$

The most appropriate new home comparable data for TopazRidge Plan 5 are:

<b>Data</b>	<b>Model</b>	<b>Bd/Ba</b>	<b>Flrs/Pkg.</b>	<b>Sq. Ft.</b>	<b>Price/SF</b>
Subj	5a	5 / 3	2 / 3	3,753	--
Subj	5b	6 / 3	2 / 3	4,191	
1	6	5 / 3	2 / 3	3,464	\$128.46
2	3	4 / 3	2 / 3	3,206	\$118.53
4	3	5 / 3	2 / 3	3,773	\$116.86
5	4	5 / 3.5	2 / 3	3,480	\$130.37

Plan 5b has an optional room which increases the room count and square footage. Data No. 2 does not have views while Data No. 1 does include views such as the subject. Adjustments have been considered for these differences along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The final base price for a Plan 5 within TopazRidge was \$430,000 less a \$15,000 concession or \$415,000 which equates to \$110.58 per square foot. There was one sale of a Plan 5a (model) and three sales of Plan 5b with sales prices ranging from \$100.21 to \$138.82 however these prices include upgrades and premiums. The higher sales price was for the former model home with significant upgrades.

The homes appear to be in good condition with little to no physical depreciation visible. It has been concluded that the TopazRidge Plan 5a has a current minimum market value of \$115.00 per square foot while Plan 5b has a current minimum market value of \$107.00. The difference is due to the larger home having an economy of scale which reduced the per square foot amount. This calculates as follows:

$$\begin{aligned} 5a - 3,753 \text{ sf} \times \$115.00 &= \$431,595 \\ 5b - 4,191 \text{ sf} \times \$107.00 &= \$448,437 \end{aligned}$$

The most appropriate new home comparable data for TopazRidge Plan 6 are:



Data	Model	Bd/Ba	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	6a	5 / 3	2 / 3	4,007	--
Subj	6b	6 / 3	2 / 3	4,291	
1	6	5 / 3	2 / 3	3,464	\$128.46
2	3	4 / 3	2 / 3	3,206	\$118.53
4	3	5 / 3	2 / 3	3,773	\$116.86
5	4	5 / 3.5	2 / 3	3,480	\$130.37

Plan 6b has an optional room which increases the room count and square footage. Data No. 2 does not have views while Data No. 1 does include views such as the subject. Adjustments have been considered for these differences along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The final base price for a Plan 6 within TopazRidge was \$440,000 less a \$15,000 concession or \$425,000 which equates to \$106.06 per square foot. There was one sale of a Plan 6a (model) and four sales of Plan 6b with sales prices ranging from \$98.34 to \$128.52 however these prices include upgrades and premiums. The higher sales price was for the former model home with significant upgrades.

The homes appear to be in good condition with little to no physical depreciation visible. It has been concluded that the TopazRidge Plan 6a has a current minimum market value of \$110.00 per square foot while Plan 5b has a current minimum market value of \$105.00. The difference is due to the larger home having an economy of scale which reduced the per square foot amount. This calculates as follows:

$$6a - 4,007 \text{ sf} \times \$110.00 = \$440,770$$

$$6b - 4,291 \text{ sf} \times \$105.00 = \$450,555$$

#### Discounted Cash Flow Analysis

First a value for the remaining builder-owned houses will be concluded followed by a final value conclusion for the remaining lots owned by the builder. As of the date of value, there are three builder-owned model homes and three builder owned production homes over 95 percent complete. Two of the three production homes are in escrow and are due to close upon completion while the third home is available for sale. One of each Plan 1, 2 and 3 are model homes. Per interviews with builders, upgrades and

landscape/hardscape of up to \$100,000 are installed in the model homes, however, the builders generally consider this a marketing cost and do not anticipate recovering this investment on a dollar for dollar basis. Based on historical information, home sizes and fixtures, actual model home sales within the subject property and the current real estate market, a consideration of a \$50,000 premium has been considered on each of the model homes. The retail base value conclusions for the builder-owned homes within the subject property are calculated as follows:

Plan 1 (1 x \$392,751)	\$ 392,751
Plan 2 (2 x \$419,685)	839,370
Plan 3 (3 x \$437,668)	1,313,004
Plan 4 (0 x \$401,524)	0
Plan 5a (0 x \$431,595)	0
Plan 5b (0 x \$448,437)	0
Plan 6a (0 x \$440,770)	0
Plan 6b (0 x \$450,555)	0
Model Upgrades (3 x \$50,000)	<u>150,000</u>
Total Retail Value	\$2,695,125

Absorption Period

In order to arrive at an absorption period for the subject homes, the absorption rates for the subject project has been reviewed. The subject TopazRidge project has an overall sales rate of approximately 2.8 houses per month. This compares favorably to the overall Riverside County average during fourth quarter of 2012 of 1.42 sales per month per project. It appears the subject project is priced correctly in the subject market, however it should be noted that fourth quarter sales are typically slower than spring sales. Within the subject property, as of the date of value, there are three production homes and three models which are builder-owned. Two of the three production homes are in escrow and due to close upon completion. The model homes have not been released for sale. It has been concluded that the six builder-owned homes will be absorbed within a three-month period at the concluded values.

Expenses

In determining an expense rate, several builders in the subject area have been interviewed as to their expenses on selling existing inventory. Expenses include marketing and general administrative costs. These costs typically range from six to ten percent depending on varying factors such as absorption period, intensity of marketing, etc. Six

percent has been estimated for marketing expenses and two percent for general and administrative costs for a total of eight percent in expenses for this analysis.

### Profit

Several interviews with merchant builders in the area were conducted in order to determine an appropriate profit percentage for the subject property. In the early 2000s, developers typically attempted to achieve a 10 to 12 percent profit based on gross sales proceeds. During the early 1990s recession this range was lowered considerably to six to 10 percent with some builders drastically lowering their profit potential in order to maintain their work force. As the market improved, so did the profits. Current economic conditions once again are forcing builders to take a smaller profit in order to maintain their workforce. An eight percent profit is considered appropriate in the analysis for this project.

### Discount Rate

In selecting a discount rate, the following was completed:

1. Interviews with home builders in the Riverside area
2. Review of current market conditions including current market rates as well as yields reflected in other markets (i.e., municipal bonds, corporate bonds, etc.)
3. The quality, construction, historical sales and product on the subject property

The subject homes have been well received in the marketplace with a higher absorption rate than most projects in the Riverside County. Due to the good sales rates within TopazRidge, a 12.5 percent discount rate is considered appropriate for this analysis on the subject property.

### Discounted Cash Flow Summary

The discounted revenue (see chart in addenda) for the builder owned homes is \$2,217,547 (say) **\$2,215,000**.

### Builder-Owned Finished Lot Value Conclusion

TRI Pointe Homes owns 43 remaining finished lots, fourteen with houses under construction. The lots under construction will be valued on the basis of a finished lot rather than attribute value to a partially complete structure. Our finished lot valuation

concluded at a Finished Lot Value for Tract 32772-1 of \$175,000. The remaining builder-owned finished lots value is calculated as follows:

$$43 \text{ lots} \times \$175,000 = \mathbf{\$7,525,000}$$

Total Tract 32772-1 TRI Pointe Homes-Owned Property

The final value conclusions for the builder owned property is:

Six Houses	\$ 2,215,000
43 Finished Lots	<u>7,525,000</u>
Total TRI Pointe Homes Ownership	<b>\$9,740,000</b>

Individual Owners Value Conclusion – Tract 32772-1

In determining the value for the individually owned homes, we have considered the concluded base price value for the homes within TopazRidge which is considered a minimum market value. The concluded values are as follows:

Plan 1 (3 x \$392,751)	\$ 1,178,253
Plan 2 (8 x \$419,685)	3,357,480
Plan 3 (8 x \$437,668)	3,501,344
Plan 4 (2 x \$401,524)	803,048
Plan 5a (1 x \$431,595)	431,595
Plan 5b (3 x \$448,437)	1,345,311
Plan 6a (1 x \$440,770)	440,770
Plan 6b (4 x \$450,555)	<u>1,802,220</u>
Total Minimum Market Value	<b>\$12,860,021</b>

In an additional review, we have reviewed the actual builder sales prices for the homes. Closings occurred within TopazRidge between February 2012 and February 2013. The builder sales prices for the individually owned homes total \$13,273,599. The concluded current market value for the homes of \$12,860,021 is 3.1 percent below the reported sales prices. This is due to the concluded value being a base value which is considered to be a minimum market value due to most homebuyers purchasing some upgrades or premiums. It is our conclusion that the original builder sales prices further substantiate the concluded minimum market value for the individually owned homes.

### **SageBluff – Tract 32772-2**

SageBluff by TRI Pointe Homes consists of 47 proposed homes. As of the date of value, there are 29 individually owned homes, three completed models and nine production houses over 95 percent complete owned by the builder and the final six houses under construction. Rather than give a value to a partially complete improvement, the six houses that are under construction will be valued as a finished lot. First, a valuation for each plan within Sagebluff will be conducted. The concluded value for each plan will then be considered the retail value for the builder owned houses and a discounted cash flow analysis will be considered in order to account for the absorption time to sell off the homes, the costs of marketing and carrying costs of the homes and a profit due to the developer in order to sell off the homes. Next the remaining finished lot valuation will be concluded based on the above valuation. Finally, the individually owned homes will be given the base plan concluded value in order to conclude on a minimum market value for the individually owned houses. The valuation of each plan will take into consideration new home sales data within the subject market area.

### **Valuation Analysis for Completed Houses**

Below is a summary of the floor plans within Sagebluff by TRI Pointe Homes. The previous owner constructed three models and began eight production homes. TRI Pointe purchased the entire tract, completed the eight production homes and sold them then used the models to market their constructed production homes. There are slight differences in square footages which are due to slight differences by the new builder. Closings began in February 2012. There have been 29 home closings and the 18 homes are under contract and are due to close upon completion (including the model homes). Per our review of the MLS, there have not been any re-sales of homes within the project at this time. A review of comparable new home sales prices will be addressed. The homes are of good design and appear to be of quality workmanship. A listing of the Improved Residential comparable properties is located in the Addenda of this report.

Plan	Room Count*	Floors/ Parking	Square Feet	Bldr. Owned	Ind. Owned
1a	5 / 3	2 / 2+	2,883	1	2
1b	5 / 3	2 / 2+	2,866	3	4
2a	5 / 3	2 / 3	3,045	1	3
2b	5 / 3	2 / 3	3,068	4	9
3a	5 / 3	2 / 3	3,176	1	3
3b	5 / 3	2 / 3	3,206	<u>2</u>	<u>8</u>
				12	29

\*Room County includes office, den and/or game room. The builder owned Plan 1a, 2a and 3a are model homes. In addition to the above there are six homes under construction.

The most appropriate new home comparable data for SageBluff Plan 1 are:

Data	Model	Bd/Ba	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	1a	4 / 3	2 / 2+	2,883	--
Subj	1b	4 / 3	2 / 2+	2,866	
1	3	3 / 2.5	2 / 3	2,814	\$142.50
1	4	3 / 2.5	2 / 3	3,059	\$131.09
2	2	5 / 3	2 / 3	3,068	\$121.58
5	2	4 / 3.5	2 / 3	2,936	\$132.46

Data No. 1 includes homes with views. Adjustments have been considered for this difference along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The final base price for a Plan 1 within SageBluff was \$362,000 which equates to \$126.31 per square foot. There have been six closings of Plan 1 with sales prices ranging from \$113.86 to \$123.48 however these prices include upgrades and premiums.

The homes appear to be in good condition with little to no physical depreciation visible. It has been concluded that the SageBluff Plan 1 has a current minimum market value of \$123.00 per square foot. This calculates as follows:

$$1a - 2,883 \text{ sf} \times \$123.00 = \$354,609$$

$$1b - 2,866 \text{ sf} \times \$123.00 = \$352,518$$

The most appropriate new home comparable data for SageBluff Plan 2 are:

<b>Data</b>	<b>Model</b>	<b>Bd/Ba</b>	<b>Flrs/Pkg.</b>	<b>Sq. Ft.</b>	<b>Price/SF</b>
Subj	2a	5 / 3	2 / 3	3,045	--
Subj	2b	5 / 3	2 / 3	3,068	
1	4	3 / 2.5	2 / 3	3,059	\$131.09
1	5	4 / 2.5	2 / 3	3,181	\$133.60
2	1	5 / 3	2 / 2+	2,866	\$126.31
2	3	4 / 3	2 / 3	3,206	\$118.53
5	2	4 / 3.5	2 / 3	2,936	\$132.46

Data No. 1 includes homes with views. Adjustments have been considered for this difference along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The final base price for a Plan 2 within SageBluff was \$373,000 which equates to \$121.58 per square foot. There have been 12 closings of Plan 2 with sales prices ranging from \$113.72 to \$131.10 however these prices include upgrades and premiums.

The homes appear to be in good condition with little to no physical depreciation visible. It has been concluded that the SageBluff Plan 2 has a current minimum market value of \$120.00 per square foot. This calculates as follows:

$$2a - 3,045 \text{ sf} \times \$120.00 = \$365,400$$

$$2b - 3,068 \text{ sf} \times \$120.00 = \$368,160$$

The most appropriate new home comparable data for SageBluff Plan 3 are:

<b>Data</b>	<b>Model</b>	<b>Bd/Ba</b>	<b>Flrs/Pkg.</b>	<b>Sq. Ft.</b>	<b>Price/SF</b>
Subj	3a	4 / 3	2 / 3	3,176	--
Subj	3b	4 / 3	2 / 3	3,206	
1	5	4 / 2.5	2 / 3	3,181	\$133.60
1	6	5 / 3	2 / 3	3,464	\$128.46
2	1	5 / 3	2 / 2+	2,866	\$126.31
2	2	5 / 3	2 / 3	3,068	\$121.58
5	3	4 / 3.5	2 / 3	3,365	\$121.81

Data No. 1 includes homes with views. Adjustments have been considered for this difference along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The final

base price for a Plan 3 within SageBluff was \$380,000 which equates to \$118.53 per square foot. There have been 11 closings of Plan 3 with sales prices ranging from \$115.80 to \$123.21 however these prices include upgrades and premiums.

The homes appear to be in good condition with little to no physical depreciation visible. It has been concluded that the SageBluff Plan 3 has a current minimum market value of \$118.00 per square foot. This calculates as follows:

$$3a - 3,176 \text{ sf} \times \$118.00 = \$374,768$$

$$3b - 3,206 \text{ sf} \times \$118.00 = \$378,308$$

Discounted Cash Flow Analysis

First a value for the remaining builder-owned houses will be concluded followed by a final value conclusion for the remaining lots owned by the builder. As of the date of value, there are three builder-owned model homes and nine builder owned production homes over 95 percent complete. All of the builder owned homes are in escrow and due to close upon completion. One of each Plan 1, 2 and 3 are model homes. Per interviews with builders, upgrades and landscape/hardscape of up to \$100,000 are installed in the model homes, however, the builders generally consider this a marketing cost and do not anticipate recovering this investment on a dollar for dollar basis. Based on historical information, home sizes and fixtures, actual model home sales within the subject property and the current real estate market, a consideration of a \$30,000 premium has been considered on each of the model homes. This is lower than TopazRidge due to the significant upgrades that were added to the larger homes. The retail base value conclusions for the builder-owned homes within the subject property are calculated as follows:

Plan 1a (1 x \$354,609)	\$ 354,609
Plan 1b (3 x \$352,518)	1,057,554
Plan 2a (1 x \$365,400)	365,400
Plan 2b (4 x \$368,160)	1,472,640
Plan 3a (1 x \$374,768)	374,768
Plan 3b (2 x \$378,308)	756,616
Model Upgrades (3 x \$30,000)	<u>90,000</u>
Total Retail Value	\$4,471,587



### Absorption Period

In order to arrive at an absorption period for the subject homes, the absorption rates for the subject project has been reviewed. The subject SageBluff project has an overall sales rate of 3.35 houses per month. This compares favorably to the overall Riverside County average during fourth quarter of 2012 of 1.42 sales per month per project. It appears the subject project is priced correctly in the subject market, however it should be noted that fourth quarter sales are typically slower than spring sales. Within the subject property, as of the date of value, there are nine production homes and three models which are builder-owned. All are in escrow and due to close upon completion, including the model homes. It has been concluded that the 12 builder-owned homes will be absorbed within a three-month period at the concluded values.

### Expenses

In determining an expense rate, several builders in the subject area have been interviewed as to their expenses on selling existing inventory. Expenses include marketing and general administrative costs. These costs typically range from six to ten percent depending on varying factors such as absorption period, intensity of marketing, etc. Six percent has been estimated for marketing expenses and two percent for general and administrative costs for a total of eight percent in expenses for this analysis.

### Profit

Several interviews with merchant builders in the area were conducted in order to determine an appropriate profit percentage for the subject property. In the early 2000s, developers typically attempted to achieve a 10 to 12 percent profit based on gross sales proceeds. During the early 1990s recession this range was lowered considerably to six to 10 percent with some builders drastically lowering their profit potential in order to maintain their work force. As the market improved, so did the profits. Current economic conditions once again are forcing builders to take a smaller profit in order to maintain their workforce. An eight percent profit is considered appropriate in the analysis for this project.

### Discount Rate

In selecting a discount rate, the following was completed:

1. Interviews with home builders in the Riverside area
2. Review of current market conditions including current market rates as well as yields reflected in other markets (i.e., municipal bonds, corporate bonds, etc.)
3. The quality, construction, historical sales and product on the subject property

The subject homes have been well received in the marketplace with a higher absorption rate than most projects in the Riverside County. Due to the good sales rates within SageBluff and the fact that all homes are in escrow, a 10 percent discount rate is considered appropriate for this analysis on the subject property.

Discounted Cash Flow Summary

The discounted revenue (see chart in addenda) for the builder owned homes is \$3,694,390 (say) **\$3,695,000.**

Builder-Owned Finished Lot Value Conclusion

TRI Pointe Homes owns six remaining finished lots all with houses under construction. The lots under construction will be valued on the basis of a finished lot rather than attribute value to a partially complete structure. Our finished lot valuation concluded at a Finished Lot Value for Tract 32772-2 of \$135,000. The remaining builder-owned finished lots value is calculated as follows:

$$6 \text{ lots} \times \$135,000 = \mathbf{\$810,000}$$

Total Tract 32772-2 TRI Pointe Homes-Owned Property

The final value conclusions for the builder owned property is:

Twelve Houses	\$ 3,695,000
Six Finished Lots	<u>810,000</u>
<b>Total TRI Pointe Homes Ownership</b>	<b>\$4,505,000</b>

Individual Owners Value Conclusion – Tract 32772-2

In determining the value for the individually owned homes, we have considered the concluded base price value for the homes within TopazRidge which is considered a minimum market value. The concluded values are as follows:

Plan 1a (2 x \$354,609)	\$ 709,218
Plan 1b (4 x \$352,518)	1,410,072
Plan 2a (3 x \$365,400)	1,096,200
Plan 2b (9 x \$368,160)	3,313,440
Plan 3a (3 x \$374,768)	1,124,304
Plan 3b (8 x \$378,308)	<u>3,026,464</u>
Total Minimum Market Value	<b>\$10,679,698</b>

In an additional review, we have reviewed the actual builder sales prices for the homes. Closings occurred within SageBluff between February 2012 and February 2013. The builder sales prices for the individually owned homes total \$10,715,056. The concluded current market value for the homes of \$10,679,698 is 0.3 percent below the reported sales prices. This is due to the concluded value being a base value which is considered to be a minimum market value due to most homebuyers purchasing some upgrades or premiums offset by the increasing market. It is our conclusion that the original builder sales prices further substantiate the concluded minimum market value for the individually owned homes.

Promenade – Tract 32772-3

Promenade by Woodside Homes consists of 59 proposed homes. As of the date of value, there are 14 individually owned homes, three completed models and 11 production houses over 95 percent complete owned by the builder, 12 homes under construction and 19 remaining finished lots. Rather than give a value to a partially complete improvement, the 12 houses that are under construction (under 95 percent complete) will be valued as a finished lot. First, a valuation for each plan within Promenade will be conducted. The concluded value for each plan will then be considered the retail value for the builder owned houses and a discounted cash flow analysis will be considered in order to account for the absorption time to sell off the

homes, the costs of marketing and carrying costs of the homes and a profit due to the developer in order to sell off the homes. Next the remaining finished lot valuation will be concluded based on the above valuation. Finally, the individually owned homes will be given the base plan concluded value in order to conclude on a minimum market value for the individually owned houses. A summary of values will conclude the section. The valuation of each plan will take into consideration new home sales data within the subject market area.

Valuation Analysis for Completed Houses

Below is a summary of the floor plans within Promenade by Woodside Homes. A previous owner constructed three models and began 14 production homes. The lender hired a builder to complete the 14 production homes and sold them to individuals homeowners. Woodside Homes purchased the remaining 42 lots and is continuing the original product. The lender owns the three models and is leasing them to Woodside Homes for the marketing period of Promenade. There are slight differences in square footages which are due to slight differences by the new builder. Closings by the lender occurred on the original 14 homes between April 2012 and December 2012. There are an additional 19 homes in escrow and due to close upon completion. Per our review of the MLS, there have not been any re-sales of homes within the projects at this time. A review of comparable new home sales prices will be addressed. The homes are of good design and appear to be of quality workmanship. A listing of the Improved Residential comparable properties is located in the Addenda of this report.

Plan	Room Count*	Floors/ Parking	Square Feet	Mrec Owned	Bldr. Owned	Ind. Owned
1a	3 / 2.5	2 / 2	1,519	0	1	0
1b	3 / 2.5	2 / 2	1,544	1	2	5
2a	4 / 2.5	2 / 2	1,740	0	2	0
2b	4 / 2.5	2 / 2	1,754	1	1	4
3a	5 / 2.5	2 / 2	1,975	0	2	0
3b	5 / 2.5	2 / 2	1,981	1	3	5
Subtotal				3	11	14
*Room Count includes office, den and/or game room. One Plan 1b, 2b and 3b are the model homes owned by Mrec. In addition to the homes listed above there are 12 homes under construction and 19 finished lots.						

The most appropriate new home comparable data for Promenade Plan 1 are:

<b>Data</b>	<b>Model</b>	<b>Bd/Ba</b>	<b>Flrs/Pkg.</b>	<b>Sq. Ft.</b>	<b>Price/SF</b>
Subj	1a	3 / 2.5	2 / 2	1,519	--
Subj	1b	3 / 2.5	2 / 2	1,544	
3	2	4 / 2.5	2 / 2	1,754	\$161.62
3	3	4 / 2.5	2 / 2	1,975	\$153.67
6	1	3 / 2.5	2 / 2	1,710	\$173.66
6	2	3 / 2.5	2 / 3	1,828	\$175.60

Data No. 6 is located in San Bernardino just outside of Riverside County in Ontario, however has similarities to the subject property. Adjustments have been considered for this difference along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The current base price for a Plan 1 within Promenade is \$271,990 with \$7,500 offered in concessions or \$264,490 or \$174.70 per square foot. Within the original 14 homes sold by Mrec there were five closings of Plan 1 with sales prices ranging from \$164.80 to \$178.34 however these prices include upgrades and premiums and closed between April and December 2012. There are four escrows of Plan 1 by Woodside Homes with sales prices ranging from \$175.44 to \$185.05 per square foot, again including upgrades and premiums.

The homes appear to be in good condition with little to no physical depreciation visible. It has been concluded that the Promenade Plan 1 has a current minimum market value of \$174.00 per square foot. This calculates as follows:

$$1a - 1,519 \text{ sf} \times \$174.00 = \$264,306$$

$$1b - 1,544 \text{ sf} \times \$174.00 = \$268,656$$

The most appropriate new home comparable data for Promenade Plan 2 are:

<b>Data</b>	<b>Model</b>	<b>Bd/Ba</b>	<b>Flrs/Pkg.</b>	<b>Sq. Ft.</b>	<b>Price/SF</b>
Subj	2a	4 / 2.5	2 / 2	1,740	--
Subj	2b	4 / 2.5	2 / 2	1,754	
3	1	3 / 2.5	2 / 2	1,514	\$174.70
3	3	4 / 2.5	2 / 2	1,975	\$153.67
6	1	3 / 2.5	2 / 2	1,710	\$173.66
6	2	3 / 2.5	2 / 3	1,828	\$175.60

Data No. 6 is located in San Bernardino just outside of Riverside County in Ontario, however has similarities to the subject property. Adjustments have been considered for this difference along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The current base price for a Plan 2 within Promenade is \$290,990 with \$7,500 offered in concessions or \$283,490 or \$163.49 per square foot. Within the original 14 homes sold by Mrec there were four closings of Plan 2 with sales prices ranging from \$163.21 to \$167.24 however these prices include upgrades and premiums and closed between April and December 2012. There are five escrows of Plan 2 by Woodside Homes with sales prices ranging from \$167.12 to \$181.54 per square foot, again including upgrades and premiums.

The homes appear to be in good condition with little to no physical depreciation visible. It has been concluded that the Promenade Plan 2 has a current minimum market value of \$163.00 per square foot. This calculates as follows:

$$2a - 1,740 \text{ sf} \times \$163.00 = \$283,620$$

$$2b - 1,754 \text{ sf} \times \$163.00 = \$285,902$$

The most appropriate new home comparable data for Promenade Plan 3 are:

<b>Data</b>	<b>Model</b>	<b>Bd/Ba</b>	<b>Flrs/Pkg.</b>	<b>Sq. Ft.</b>	<b>Price/SF</b>
Subj	3a	4 / 2.5	2 / 2	1,975	--
Subj	3b	4 / 2.5	2 / 2	1,981	
3	1	3 / 2.5	2 / 2	1,514	\$174.70
3	2	4 / 2.5	2 / 2	1,754	\$161.62
6	2	3 / 2.5	2 / 3	1,828	\$175.60
6	3	3 / 2.5	2 / 3	1,906	\$178.38

Data No. 6 is located in San Bernardino just outside of Riverside County in Ontario, however has similarities to the subject property. Adjustments have been considered for this difference along with location, lot size, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The subject is located within a gated community and has homeowner's association dues. The current base price for a Plan 3 within Promenade is \$310,990 with \$7,500 offered in concessions or \$303,490 or \$153.67 per square foot. Within the original 14 homes sold by Mrec there

were five closings of Plan 3 with sales prices ranging from \$143.04 to \$152.40 however these prices include upgrades and premiums and closed between April and December 2012. There are ten escrows of Plan 3 by Woodside Homes with sales prices ranging from \$151.89 to \$163.64 per square foot, again including upgrades and premiums.

The homes appear to be in good condition with little to no physical depreciation visible. It has been concluded that the Promenade Plan 3 has a current minimum market value of \$153.00 per square foot. This calculates as follows:

$$3a - 1,975 \text{ sf} \times \$153.00 = \$302,175$$

$$3b - 1,981 \text{ sf} \times \$153.00 = \$303,093$$

Discounted Cash Flow Analyses

First a value for the remaining builder-owned houses will be concluded followed by a final value conclusion for the remaining lots owned by the builder. As of the date of value, there are three builder-owned model homes owned by Mrec. In addition there are 11 production homes over 95 percent complete owned by Woodside Homes. All of the 11 production homes are in escrow and are due to close upon completion. One of Plan 1b, 2b and 3b are model homes and owned by Mrec. Per interviews with builders, upgrades and landscape/hardscape of up to \$100,000 are installed in the model homes, however, the builders generally consider this a marketing cost and do not anticipate recovering this investment on a dollar for dollar basis. Based on historical information, home sizes and fixtures, actual model home sales within the subject property and the current real estate market, a consideration of a \$30,000 premium has been considered on each of the model homes. This is lower than TopazRidge due to the significant upgrades that were added to the larger homes. The retail base value conclusions for the Mrec owned model homes within the subject property are calculated as follows:

Plan 1b (1 x \$268,656)	268,656
Plan 2b (1 x \$285,902)	285,902
Plan 3b (1 x \$303,093)	303,093
Model Upgrades (3 x \$30,000)	<u>90,000</u>
Total Retail Value	\$947,651

The retail base value conclusions for the Woodside Homes owned production homes that are over 95 percent complete within the subject property are calculated as follows:

Plan 1a (1 x \$264,306)	\$ 264,306
Plan 1b (2 x \$268,656)	537,312
Plan 2a (2 x \$283,620)	567,240
Plan 2b (1 x \$285,902)	285,902
Plan 3a (2 x \$302,175)	604,350
Plan 3b (3 x \$303,093)	<u>909,279</u>
Total Retail Value	\$3,168,389

### Absorption Period

In order to arrive at an absorption period for the subject homes, the absorption rates for the subject project has been reviewed. The subject Promenade project has an overall sales rate of 2.75 houses per month. This compares favorably to the overall Riverside County average during fourth quarter of 2012 of 1.42 sales per month per project. It appears the subject project is priced correctly in the subject market, however it should be noted that fourth quarter sales are typically slower than spring sales.

Within the subject property there are three model homes owned by Mrec, the previous developer of the project. It has been concluded that the three homes will be absorbed within a two month period at the concluded values. In addition, there are 11 production homes over 95 percent complete owned by Woodside Homes. All are in escrow and due to close upon completion. It has been concluded that the 11 Woodside Homes owned houses will be absorbed within a three-month period at the concluded values.

### Expenses

In determining an expense rate, several builders in the subject area have been interviewed as to their expenses on selling existing inventory. Expenses include marketing and general administrative costs. These costs typically range from six to ten percent depending on varying factors such as absorption period, intensity of marketing, etc. Six percent has been estimated for marketing expenses and two percent for general and administrative costs for a total of eight percent in expenses for this analysis.



### Profit

Several interviews with merchant builders in the area were conducted in order to determine an appropriate profit percentage for the subject property. In the early 2000s, developers typically attempted to achieve a 10 to 12 percent profit based on gross sales proceeds. During the early 1990s recession this range was lowered considerably to six to 10 percent with some builders drastically lowering their profit potential in order to maintain their work force. As the market improved, so did the profits. Current economic conditions once again are forcing builders to take a smaller profit in order to maintain their workforce. An eight percent profit is considered appropriate in the analysis for this project.

### Discount Rate

In selecting a discount rate, the following was completed:

1. Interviews with home builders in the Riverside area
2. Review of current market conditions including current market rates as well as yields reflected in other markets (i.e., municipal bonds, corporate bonds, etc.)
3. The quality, construction, historical sales and product on the subject property

The subject homes have been well received in the marketplace with a higher absorption rate than most projects in the Riverside County. Due to the good sales rates within Promenade and the fact that all production homes are in escrow (models have not been released), a 10 percent discount rate is considered appropriate for this analysis on the subject property.

### Discounted Cash Flow Summary

The discounted revenue (see chart in addenda) for the Mrec owned model homes is \$786,186 (say) **\$785,000.**

The discounted revenue (see chart in addenda) for the Woodside owned production homes is \$2,617,698 (say) **\$2,620,000.**

### Woodside Homes Finished Lot Value Conclusion

Woodside Homes owns 31 remaining finished lots, twelve with houses under construction. The lots under construction will be valued on the basis of a finished lot

rather than attribute value to a partially complete structure. Our finished lot valuation concluded at a Finished Lot Value for Tract 32772-3 of \$120,000. As discussed under the property description section, per representatives from Woodside Homes there are \$128,495 in remaining costs to complete the lots to a true finished condition. The remaining Woodside Homes owned finished lots value is calculated as follows:

31 Lots x \$120,000	\$3,720,000
Less: Remaining Costs	<u>(128,495)</u>
Concluded Lot Value	\$3,591,505
(say)	<b>\$3,590,000</b>

Total Tract 32772-3 Developer Owned Properties

The final value conclusions for the Mrec owned property is:

Three Models	<b>\$ 785,000</b>
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The final value conclusions for the Woodside Homes owned property is:

11 Production Homes	\$2,620,000
31 Remaining Lots	<u>3,590,000</u>
Total Woodside Homes Ownership	<b>\$6,210,000</b>

Individual Owners Value Conclusion – Tract 32772-3

In determining the value for the individually owned homes, we have considered the concluded base price value for the homes within Promenade which is considered a minimum market value. The concluded values are as follows:

Plan 1a (0 x \$264,306)	\$ 0
Plan 1b (5 x \$268,656)	1,343,280
Plan 2a (0 x \$283,620)	0
Plan 2b (4 x \$285,902)	1,143,608
Plan 3a (0 x \$302,175)	0
Plan 3b (5 x \$303,093)	<u>1,515,465</u>
Total Minimum Market Value	<b>\$4,002,353</b>

In an additional review, we have reviewed the actual builder sales prices for the homes. Closings occurred within the Mrec homes within Promenade between April 2012 and December 2012. The Mrec sales prices for these individually owned homes total \$3,982,000. The concluded current market value for the homes of \$4,002,353 is 0.5

percent above the reported sales prices. This is due to the concluded value being a base value which is considered to be a minimum market value due to most homebuyers purchasing some upgrades or premiums offset by the increasing market. The subject homes all closed prior to 2013 which has seen an increase in pricing. It is our conclusion that the original builder sales prices further substantiate the concluded minimum market value for the individually owned homes.

## APPRAISAL REPORT SUMMARY

The appraisal assignment was to value the subject property within City of Riverside CFD No. 2006-1 IA1. The subject property includes three residential tracts located within the gated community of Riverwalk Vista which includes a community pool, parks and excellent access to the Metrolink station across the street. Tract 32772-1 and 32772-2 are being developed by TRI Pointe Homes as TopazRidge and SageBluff. TopazRidge consists of large homes on terraced lots with good to excellent views. Thirty homes have closed to individuals and TopazRidge is currently marketing the project with good sales rates. SageBluff consists of medium sized homes on smaller lots. Twenty-nine homes have closed escrow and all of the remaining homes are in escrow and due to close upon completion. SageBluff has had good to excellent sales rates. Tract 32772-3 was taken back by the lender and sold to a developer who completed the first 14 production homes and sold them in 2012. Woodside Homes purchased the remaining lots and is currently marketing the project which is enjoying good sales rates. All homes appear to be in good condition with no visible depreciation.

The subject property was valued utilizing the Sales Comparison Approach to value along with using mass appraisal technique. A minimum value was determined by concluding at a base value for the new homes. The valuation took into account the improvements/benefits to be funded by City of Riverside CFD No. 2006-1 IA1 Special Tax Bonds. The concluded value for the subject property, subject to the special tax lien, is:

<b>Tract 32772-1:</b> Individual Owned	\$12,860,021		
TRI Pointe Owned		\$9,740,000	
Subtotal 32772-1			\$22,600,021
<b>Tract 32772-2:</b> Individual Owned	\$10,679,698		
TRI Pointe Owned		\$4,505,000	
Subtotal 32772-2			\$15,184,698
<b>Tract 32772-3:</b> Individual Owned	\$4,002,353		
Mrec Owned		\$785,000	
Woodside Owned		\$6,210,000	
Subtotal 32772-3			<u>\$10,997,353</u>
<b>CFD 2006-1 IA 1 Aggregate Total</b>			<b>\$48,782,072</b>

The above values are stated as of said date of value and subject to the attached Assumptions and Limiting Conditions and Appraiser's Certification.

### APPRAISER'S CERTIFICATION

The appraiser certifies that to the best of his knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
3. The appraiser has no present or prospective interest in the property that is the subject of this report, and no personal interest or bias with respect to the parties involved.
4. The appraiser has performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
5. The appraiser's 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 the value estimate, the attainment of a stipulated result or the occurrence of a subsequent event.
6. The appraiser has no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
7. This appraisal was not based on a requested minimum valuation, a specific valuation or the approval of a loan.
8. The analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
9. Kitty Siino has made a personal inspection of the property that is the subject of this report.
10. No other appraisers have provided significant professional assistance to the persons signing this report.
11. The reported analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the requirements of the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice, which include the Uniform Standards of Professional Appraisal Practice.
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
13. As of the date of this report, Kitty Siino has completed the requirements of the continuing education program of the Appraisal Institute.



Kitty S. Siino, MAI  
State Certified General  
Real Estate Appraiser (AG004793)

# **ADDENDA**

**CITY OF RIVERSIDE CFD 2006-1**  
**BOUNDARY MAP**

**PROPOSED BOUNDARIES**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1**  
**(RIVERWALK VISTA)**

CITY OF RIVERSIDE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

FILED IN THE OFFICE OF THE CITY CLERK OF THE CITY OF RIVERSIDE,  
 STATE OF CALIFORNIA THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2007

RECORDED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2007 AT THE HOUR OF \_\_\_\_\_  
 O'CLOCK \_\_\_\_\_ IN BOOK \_\_\_\_\_ PAGES \_\_\_\_\_ OF MAPS OF ASSESSMENT  
 AND COMMUNITY FACILITIES DISTRICTS, IN THE OFFICE OF THE COUNTY  
 RECORDER, IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA.

TRACT NO. 32772

CITY CLERK OF THE CITY OF RIVERSIDE \_\_\_\_\_

FEE: \_\_\_\_\_ NO: \_\_\_\_\_  
 LARRY H. WARD, RIVERSIDE COUNTY ASSESSOR - CLERK - REFERRED

BY: \_\_\_\_\_  
 DEPUTY

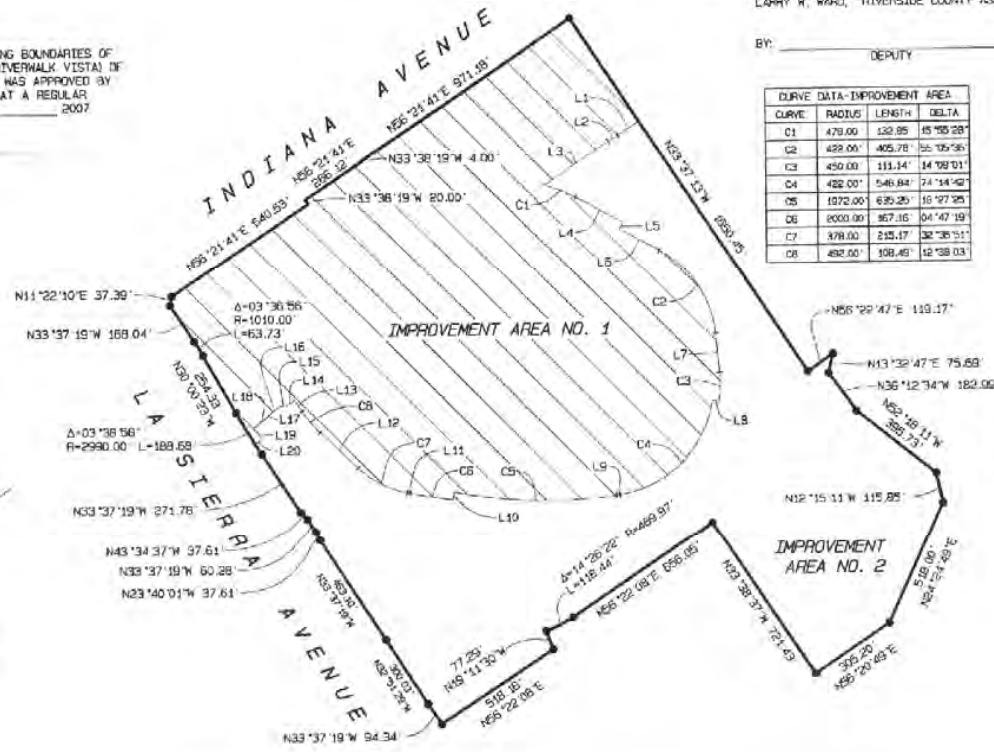
I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING BOUNDARIES OF  
 COMMUNITY FACILITIES DISTRICT NO. 2006-1 (RIVERWALK VISTA) OF  
 THE CITY OF RIVERSIDE, STATE OF CALIFORNIA, WAS APPROVED BY  
 THE CITY COUNCIL OF THE CITY OF RIVERSIDE AT A REGULAR  
 MEETING THEREOF HELD ON THE \_\_\_\_\_ DAY OF \_\_\_\_\_, 2007  
 BY RESOLUTION NO. \_\_\_\_\_

CITY CLERK OF THE CITY OF RIVERSIDE \_\_\_\_\_

**LEGEND**  
 \_\_\_\_\_ DISTRICT BOUNDARY  
 \_\_\_\_\_ IMPROVEMENT AREA BOUNDARY

CURVE DATA-IMPROVEMENT AREA			
CURVE	RADIUS	LENGTH	DELTA
C1	470.00	132.85	85°50'28"
C2	422.00	405.78	52°19'56"
C3	450.00	111.14	14°18'01"
C4	422.00	546.84	74°14'42"
C5	1072.00	630.25	10°17'25"
C6	2000.00	367.16	04°47'19"
C7	478.00	215.17	32°36'51"
C8	492.00	108.45	12°38'03"

LINE DATA-IMPROVEMENT AREA		
LINE	BEARING	LENGTH
L1	N65°21'04"E	209.75
L2	N68°50'12"E	44.04
L3	N68°21'04"E	302.25
L4	N61°05'36"W	209.71
L5	N28°33'24"E	29.00
L6	N61°05'36"W	176.16
L7	N08°10'00"W	150.84
L8	N61°51'59"W	28.00
L9	S82°32'42"E	19.84
L10	N05°30'36"E	28.00
L11	N79°09'52"W	13.64
L12	N48°33'01"W	200.23
L13	N33°54'50"W	50.00
L14	N56°15'02"W	41.00
L15	N77°35'03"W	19.98
L16	N52°04'37"E	62.80
L17	N37°55'23"W	3.00
L18	N52°04'37"E	73.00
L19	N37°55'23"W	54.56
L20	N56°32'41"E	41.82





# **DISCOUNTED CASH FLOW ANALYSES**

### TopazRidge Discounted Cash Flow

MONTH	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>TOTAL</u>
INCOME:				
Retail Sales	\$898,375	\$898,375	\$898,375	\$2,695,125
TOTAL INCOME	<u>\$898,375</u>	<u>\$898,375</u>	<u>\$898,375</u>	<u>\$2,695,125</u>
EXPENSES:				
Marketing & Carrying Expenses (8%)	(\$71,870)	(\$71,870)	(\$71,870)	(\$215,610)
Profit (8%)	<u>(\$71,870)</u>	<u>(\$71,870)</u>	<u>(\$71,870)</u>	<u>(\$215,610)</u>
TOTAL EXPENSES	<u>(\$143,740)</u>	<u>(\$143,740)</u>	<u>(\$143,740)</u>	<u>(\$431,220)</u>
NET CASH FLOW	\$754,635	\$754,635	\$754,635	\$2,263,905
Discount Factor (12.5%)	<u>0.9897</u>	<u>0.9795</u>	<u>0.9694</u>	
DISCOUNTED CASH FLOW	\$746,855	\$739,156	\$731,536	\$2,217,547
CUMULATIVE DISCOUNTED CASH FLOW	<b><u>\$746,855</u></b>	<b><u>\$1,486,011</u></b>	<b><u>\$2,217,547</u></b>	<b><u>\$2,217,547</u></b>

### SageBluff Discounted Cash Flow

MONTH	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>TOTAL</u>
INCOME:				
Retail Sales	\$1,490,529	\$1,490,529	\$1,490,529	\$4,471,587
TOTAL INCOME	<u>\$1,490,529</u>	<u>\$1,490,529</u>	<u>\$1,490,529</u>	<u>\$4,471,587</u>
EXPENSES:				
Marketing & Carrying Expenses (8%)	(\$119,242)	(\$119,242)	(\$119,242)	(\$357,727)
Profit (8%)	<u>(\$119,242)</u>	<u>(\$119,242)</u>	<u>(\$119,242)</u>	<u>(\$357,727)</u>
TOTAL EXPENSES	(\$238,485)	(\$238,485)	(\$238,485)	(\$715,454)
NET CASH FLOW	\$1,252,044	\$1,252,044	\$1,252,044	\$3,756,133
Discount Factor (10%)	<u>0.9917</u>	<u>0.9835</u>	<u>0.9754</u>	
DISCOUNTED CASH FLOW	\$1,241,697	\$1,231,435	\$1,221,258	\$3,694,390
CUMULATIVE DISCOUNTED CASH FLOW	<u>\$1,241,697</u>	<u>\$2,473,132</u>	<u>\$3,694,390</u>	<u>\$3,694,390</u>

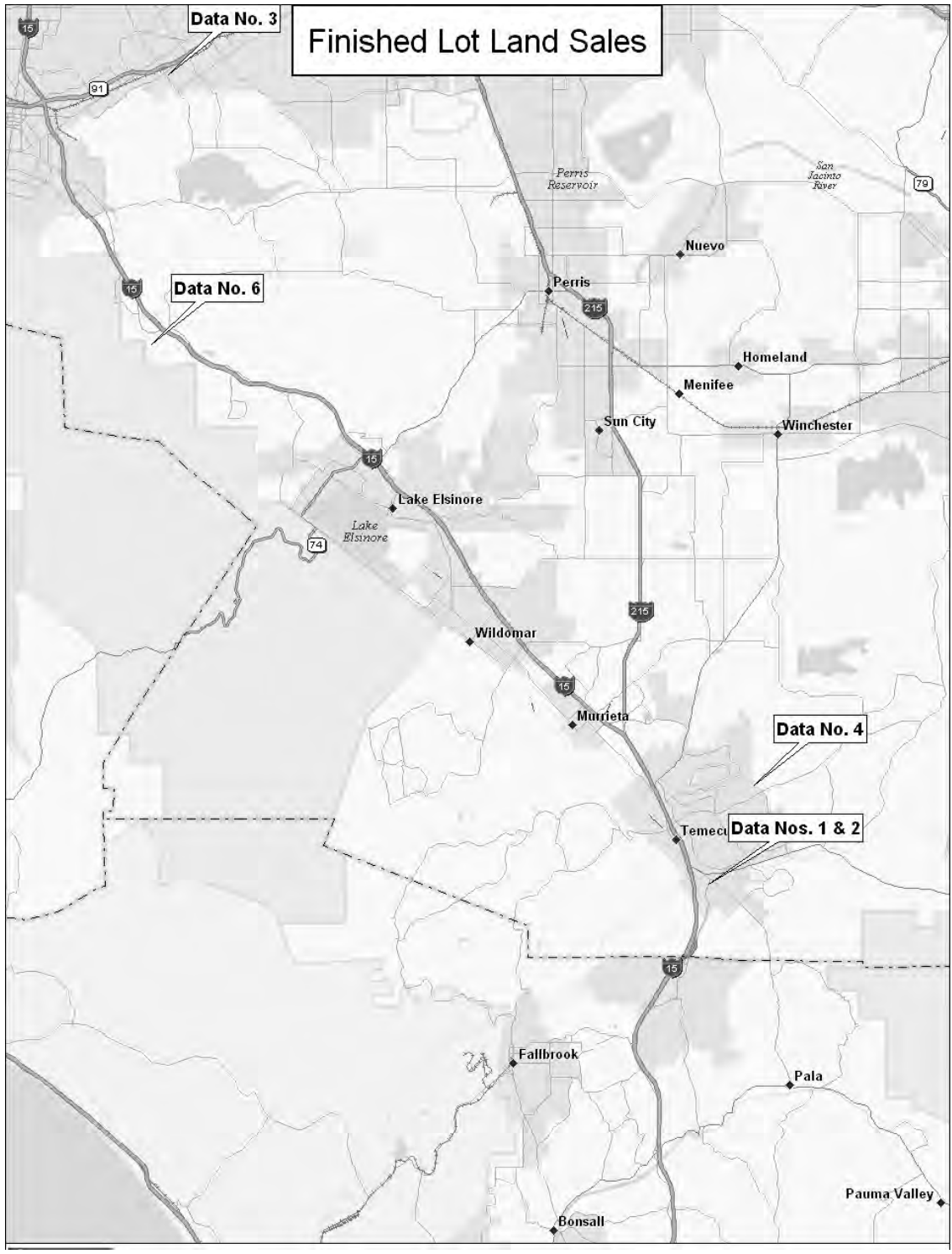
**Promenade Model Homes Discounted Cash Flow**

MONTH	<u>MONTH</u> 1	<u>MONTH</u> 2	<u>TOTAL</u>
INCOME:			
Retail Sales	\$473,826	\$473,826	\$947,651
TOTAL INCOME	<u>\$473,826</u>	<u>\$473,826</u>	<u>\$947,651</u>
EXPENSES:			
Marketing & Carrying Expenses (8%)	(\$37,906)	(\$37,906)	(\$75,812)
Profit (8%)	<u>(\$37,906)</u>	<u>(\$37,906)</u>	<u>(\$75,812)</u>
TOTAL EXPENSES	(\$75,812)	(\$75,812)	(\$151,624)
NET CASH FLOW	\$398,013	\$398,013	\$796,027
Discount Factor (10%)	<u>0.9917</u>	<u>0.9835</u>	
DISCOUNTED CASH FLOW	\$394,724	\$391,462	\$786,186
CUMULATIVE DISCOUNTED CASH FLOW	<b><u>\$394,724</u></b>	<b><u>\$786,186</u></b>	<b><u>\$786,186</u></b>

### Promenade Discounted Cash Flow

MONTH	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>TOTAL</u>
INCOME:				
Retail Sales	\$1,056,130	\$1,056,130	\$1,056,130	\$3,168,389
TOTAL INCOME	<u>\$1,056,130</u>	<u>\$1,056,130</u>	<u>\$1,056,130</u>	<u>\$3,168,389</u>
EXPENSES:				
Marketing & Carrying Expenses (8%)	(\$84,490)	(\$84,490)	(\$84,490)	(\$253,471)
Profit (8%)	<u>(\$84,490)</u>	<u>(\$84,490)</u>	<u>(\$84,490)</u>	<u>(\$253,471)</u>
TOTAL EXPENSES	(\$168,981)	(\$168,981)	(\$168,981)	(\$506,942)
NET CASH FLOW	\$887,149	\$887,149	\$887,149	\$2,661,447
Discount Factor (10%)	<u>0.9917</u>	<u>0.9835</u>	<u>0.9754</u>	
DISCOUNTED CASH FLOW	\$879,817	\$872,546	\$865,335	\$2,617,698
CUMULATIVE DISCOUNTED CASH FLOW	<u>\$879,817</u>	<u>\$1,752,363</u>	<u>\$2,617,698</u>	<u>\$2,617,698</u>

**FINISHED LOT LAND SALES MAP**  
**AND SUMMARY CHART**



## FINISHED LOT LAND SALES SUMMARY CHART

Data No.	Location/APN/Buyer/Seller	Sales Date	No. of Lots	Lot Size (SF)	Sales Price/ Per Lot	Estimated Finished Price/Lot	Comments
1	Deer Hollow Way, Redhawk, Temecula / 962-020-018 / Conf. / Ashbrook Comm (Cardinal).	Offer	79 (estimate)	2,600	N/A	\$135,000	Seller is re-entitling lots and estimate they will get 79 lots with minimum size of 2,600 sq.ft. Due to close upon map approval.
2	Deer Hollow Way, Redhawk / 962-020-018 / Ashbrook Comm. (Cardinal) / LFT Capital LLC	11/12	97Attached	Condo	\$2,700,000 / \$27,835	\$95,000	Purchased with expired map for 97 attached units. Buyer is re-entitling and reselling as Data No. 1.
3	Riverwalk Vista Village III, SEC La Sierra & Indiana, Riverside / Woodside Homes / Mountain Capital (Bank of West) / 138-450-various	8/12	42	2,770	\$3,060,000 / \$72,857	\$112,000	Sold by bank after offered on open market. Buyer planning on constructing houses.
4	Roripaugh Ranch PA 4B, Unincorporated Temecula / 957-340-054 / Van Daele / Sunwood Ventures	12/12	113	5,000	\$8,000,000 / \$70,796	\$148,000	Lots in blue topped condition
5	Hearthside, E/S Hellman, S/O Schleisman, Eastvale / / Beazer / Foremost	10/12	63	7,200	N/A	\$177,000	Last remaining developed finished lots in Eastvale.
6	Sycamore Creek PA 15A, Unincorporated Corona / 290-660-007 / Woodside 05s Lp / Foremost Communities	9/12	115	5,000	\$8,500,000 / \$73,913	\$130,000	Property purchased in rough graded condition. Within master planned community of Sycamore Creek.
7	SEC Citrus & Sumner Avenue, Eastvale / 152-040-026 Lennar / Godinho Family Trust	6/12	53	7,200	\$3,975,000/ \$75,000	\$180,000	Lennar purchased 8.8-acre portion of property in June 2012. Property in a raw land condition at time of sale with mapping. Price assumes CFD on property
8	S/S Citrus between Sumner and Scholar Way, Eastvale /152-040-034 / Lennar / Altfillisch	6/12	145	7,200	\$10,403,750 / \$71,750	\$180,000	Lennar purchased in an assemblage with Data No. 7. Price assumes CFD on property. Mapping in place at time of sale



**IMPROVED RESIDENTIAL**  
**SALES MAP AND SUMMARY CHART**

# Improved Residential Sales Map



**IMPROVED RESIDENTIAL SALES SUMMARY CHART**

<b>Data No.</b>	<b>Project Name Location/Developer</b>	<b>Plan</b>	<b>Room Count</b>	<b>Size (SF)</b>	<b>Floors/ Parking</b>	<b>Approx. Lot Size</b>	<b>Base Sales Price</b>	<b>Incentives/Concessions</b>	<b>Price less Incentives</b>	<b>Price/SF After Incentives</b>
1	Cielo at Lake Hills Reserve, SWC Lakepointe Dr & Village Meadow Dr, Riverside/ Richmond American Homes	1	3 / 2	2,320	1 / 2	11,817	\$397,990	\$8,000 on closing costs with preferred lender	\$389,990	\$168.10
		2	3 / 2.5	2,488	1 / 2		\$408,990		\$400,990	\$164.79
		3	3 / 2.5	2,814	2 / 3		\$408,990		\$400,990	\$142.50
		4	3 / 2.5	3,059	2 / 3		\$428,990		\$420,990	\$131.09
		5	4 / 2.5	3,181	2 / 3		\$432,990		\$424,990	\$133.60
		6	5 / 3	3,464	2 / 3		\$452,990		\$444,990	\$128.46
2	SageBluff at Riverwalk Vista, SWC Indiana Ave & Grande Vista, Riverside/ Tri Pointe Homes	1	4 / 3	2,866	2 / 2	5,500	\$362,000	Sold out – final base prices reported with no concessions	\$362,000	\$126.31
		2	5 / 3	3,068	2 / 3		\$373,000		\$373,000	\$121.58
		3	4 / 3	3,206	2 / 3		\$380,000		\$380,000	\$118.53
3	Promenade at Riverwalk Vista, SWC Indiana Ave & Grande Vista, Riverside/ Woodside Homes	1	3 / 2.5	1,514	2 / 2	3,300	\$271,990	\$7,500 on closing costs with preferred lender	\$264,490	\$174.70
		2	4 / 2.5	1,754	2 / 2		\$290,990		\$283,490	\$161.62
		3	4 / 2.5	1,975	2 / 2		\$310,990		\$303,490	\$153.67
4	TopazRidge at Riverwalk Vista, SWC Indiana Ave & Grande Vista, Riverside/ Tri Point Homes	1	4 / 2.5	2,567	1 / 3	7,500	\$407,900	\$15,000 towards closing costs or upgrades, buyer's choice	\$392,900	\$153.06
		2	5 / 3	3,426	2 / 3		\$439,900		\$424,900	\$124.02
		3	5 / 3	3,773	2 / 3		\$455,900		\$440,900	\$116.86
5	Mission Grove, E/S Alta Cresta, N/O Krameria, Riverside/ Standard Pacific	1	3 / 2.5	2,541	1 / 3	7,200	\$380,900	\$5,000 to use on buyers choice	\$375,900	\$147.93
		2	4 / 3.5	2,936	2 / 3		\$393,900		\$328,900	\$132.46
		3	4 / 3.5	3,365	2 / 3		\$414,900		\$409,900	\$121.81
		4	5 / 3.5	3,480	2 / 3		\$421,900		\$418,900	\$130.37
6	Greendoor at Edenglen, SWO Haven Ave & Riverside Dr, Ontario/Brookfield Homes	1	3 / 2.5	1,710	2 / 2	Plan 1	\$301,990	Plan 1 \$5,000 and Plans 2 – 4 \$6,000 on closing costs with builder's lender	\$296,990	\$173.68
		2	3 / 2.5	1,828	2 / 3	2,300	\$326,990		\$320,990	\$175.60
		3	3 / 2.5	1,906	2 / 3	Plans 2-4	\$345,990		\$339,990	\$178.38
		4	4 / 3	2,054	2 / 3	3,400	\$356,990		\$350,990	\$170.88

## FEMA Map



MAP SCALE 1" = 1000'

0 1000 2000 FEET

0 1000 2000 METER

PANEL 0715G

**FIRM**  
FLOOD INSURANCE RATE MAP

RIVERSIDE COUNTY,  
CALIFORNIA  
AND INCORPORATED AREAS

PANEL 715 OF 3005  
(SEE MAP INDEX FOR FIRM PANEL LAYOUT)

DATE	REVISION	BY	DATE
08/28/08	1	...	...

MAP NUMBER  
0606SC0715G

EFFECTIVE DATE  
AUGUST 28, 2008

Federal Emergency Management Agency

This is an official copy of a portion of the above referenced flood map. It is not to be used for any other purpose. This map does not reflect changes made to the map since it was last updated. For more information on the map, please contact the FEMA Flood Map Service Center at 1675 E. 15th Street, Vicksburg, MS 39180-6001.

**APPRAISER'S QUALIFICATIONS**

## QUALIFICATIONS OF KITTY S. SIINO, MAI

### Education

Bachelor of Arts in Business Administration, Financial Investments, California State University, Long Beach, California (1980)

Post-Graduate Study, Real Estate Development, University of California, Irvine, California

Appraisal Institute Classes: Uniform Standards of Professional Appraisal Practice, A & B; Appraisal Principles; Appraisal Procedures; Basic Income Capitalization; Advanced Income Capitalization; Narrative Report Writing; Advanced Applications, Case Studies. Successfully completed all classes in addition to successfully completing the writing of a Demonstration Report and taking the Comprehensive Exam. Became a Member of the Appraisal Institute in December 1996. Have completed over 100 hours of continuing education through the Appraisal Institute every five years.

### Employment

1988 - Present:

**Self-Employed Real Estate Appraiser.** Duties include the appraisal of various types of properties such as commercial, retail, industrial and vacant land. More complex assignments include easements, right-of-ways and special assessment districts. From 1996 to present, specialized in special assessment districts and community facilities districts appraisals for public entities, including Jurupa Community Services District, Corona Norco Unified School District, City of Corona, City of Chula Vista, City of San Marcos and City of Moreno Valley.

1986-1988:

**Project Manager of Development for Ferguson Partners, Irvine, California.** Duties included land acquisitions; review of fee appraisals and valuations; analysis of proposed development; planning and design; and management of development, construction and lease-up. The types of properties developed were commercial and industrial. Duties ranged from raw, vacant site development through property management of recently developed projects.

1981 - 1986

**Manager of Finance, Construction for Community Development Division, The Irvine Company, Irvine, California.** Duties included originating and managing a newly formed division of finance to bridge between the accounting functions and project management functions. Worked with analysis and budgets for Community Development Division. Coordinated with

cities in forming new Assessment Districts and Community Facilities Districts to finance major infrastructure improvements. Types of properties were apartments and single-family residential lots on a for sale basis to apartment and homebuilders.

1980 - 1981

**Investment Counselor, Newport Equity Funds, Newport Beach, California.** Duties included obtaining private financing for residential properties, working with appraisals of properties and analyzing the investments.

### **Licenses**

Real Estate Sales Person, State of California, 1980

Certified General Appraiser, State of California (#AG004793)

### **Organizations**

MAI #11145 - The Appraisal Institute

### **Public Financing**

CASTOFF Meetings, 2006, 2007, 2008 and 2009

Speaker, Mello-Roos & Special Assessment Financing, UCLA Extension Public Policy Program, February 2009 and March 2011



**APPENDIX C**

**SUPPLEMENTAL INFORMATION CONCERNING  
CITY AND COUNTY OF RIVERSIDE**

*The Bonds will not be secured by any pledge of ad valorem taxes or City General Fund revenues but will be payable solely from Special Taxes to levied on and collected from the owners of certain taxable land within Improvement Area No. 1. The information set forth below is included in the Official Statement for background purposes only.*

**General Description and Background**

Incorporated in October 11, 1883, the City of Riverside is a charter city that now functions under a Council/Manager form of government. A seven member City Council is elected by Council ward. The Mayor is elected at large. The City Manager is appointed by the City Council.

Riverside County, which encompasses 7,303 square miles, was organized in 1893 from territory in San Bernardino and San Diego Counties. Located in the southeastern portion of California, Riverside County is bordered on the north by San Bernardino County, on the east by the State of Arizona, on the South by San Diego and Imperial Counties and on the west by Orange and Los Angeles Counties. There are 28 incorporated cities in Riverside County.

Riverside County’s varying topology includes desert, valley and mountain areas as well as gently rolling terrain. Three distinct geographical areas characterize Riverside County: the western valley area, the higher elevations of the mountains, and the deserts. The western valley, the San Jacinto Mountains and the Cleveland National Forest experience the mild climate typical of Southern California. The eastern desert areas experience warmer and dryer weather conditions. Riverside County is the site for famous resorts, such as Palm Springs, as well as a leading area for inland water recreation. Nearly 20 lakes in Riverside County are open to the public. The dry summers and moderate to cool winters make it possible to enjoy these and other recreational and cultural facilities on a year-round basis.

**Population**

The following sets forth the City, the County and the State population estimates as of January 1, for the years 2008 to 2012:

**CITY OF RIVERSIDE, RIVERSIDE COUNTY AND STATE OF CALIFORNIA  
Estimated Population**

<i>Year (January 1)</i>	<i>City of Riverside</i>	<i>Riverside County</i>	<i>State of California</i>
2008	296,038	2,077,183	37,871,509
2009	300,769	2,109,882	38,255,508
2010	304,051	2,139,535	38,648,090
2011	306,069	2,205,731	37,427,946
2012	308,511	2,227,577	37,678,563

Source: State of California Department of Finance, Demographic Research Unit. March 2010 Benchmark.

**Commerce**

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail

stores data for 2009 and subsequent years is not comparable to that of prior years. A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during calendar year 2011 in the City were reported to be \$4,019,127,000 an 8.85% increase over the total taxable sales of \$3,692,302,000 reported during calendar year 2010.

**CITY OF RIVERSIDE**  
**Taxable Retail Sales**  
**Number of Permits and Valuation of Taxable Transactions**  
**(Dollars in thousands)**

	<i>Retail Stores</i>		<i>Total All Outlets</i>	
	<i>Number of Permits</i>	<i>Taxable Transactions</i>	<i>Number of Permits</i>	<i>Taxable Transactions</i>
2007	3,812	\$3,888,251	7,427	\$4,789,554
2008	3,889	3,209,083	7,578	4,093,218
2009	5,033	2,734,550	7,202	3,500,514
2010	5,690	2,889,292	7,907	3,692,302
2011	5,764	3,144,537	8,066	4,019,127

<sup>(1)</sup> Retail stores data not comparable to prior years.

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 and subsequent years is not comparable to that of prior years. A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during calendar year 2011 in the County were reported to be \$25,641,497,000, a 10.75% increase over the total taxable sales of \$23,152,780,000 reported during calendar year 2010. Figures are not yet available for 2012.

**COUNTY OF RIVERSIDE**  
**Taxable Retail Sales**  
**Number of Permits and Valuation of Taxable Transactions**  
**(Dollars in thousands)**

	<i>Retail Stores</i>		<i>Total All Outlets</i>	
	<i>Number of Permits</i>	<i>Taxable Transactions</i>	<i>Number of Permits</i>	<i>Taxable Transactions</i>
2007	22,918	21,242,516	45,279	29,023,609
2008	23,604	18,689,249	46,272	26,003,595
2009	29,829	16,057,488	42,765	22,227,877
2010	32,534	16,919,500	45,688	23,152,780
2011	33,398	18,576,285	46,886	25,641,497

<sup>(1)</sup> Retail stores data not comparable to prior years.

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

**Employment and Industry**

The City is included in the Riverside-San Bernardino-Ontario labor market area. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 12.1% in 2012, down from 13.4% in 2011. This compares with an unadjusted unemployment rate of 10.5% for California and 8.1% for the nation during the same period. The unemployment rate was 12.3% in Riverside County, and 12.0% in San Bernardino County.

The following table shows the average annual estimated numbers of wage and salary workers by industry. The table does not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons in labor management disputes.

**RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA  
(RIVERSIDE COUNTY)  
Civilian Labor Force, Employment and Unemployment  
(Annual Averages)**

	2007	2008	2009	2010	2011	2012
Civilian Labor Force	1,766,900	1,776,000	1,774,300	1,798,200	1,799,000	1,805,400
Civilian Employment	1,664,000	1,629,500	1,540,100	1,540,500	1,557,800	1,586,800
Civilian Unemployment	102,900	146,500	234,200	257,700	241,200	218,600
Civilian Unemployment Rate	5.8%	8.3%	13.2%	14.3%	13.4%	12.1%
Total Farm	16,400	15,900	14,900	15,000	14,900	15,100
Total Nonfarm	1,270,900	1,223,800	1,134,800	1,125,900	1,129,700	1,151,600
Total Private	1,045,600	994,000	906,400	891,600	902,400	927,100
Goods Producing	232,400	198,800	157,800	145,800	145,600	148,900
Natural Resources and Mining	1,300	1,200	1,100	1,000	1,000	1,200
Construction	112,500	90,700	67,900	59,700	58,700	61,200
Manufacturing	118,500	106,900	88,800	85,100	85,800	86,500
Service Providing	1,038,600	1,025,000	977,000	980,000	984,200	1,002,700
Trade, Transportation and Utilities	301,900	292,900	271,900	270,800	275,100	283,800
Wholesale Trade	56,800	54,100	48,900	48,600	49,400	51,300
Retail Trade	175,600	168,600	156,200	155,500	157,200	161,700
Transportation, Warehousing and Utilities	69,500	70,200	66,800	66,600	68,500	70,800
Information	15,400	14,900	15,100	15,800	15,000	11,600
Financial Activities	49,800	46,100	42,500	41,000	39,200	40,800
Professional and Business	145,200	137,700	124,300	123,400	126,100	126,800
Services						
Educational and Health Services	127,200	131,800	133,600	133,800	137,900	145,500
Leisure and Hospitality	132,600	131,000	123,800	122,800	124,300	129,500
Other Services	41,200	40,800	37,300	38,200	39,300	40,400
Government	<u>225,300</u>	<u>229,900</u>	<u>228,400</u>	<u>234,300</u>	<u>227,300</u>	<u>224,500</u>
Total, All Industries	<u>1,287,300</u>	<u>1,239,700</u>	<u>1,149,700</u>	<u>1,140,900</u>	<u>1,144,600</u>	<u>1,166,700</u>

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to total due to independent rounding.

Source: State of California, Employment Development Department, March 2012 Benchmark.

## Major Employers

The table below shows the 10 largest employers in the City.

### CITY OF RIVERSIDE LARGEST EMPLOYERS (As of June 30, 2012)

<i>Employer</i>	<i>Number of Employees</i>	<i>% of Total City Employment <sup>(1)</sup></i>
County of Riverside	11,187	7.8
Riverside Unified School District	5,580	3.9
University of California	5,554	3.9
Kaiser	4,500	3.1
City of Riverside	2,693	1.9
Riverside Community College District	2,087	1.4
Riverside Community Hospital	1,880	1.3
Alvord Unified School District	1,654	1.1
Riverside County Office of Education	1,627	1.1
Parkview Community Hospital	<u>1,350</u>	<u>0.9</u>
Total	38,112	26.5

Source: City of Riverside, Development Department (as presented in the City's 2012 Comprehensive Annual Financial Report).

The table below shows the 10 largest employers in the County.

### LARGEST EMPLOYERS County of Riverside (As of June 30, 2012)

<u>Rank</u>	<u>Name of Business</u>	<u>Employees</u>	<u>Type of Business</u>
1.	County of Riverside	19,150	County Government
2.	March Air Reserve Base	9,000	Military Reserve Base
3.	Stater Bros. Markets	6,900	Supermarkets
4.	University of California, Riverside	4,907	University
5.	Walmart	5,360	Super Store
6.	Corona Norco Unified School District	4,686	School District
7.	Pechanga Resort & Casino	4,000	Casino & Resort
8.	Kaiser Permanente Riverside Medical Center	4,000	Medical Center
8.	Riverside Unified School District	3,796	School District
10.	Moreno Valley Unified School District	3,500	School District

Source: County of Riverside 'Comprehensive Annual Financial Report' for the year ending June 30, 2012.

## Construction Activity

The following is a five-year summary of the valuation of building permits issued in the City.

### CITY OF RIVERSIDE Building Permit Valuations (Valuation in Thousands of Dollars)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Valuation (\$000):					
Residential	\$64,444.1	\$23,944.0	\$58,764.2	\$43,492.2	\$73,345.1
Non-residential	<u>139,655.2</u>	<u>45,883.3</u>	<u>87,268.7</u>	<u>89,924.6</u>	<u>53,006.6</u>
Total*	\$204,099.3	\$69,827.3	\$146,032.9	\$133,416.8	\$126,351.7
Residential Units:					
Single family	69	56	107	43	193
Multiple family	<u>216</u>	<u>23</u>	<u>266</u>	<u>236</u>	<u>168</u>
Total	285	79	373	279	361

\* Totals may not add to sums because of rounding.  
Source: Construction Industry Research Board.

The following table provides summaries of the building permit valuations and the number of new dwelling units authorized in the County from 2007 through 2011.

### COUNTY OF RIVERSIDE Building Permit Valuations (Valuation in Thousands of Dollars)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Valuation (\$000):					
Residential	\$1,576,984	\$1,053,694	\$1,079,637	\$873,411	\$1,079,405
Non-residential	<u>1,041,813</u>	<u>376,819</u>	<u>539,379</u>	<u>559,398</u>	<u>657,596</u>
Total*	\$2,618,797	\$1,430,513	\$1,619,016	\$1,432,809	\$1,737,001
Residential Units:					
Single family	3,815	3,431	4,031	2,659	3,720
Multiple family	<u>2,104</u>	<u>759</u>	<u>526</u>	<u>1,061</u>	<u>909</u>
Total	5,919	4,190	4,557	3,720	4,629

\* Totals may not add to sums because of rounding.  
Source: Construction Industry Research Board.

## **Education**

The City is included within the boundaries of the Riverside Unified School District and the Alvard Unified School District, which also serves the County area southwest of the City. These two districts include 64 elementary and middle schools and high schools. There are also about 48 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University at Riverside. Also located in the City are the California School for the Deaf and the Sherman Indian High School, a federally-run school for Native Americans.

## **Transportation**

The City is served by a variety of land and air transportation facilities. Light rail commuter service is provided by Metrolink to Los Angeles and Orange Counties. Interstate bus service is available via Greyhound, and local bus service is provided by the Riverside Transit Agency. Most major trucking firms serve the City in addition to numerous local carriers. Overnight delivery can be scheduled to San Francisco, Los Angeles, San Diego and Sacramento.

Freight rail service to the City is provided by two major transcontinental railroads: the Santa Fe and Union Pacific. Amtrak-operated passenger train service is available at San Bernardino, approximately 15 miles north of the City.

Scheduled air transportation is available from the Ontario International Airport, approximately 18 miles to the west. The City-operated Riverside Municipal Airport is a general aviation facility.

The City is served by the Riverside Freeway (State Route 91), which provides access to Orange County; Interstate 215, which connects the City to San Diego, San Bernardino and points beyond; and the Pomona Freeway (U.S. Highway 60), an east-west route.

## APPENDIX D

### SUMMARY OF FISCAL AGENT AGREEMENT

*The following is a summary of certain provisions of the Fiscal Agent Agreement (the "Agreement") not otherwise described in the text of this Official Statement. This summary is not intended to be definitive, and reference is made to the text of the Fiscal Agent Agreement (the "Agreement") for the complete provisions thereof.*

### DEFINITIONS

Unless the context otherwise requires, the terms defined herein shall, for all purposes of the Agreement, of any Supplemental Agreement, and of any certificate, opinion or other document herein mentioned, have the meanings herein specified. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of the Agreement, and the words "herein," "hereof," "hereunder" and other words of similar import refer to the Agreement as a whole and not to any particular Article, Section or subdivision hereof.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the California Government Code.

"Administrative Expenses" means any or all of the following: the fees and expenses of the Fiscal Agent (including any fees or expenses of its counsel), the expenses of the City in carrying out its duties under the Agreement (including, but not limited to, the computation of, levy and collection of the Special Taxes) including the fees and expenses of its counsel, an allocable share of the salaries of City staff directly related thereto and a proportionate amount of City general administrative overhead related thereto, any amounts paid by the City from its general funds pursuant to the Agreement, and all other costs and expenses of the City or the Fiscal Agent incurred in connection with the discharge of their respective duties hereunder and, in the case of the City, in any way related to the administration of the District, including the costs of providing continuing disclosures and complying with the requirements of applicable Federal Securities Law.

"Administrative Expense Fund" means the fund by that name established by the Agreement.

"Agreement" means the Fiscal Agent Agreement, as it may be amended or supplemented from time to time by any Supplemental Agreement adopted pursuant to the provisions of the Agreement.

"Annual Debt Service" means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds and in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds scheduled to be paid.

"Appraisal" means the appraisal of the estimated market values of the properties within Improvement Area No. 1 prepared by Kitty Siino & Associates dated April 5, 2013.

"Auditor" means the Auditor-Controller of the County of Riverside.

"Authorized Officer" means any officer or employee of the City authorized by the City Council or by an Authorized Officer to undertake the action referenced in the Agreement as required to be undertaken by an Authorized Officer.

“Bond Counsel” means any attorney or firm of attorneys acceptable to the City and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bond Fund” means the fund by that name established by the Agreement.

“Bond Year” means the period beginning on the Closing Date and ending on September 1, 2014 and thereafter the period beginning on each September 2 and ending on the following September 1.

“Bonds” means, unless otherwise expressly provided, the Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside 2013 Special Tax Bonds (Improvement Area No. 1) authorized by and at any time Outstanding pursuant to the Act and the Agreement.

“Business Day” means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the State of California or in any state in which the Fiscal Agent has its Principal Office are authorized or obligated by law or executive order to be closed.

“City” means the City of Riverside.

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

“City Facilities Account” means the account by that name established in the Improvement Fund by the Agreement.

“Closing Date” means the date upon which there is an exchange of the Bonds for the proceeds representing payment of the purchase price of the Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement between the City and the Fiscal Agent, as Dissemination Agent, dated as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the City and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, including but not limited to the preliminary official statement and official statement regarding the Bonds, closing costs, filing and recording fees, initial fees and charges of the Fiscal Agent including its first annual administration fee and the fees of its counsel, expenses incurred by the City in connection with the issuance of the Bonds and the formation of the District, Bond (underwriter’s) discount, legal fees and charges, including the fees of Bond Counsel and counsel to the Underwriter, appraiser’s fees and costs, Tax Consultant’s fees and costs, charges for authentication, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the foregoing.

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

“Debt Service” means the amount of interest and principal payable on the Bonds scheduled to be paid during the period of computation, excluding amounts payable during such period which relate to principal of the Bonds which are scheduled to be retired and paid before the beginning of such period.

“Defeasance Securities” means, for purposes of the Agreement, the following:



(i) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series - "SLGs");

(ii) Direct obligations of the United States Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;

(iii) Resolution Funding Corporation (REFCORP) obligations; provided that only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;

(iv) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by Standard & Poor's; provided, however, that if the issue is only rated by Standard & Poor's (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or "AAA" rated pre-refunded municipal bonds; and

(v) Obligations issued by the following agencies which are backed by the full faith and credit of the United States of America:

(a) U.S. Export-Import Bank  
Direct obligations or fully guaranteed certificates of beneficial ownership

(b) Federal Financing Bank

(c) General Services Administration  
Participation certificates

(d) United States Maritime Administration  
Guaranteed Title XI financing

(e) United States Department of Housing and Urban Development  
Project notes  
Local Authority Bonds  
New Communities Debentures - United States government guaranteed debentures  
United States Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds.

"Developed Property" means, except as otherwise specifically provided, all Assessor's Parcels within Improvement Area No. 1, exclusive of Association Property and Public Property, upon which completed Dwelling Units or non-residential buildings have been constructed or for which building permits have been issued as of March 1 of the Fiscal Year preceding the Fiscal Year for which Special Taxes are being levied. (The words with initial letters capitalized are defined in the Rates and Method of Apportionment of Special Tax.)

"District" means Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside, County of Riverside, State of California.

"Federal Securities" means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

(i) Cash; and

(ii) Direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and CATS and TIGRS), or obligations, the payment of principal of and interest on which is unconditionally guaranteed by the United States of America.

“Fiscal Agent” means U.S. Bank National Association, the Fiscal Agent appointed by the City, acting as an independent fiscal agent with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Agreement.

“Fiscal Year” means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

“Improvement Area No. 1” means Improvement Area No. 1 of the District.

“Improvement Area No. 2” means Improvement Area No. 2 of the District.

“Improvement Fund” means the fund by that name established by the Agreement.

“Independent Financial Consultant” means a firm of certified public accountants, a financial consulting firm, a consulting engineering firm or engineer which is not an employee of, or otherwise controlled by, the City.

“Information Services” means the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board at [www.emma.msrb.org](http://www.emma.msrb.org); and, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Interest Account” means the account by that name established in the Bond Fund by the Agreement.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing March 1, 2014, until the maturity or redemption of all Outstanding Bonds.

“Investment Earnings” means all interest earned and any gains and losses on the investment of moneys in any fund or account created by the Agreement, excluding interest earned and gains and losses on the investment of moneys in the Rebate Fund.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

“Moody’s” shall mean Moody’s Investors Service, a national rating service with offices in New York, New York.

“Officer’s Certificate” means a written certificate of the City signed by an Authorized Officer of the City.

“Ordinance” means any ordinance of the City or resolution of the City Council levying the Special Taxes.

“Original Purchaser” means the first purchaser of the Bonds from the City.

“Outstanding,” when used as of any particular time with reference to the Bonds means (subject to the provisions of the Agreement) all Bonds except:

(i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation;

(ii) Bonds called for redemption which, for the reasons specified in the Agreement, are no longer entitled to any benefit under the Agreement other than the right to receive payment of the redemption price therefor;

(iii) Bonds paid or deemed to have been paid within the meaning of the Agreement; and

(iv) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City and authenticated by the Fiscal Agent pursuant to the Agreement or any Supplemental Agreement.

“Owner” means any person who shall be the registered owner of any Outstanding Bond.

“Parity Bonds” means bonds issued by the District for Improvement Area No. 1 that would be secured by a pledge of and lien upon the Special Tax Revenues and funds pledged for the payment of the Outstanding Bonds hereunder on a parity with the pledge of and lien upon the Special Tax Revenues and such funds that secure payment of the principal of and interest on the Outstanding Bonds.

“Permitted Investments” means:

(i) Federal Securities;

(ii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(a) U.S. Export-Import Bank  
Direct obligations or fully guaranteed certificates of beneficial ownership

(b) Federal Financing Bank

(c) Federal Housing Administration Debentures

(d) General Services Administration  
Participation certificates

(e) Government National Mortgage Association (GNMA)  
GNMA - guaranteed mortgage-backed bonds  
GNMA - guaranteed pass-through obligations

(f) U.S. Maritime Administration  
Guaranteed Title XI financing

- (g) U.S. Department of Housing and Urban Development  
Project Notes  
Local Authority Bonds  
New Communities Debentures - United States government guaranteed debentures  
U.S. Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds;

(iii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- (a) Federal Home Loan Bank System  
Senior debt obligations
- (b) Federal Home Loan Mortgage Corporation  
Participation Certificates  
Senior debt obligations
- (c) Federal National Mortgage Association  
Mortgage-backed securities and senior debt obligations
- (d) Student Loan Marketing Association  
Senior debt obligations
- (e) Resolution Funding Corporation  
(REFCORP) obligations
- (f) Farm Credit System  
Consolidated systemwide bonds and notes;

(iv) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's of "AAAm-G," "AAA-m" or "AA-m" and, if rated by Moody's, rated "Aaa," "Aa1" or "Aa2" by Moody's, including funds for which the Fiscal Agent, its parent holding company, if any, or any affiliates or subsidiaries of the Fiscal Agent or such holding company provide investment management or other management services;

(v) Certificates of deposit secured at all times by collateral described in clauses (i) and/or (ii) above. Such certificates must be issued by commercial banks, including the Fiscal Agent and its affiliates, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Fiscal Agent on behalf of the Owners of the Bonds must have a perfected first security interest in the collateral;

(vi) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF including those that may be issued or provided by the Fiscal Agent and its affiliates;

(vii) Investment agreements with domestic or foreign banks, insurance companies or corporations the long-term debt or claims paying ability of which or, in the case of a guaranteed corporation, the long-term debt of the guarantor, or, in the case of a monoline financial guaranty

insurance company, the claims paying ability or financial strength, of the guarantor is rated in at least the double A category by Standard & Poor's and Moody's; provided that, by the terms of the investment agreement:

(a) interest payments are to be made to the Fiscal Agent at times and in amounts as necessary to pay Debt Service on the Bonds (if the funds invested pursuant to the investment agreement are from the Reserve Fund);

(b) the investment agreement shall provide that the invested funds are available for withdrawal without penalty or premium at any time upon not more than seven (7) days' prior notice (The City and the Fiscal Agent shall 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 payable.);

(c) the investment agreement shall provide that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

(d) the City and the Fiscal Agent receive the opinion of domestic counsel (which opinion shall be addressed to the City and the Fiscal Agent) 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 City and the Fiscal Agent;

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

(1) the provider's (or its guarantor's) rating by either Standard & Poor's or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with the applicable state and federal laws (other than by means of entries on the provider's books) to the City, the Fiscal Agent 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 one hundred four percent (104%) of securities identified in clauses (i) and (ii) of this definition; or (ii) assign the investment agreement and all of its obligations thereunder to a financial institution mutually acceptable to the Provider, the City and the Fiscal Agent which is rated either in the first or second highest category by Standard & Poor's and Moody's; and

(2) the provider's (or its guarantor'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 City or the Fiscal Agent, within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the invested funds, in either case with no penalty or premium to the City or the Fiscal Agent; and

(f) the investment agreement shall provide 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 shall mean the Holder of the Collateral is in possession of such collateral); and

(g) the investment agreement shall 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 City or the Fiscal Agent, be accelerated and amounts invested and accrued but unpaid interest thereon shall be paid to the City or the Fiscal Agent, 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 paid to the City or the Fiscal Agent, as appropriate;

(viii) Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by Standard & Poor's;

(ix) Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's in one of the two highest rating categories assigned by them;

(x) Federal funds or bankers acceptances with a maximum term of one year of any bank, including the Fiscal Agent and its affiliates, which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or better by Standard & Poor's;

(xi) Repurchase agreements which satisfy the following criteria:

(a) Repurchase agreements must be between the City or the Fiscal Agent and an entity which is:

(1) A primary dealer on the Federal Reserve reporting dealer list which is rated "A" or better by Standard & Poor's and Moody's, or

(2) A bank rated "A" or above by Standard & Poor's and Moody's;  
or

(3) A corporation the long-term debt or claims paying ability of which, or in the case of a guaranteed corporation, the long-term debt of the guarantor, or, in the case of a monoline financial guaranty insurance company, the claims paying ability or financial strength of the guarantor, is rated in at least the double A category by Standard & Poor's and Moody's.

(b) The written agreement must include the following:

(1) Securities which are acceptable for transfer are:

(A) direct obligations of the United States government, or

(B) obligations of federal agencies backed by the full faith and credit of the United States of America (or the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)),

(2) The collateral must be delivered to the City or the Fiscal Agent (if the Fiscal Agent is not supplying the collateral) or a third party acting as agent for the Fiscal Agent (if the Fiscal Agent is supplying the collateral) before or simultaneous with payment (perfection by possession of certificated securities),

(3) (A) The securities must be valued weekly, marked-to-market at current market price plus accrued interest, and

(B) The value of the collateral must be at least equal to one hundred four percent (104%) of the amount of money transferred by the Fiscal Agent to the dealer, bank or corporation under the agreement plus accrued interest. If the value of the securities held as collateral is reduced below one hundred four percent (104%) of the value of the amount of money transferred by the Fiscal Agent, then additional acceptable securities and/or cash must be provided as collateral to bring the value of the collateral to one hundred four percent (104%); provided, however, that if the securities used as collateral are those of FNMA or FHLMC, then the value of the collateral must equal to one hundred five percent (105%) of the amount of money transferred by the Fiscal Agent;

(xii) Forward delivery agreements (FDA) or forward purchase and sale agreements (FPSA) having as the underlying investment property investments of the type which are identified in clauses (i), (ii), (iii) or (viii) of this Section; and

(xiii) the Local Agency Investment Fund in the State Treasury of the State of California as permitted by the State Treasurer pursuant to Section 16429.1 of the California Government Code.

“Principal Account” means the account by that name established in the Bond Fund by the Agreement.

“Principal Office” means the principal corporate trust office of the Fiscal Agent in St. Paul, Minnesota or at such other addresses may be specified in writing by the Fiscal Agent; provided, however, that for purposes of the transfer, registration, exchange, payment and surrender of Bonds “Principal Office” means the office or agency of the Fiscal Agent at which, at any time, its corporate trust agency business shall be conducted or such other office or address as may be specified in writing by the Fiscal Agent.

“Proceeds,” when used with reference to the Bonds, means the aggregate principal amount of the Bonds, plus accrued interest and premium, if any, less original issue discount, if any.

“Project” means the public facilities which are to be financed with the proceeds of the sale of the Bonds and Parity Bonds, if any, as described in Resolution No. 21402 adopted by the City Council on May 22, 2007.

“Rates and Method of Apportionment of Special Tax” means the Rates and Method of Apportionment of Special Tax for Improvement Area No. 1 which is attached as Exhibit “A” to Resolution No. 21402 adopted by the City Council on May 22, 2007 and as amended by Resolution No. 22263 adopted by the City Council on September 6, 2011.

“Rebate Certificate” means the certificate delivered by the City upon the delivery of the Bonds relating to Section 148 of the Code, or any functionally similar replacement certificate.

“Rebate Fund” means the fund by that name established by the Agreement.

“Record Date” means the fifteenth (15th) day of the month next preceding the applicable Interest Payment Date whether or not such day is a Business Day.

“Regulations” means the temporary and permanent regulations of the United States Department of the Treasury promulgated under the Code.

“Representation Letter” means the representation letter which the City has delivered to The Depository Trust Company (“DTC”) with respect to the utilization of the book-entry system maintained by DTC for the issuance and registration of bonds.

“Reserve Fund” means the fund by that name established by the Agreement.

“Reserve Requirement” means, as of the date of calculation, the lesser of (i) ten percent (10%) of the proceeds of the sale of the Bonds and any Parity Bonds, (ii) Maximum Annual Debt Service on the Bonds and any Parity Bonds or (iii) 125 percent of average Annual Debt Service on the Bonds and any Parity Bonds, as determined by the City.

“Resolution” means Resolution No. 22530, adopted by the City Council on May 28, 2013.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York, 10041-0099, Call Notification Department, Fax (212) 855-7232, and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Settlement Agreement” means the Settlement Agreement and Mutual Release, dated June 8, 2010, by and among the City, Riverwalk Vista, LLC, and Arch Insurance Company.

“School District” means Alvord Unified School District.

“School District Facilities Account” means the account by that name established in the Improvement Fund by the Agreement.

“School District Certificate” means a certificate signed by the Superintendent or an Assistant Superintendent of the School District requesting the disbursement of funds from the School District Facilities Account pursuant to the Agreement.

“Special Taxes” or “Special Tax” means the special taxes levied by the City Council on parcels of taxable property within Improvement Area No. 1 pursuant to the Act and the Agreement.

“Special Tax Fund” means the fund by that name established by the Agreement.



“Special Tax Prepayments” means amounts received by the City as prepayments of all or a portion of the Special Tax obligation of a parcel of property in Improvement Area No. 1.

“Special Tax Prepayments Account” means the account by that name established by the Fiscal Agent in the Bond Fund pursuant to the Agreement.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the City, including any scheduled payments, receipts of sale of delinquencies, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien and interest and penalties thereon.

“Standard & Poor’s” shall mean Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a national rating service with offices in New York, New York.

“Subdivided Property” means a parcel of property in Improvement Area No. 1 for which a subdivision or parcel map creating lots or parcels upon which dwelling units will be constructed has been recorded with the County Recorder of the County of Riverside.

“Supplemental Agreement” means an agreement entered into by and between the City and the Fiscal Agent amending and supplementing the Agreement as permitted by the Agreement.

“Surplus Account” means the account by that name established in the Special Tax Fund by the Agreement.

“Tax Consultant” means an engineer or financial consultant or other such person or firm with expertise in the apportionment and levy of special taxes in community facilities districts which is employed by the City to assist the City in levying the Special Taxes.

**ISSUANCE OF BONDS; APPLICATION OF PROCEEDS; IMPROVEMENT  
FUND; SPECIAL TAX FUND; ADMINISTRATIVE EXPENSE FUND;  
COSTS OF ISSUANCE FUND**

Issuance and Delivery of Bonds. At any time after the execution of the Agreement, the City may issue the Bonds for the District in the aggregate principal amounts set forth in the Agreement and deliver the Bonds to the Original Purchaser. The Authorized Officers of the City are hereby authorized and directed to deliver any and all documents and instruments necessary to cause the issuance of the Bonds in accordance with the provisions of the Act, the Resolution and the Agreement, to authorize the payment of Costs of Issuance by the Fiscal Agent from the proceeds of the Bonds, and to do and cause to be done any and all acts and things necessary or convenient for delivery of the Bonds to the Original Purchaser.

Improvement Fund.

(A) Creation of Improvement Fund. The Agreement establishes, as a separate fund to be held by the Fiscal Agent, the “Community Facilities District No. 2006-1 of the City of Riverside Special Tax Bonds (Improvement Area No. 1) Improvement Fund.” The Agreement establishes as separate accounts in the Improvement Fund, to be held by the Fiscal Agent, the “City Facilities Account” and the “School District Facilities Account” to the credit of which deposits shall be made as required by the Agreement. Moneys in the Improvement Fund and all accounts therein shall be held by the Fiscal Agent for the benefit of the City and the School District, as hereinafter provided, and shall be disbursed, except as otherwise provided in the Agreement, for the payment or reimbursement of the costs of the design, acquisition and construction of the Project.

(B) Procedure for Disbursement.

(1) City Facilities Account. Disbursements from the City Facilities Account shall be made by the Fiscal Agent upon receipt of an Officer's Certificate which shall:

(a) be identified as a payment requisition and be sequentially numbered, i.e., "Requisition No. \_\_," except that no numbering shall be required if the Officer's Certificate is a requisition for the full amount on deposit in the City Facilities Account;

(b) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made and the person to which the disbursement is to be paid; and

(c) certify that no portion of the amount then being requested to be disbursed was set forth in any Officer's Certificate previously filed with the Fiscal Agent requesting disbursement, and that the amount being requested is an appropriate disbursement from the City Facilities Account.

(2) School District Facilities Account. Disbursements from the School District Facilities Account shall be made by the Fiscal Agent upon receipt of a School District Certificate or an Officer's Certificate which shall:

(a) be identified as a payment requisition and be sequentially numbered, i.e., "Requisition No. \_\_," except that no numbering shall be required if the School District Certificate is a requisition for the full amount on deposit in the School District Facilities Account;

(b) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made and the person to which the disbursement is to be paid;

(c) certify that the amount required to be disbursed is for payment of costs related to the construction and acquisition of the School District Facilities as described in the Joint Community Facilities Agreement; and

(d) certify that no portion of the amount then being requested to be disbursed was set forth in any School District Certificate or Officer's Certificate previously filed with the Fiscal Agent requesting disbursement, and that the amount being requested is an appropriate disbursement from the School District Facilities Account.

If any amount on deposit in the School District Facilities Account will not be disbursed for payment of the costs of the construction and acquisition of the School District Facilities, the Fiscal Agent shall, upon receipt of written direction from the City (upon which the Fiscal Agent may conclusively rely) transfer such amount to the City Facilities Account.

(C) Investment. Moneys in the Improvement Fund shall be invested and deposited in accordance with the Agreement. Investment Earnings with respect to the City Facilities Account shall be retained by the Fiscal Agent in such account to be used for the purposes of such account. Investment Earnings with respect to the School District Facilities Account shall be retained by the Fiscal Agent in such account to be used for the purposes of such account.

(D) Closing of Fund. Upon the filing of an Officer's Certificate stating that the construction and acquisition of the Project has been completed and that all costs of the Project have been paid or are

not required to be paid from the Improvement Fund, and further stating that moneys on deposit in the Improvement Fund are not needed to complete the Project or reimburse the cost thereof, the Fiscal Agent shall transfer the amount, if any, remaining in the Improvement Fund to the Principal Account of the Bond Fund to be used to pay the principal of the Bonds, and the Improvement Fund shall be closed. Notwithstanding the preceding provisions of this subsection, the Improvement Fund shall be closed if all amounts on deposit therein are disbursed pursuant to Subsection (B) above.

(E) Officer's Certificate. Upon receipt of an Officer's Certificate delivered pursuant to the Agreement, the Fiscal Agent is authorized to act thereon without further inquiry and shall not be responsible for the accuracy of the statements made in such Officer's Certificate or the application of the funds disbursed pursuant thereto, and shall be absolutely protected and incur no liability in relying on such Officer's Certificate.

#### Special Tax Fund.

(A) Creation of Special Tax Fund. the Agreement establishes, as a separate fund to be held by the Fiscal Agent, the "Community Facilities District No. 2006-1 of the City of Riverside Special Tax Bonds (Improvement Area No. 1) Special Tax Fund" to the credit of which the City shall deposit, as hereinafter provided, not later than ten (10) Business Days after receipt, all Special Tax Revenues received by the City. There is hereby also established in the Special Tax Fund as a separate account, to be held by the Fiscal Agent, the "Surplus Account" to the credit of which amounts shall be deposited as provided in the Agreement. Moneys in the Special Tax Fund, and the Surplus Account therein, shall be held by the Fiscal Agent for the benefit of the City and the Owners of the Bonds, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

Notwithstanding the foregoing, any amounts received by the City which constitute Special Tax Prepayments shall be transferred by the City not later than ten (10) Business Days after receipt to the Fiscal Agent for deposit by the Fiscal Agent in the Special Tax Prepayments Account established pursuant to the Agreement.

(B) Disbursements. As soon as practicable after the receipt from the City of any Special Tax Revenues, but no later than ten (10) Business Days after such receipt, the Fiscal Agent shall withdraw from the Special Tax Fund and deposit in the Administrative Expense Fund, an amount which is estimated by the City, in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely) to be sufficient, together with the amount then on deposit in the Administrative Expense Fund, to pay the Administrative Expenses during the current Fiscal Year; provided, however, that the amount deposited in the Administrative Expense Fund prior to the deposits to the Interest Account and the Principal Account of the Bond Fund, as provided below, shall not exceed \$30,000 for any Fiscal Year. From the amount then remaining on deposit in the Special Tax Fund, the Fiscal Agent shall, as soon as the amount on deposit in the Special Tax Fund is sufficient, deposit in the Reserve Fund the amount, if any, which the City shall direct in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), to be withdrawn from the Special Tax Fund and deposited in the Reserve Fund to make the amount on deposit therein equal to the Reserve Requirement. Thereafter, on or before each Interest Payment Date, the Fiscal Agent shall deposit in the Interest Account and the Principal Account of the Bond Fund the amounts required for payment of interest on or interest on and principal of the Bonds, as provided in the Agreement.

Notwithstanding the preceding provisions of this subsection, if prior to the September 1 Interest Payment Date in any Bond Year the City determines that Special Tax Revenues will be sufficient to enable the Fiscal Agent to deposit in the Reserve Fund the amount, if any, which is necessary to make the

amount on deposit therein equal to the Reserve Requirement and deposit in the Bond Fund the full amount required for deposit to the Interest Account and the Principal Account to pay the interest on and principal of the Bonds on such Interest Payment Date, the City may instruct the Fiscal Agent in an Officer's Certificate, upon which the Fiscal Agent may conclusively rely, to deposit an additional amount in the Administrative Expense Fund before making the required deposits to the Interest Account and the Principal Account of the Bond Fund, and the Fiscal Agent shall deposit such additional amount in the Administrative Expense Fund before depositing any amount to the Reserve Fund or the Interest Account and the Principal Account of the Bond Fund.

On or before the March 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account of the Bond Fund in an amount not to exceed the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer to and deposit in the Interest Account to pay the full amount of the interest on the Bonds which is due and payable on such Interest Payment Date. On or before the September 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on and principal of the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account and the Principal Account in amounts not to exceed the amount of the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer, to pay the full amount of the interest on and principal of the Bonds which is due and payable on such Interest Payment Date. On or before May 30 of each year, commencing on May 30, 2014 the Fiscal Agent shall notify the City of the amount which is then on deposit in the Surplus Account and of the aggregate amount of the principal of and interest on the Bonds which will become due and payable on March 1 and September 1 of the following calendar year.

On September 2 of each year, beginning on September 2, 2014, the amount, if any, on deposit in the Special Tax Fund (including the amount on deposit in the Surplus Account), together with the amount then on deposit in the in the Principal Account of the Bond Fund (but not including, however, the amounts, if any, then on deposit Interest Account or the Special Tax Prepayments Account), as determined by the City, shall not exceed the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Principal Account, exceeds the maximum amount allowable pursuant to the preceding sentence, as determined by the City and communicated in writing by an Authorized Officer to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), the excess amount shall be transferred from the Special Tax Fund to and deposited in the Reserve Fund to the extent that the amount on deposit therein is less than the Reserve Requirement. Any such excess remaining in the Special Tax Fund after any such amount is transferred from the Special Tax Fund to the Reserve Fund shall be transferred from the Special Tax Fund to and deposited in the Administrative Expense Fund. On September 2 of each year, after any such excess amount has been transferred as hereinabove provided, the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Principal Account, shall not exceed in the aggregate the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent shall have no obligation to monitor the City's obligations as set forth in this paragraph.

(C) Investment. Moneys in the Special Tax Fund shall be invested and deposited in accordance with the Agreement. Investment Earnings shall be retained in the Special Tax Fund to be used for the purposes of such fund.

Administrative Expense Fund.

(A) Creation of Administrative Expense Fund. The Agreement establishes, as a separate fund to be held by the Fiscal Agent, the “Community Facilities District No. 2006-1 of the City of Riverside Special Tax Bonds (Improvement Area No. 1) Administrative Expense Fund” to the credit of which deposits shall be made as required by the Agreement. Moneys in the Administrative Expense Fund shall be held by the Fiscal Agent for the benefit of the City, and shall be disbursed as provided below.

(B) Disbursement. Amounts in the Administrative Expense Fund shall be withdrawn by the Fiscal Agent and paid to the City or its order upon receipt by the Fiscal Agent of an Officer’s Certificate stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense and the nature of such Administrative Expense.

Annually, not later than the last day of each Fiscal Year, the Fiscal Agent shall withdraw any amount then remaining in the Administrative Expense Fund that has not been allocated by an Officer’s Certificate received by the Fiscal Agent from the City to pay Administrative Expenses which are expected to be incurred in the succeeding Fiscal Year prior to the receipt by the City of Special Tax Revenues for such succeeding Fiscal Year and transfer such amount to the Surplus Account.

(C) Investment. Moneys in the Administrative Expense Fund shall be invested and deposited in accordance with the Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Administrative Expense Fund to be used for the purposes of such fund.

Costs of Issuance Fund.

(A) Creation of Costs of Issuance Fund. The Agreement established, as a separate fund to be held by the Fiscal Agent, the “Community Facilities District No. 2006-1 of the City of Riverside Special Tax Bonds (Improvement Area No. 1) Costs of Issuance Fund” to the credit of which a deposit shall be made as required by the Agreement. Moneys in the Costs of Issuance Fund shall be held by the Fiscal Agent and shall be disbursed as provided in subsection (B) of this Section for the payment or reimbursement of Costs of Issuance.

(B) Disbursement. Amounts in the Costs of Issuance Fund shall be disbursed to pay Costs of Issuance, as set forth in a requisition containing respective amounts to be paid to the designated payees, signed by an Authorized Officer and delivered to the Fiscal Agent concurrently with the delivery of the Bonds. The Fiscal Agent shall pay all Costs of Issuance upon receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee in such requisition, or upon receipt of an Officer’s Certificate requesting payment of a Cost of Issuance not listed on the initial requisition delivered to the Fiscal Agent on the Closing Date. The Fiscal Agent shall maintain the Costs of Issuance Fund for a period of ninety (90) days from the Closing Date and shall then transfer and deposit any moneys remaining therein, including any Investment Earnings thereon, in the City Facilities Account of the Improvement Fund.

(C) Investment. Moneys in the Costs of Issuance Fund shall be invested and deposited in accordance with the Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Costs of Issuance Fund to be used for the purposes of such fund.

## **SPECIAL TAX REVENUES; BOND FUND; RESERVE FUND**

### Pledge of Special Tax Revenues.

The Bonds shall be secured by a pledge of and lien upon (which shall be perfected in the manner and to the extent herein provided) all of the Special Tax Revenues (except the initial amount, not to exceed \$30,000, which will be deposited in the Administrative Expense Fund for each Fiscal Year pursuant to the Agreement and all moneys on deposit in the Bond Fund and all moneys on deposit in the Reserve Fund. The Bonds that may be issued shall be equally secured by a pledge of and lien upon the Special Tax Revenues and such moneys without priority for number, date of Bond, date of execution or date of delivery; and the payment of the interest on and principal of the Bonds and any premium upon the redemption of any thereof shall be and is secured by a pledge of and lien upon the Special Tax Revenues and such moneys. The Special Tax Revenues and all moneys deposited into such funds are dedicated in their entirety to the payment of the principal of the Bonds, and interest and any premium on the Bonds, as provided herein and in the Act, until all of the Bonds have been paid and retired or until moneys or Defeasance Securities have been set aside irrevocably for that purpose in accordance with the Agreement.

### Bond Fund.

(A) Deposits. The Agreement established, as a separate fund to be held by the Fiscal Agent, the “Community Facilities District No. 2006-1 of the City of Riverside Special Tax Bonds (Improvement Area No. 1) Bond Fund” to the credit of which deposits shall be made as required by the Agreement and any other provision of the Agreement or the Act. The Agreement establishes in the Bond Fund, as separate accounts to be held by the Fiscal Agent, the “Interest Account” and the “Principal Account.” The Agreement establishes in the Bond Fund, as a separate account to be held by the Fiscal Agent, the “Special Tax Prepayments Account” to the credit of which deposits shall be made as required by the Agreement. Moneys in the Bond Fund shall be held by the Fiscal Agent for the benefit of the Owners of the Bonds, shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below, and, pending such disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

(B) Disbursements. On or before each Interest Payment Date, the Fiscal Agent shall transfer from the Special Tax Fund (including the Surplus Account) and deposit into the following respective accounts in the Bond Fund, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Special Tax Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(1) Interest Account. On or before each Interest Payment Date the Fiscal Agent shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on the Bonds on such date. No deposit need be made into the Interest Account on any Interest Payment Date if the amount on deposit therein is at least equal to the interest becoming due and payable on the Bonds on such date. All moneys in the Interest Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity). All amounts on deposit in the Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having become due and payable on the Outstanding Bonds shall be withdrawn therefrom by the Fiscal Agent and transferred to the Surplus Account.

(2) Principal Account. On or before each Interest Payment Date that occurs on September 1, the Fiscal Agent shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds becoming due and payable on such date pursuant to the Agreement, or the redemption price of the Bonds (consisting of the principal amount thereof and any applicable redemption premium) required to be redeemed on such date. Except as hereinafter provided, all moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of and premium (if any) on any Bonds upon the redemption thereof pursuant to the Agreement. All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not required to pay the principal of any Outstanding Bonds then having become due and payable, shall be withdrawn therefrom by the Fiscal Agent and transferred to the Surplus Account.

In the event that moneys on deposit in the Special Tax Fund, including moneys on deposit in the Surplus Account, will be insufficient on any Interest Payment Date for the Fiscal Agent to deposit the required amounts in the Interest Account and the Principal Account, as provided above, the Fiscal Agent shall deposit the available funds first to the Interest Account up to the full amount required to cause the aggregate amount on deposit therein to equal the amount of interest becoming due and payable on the Bonds on the Interest Payment Date, and shall then deposit the remaining available funds in the Special Tax Fund to the Principal Account up to the full amount required to cause the aggregate amount on deposit therein to equal the amount, if any, of principal becoming due and payable on the Bonds on the Interest Payment Date. If, after making such deposits to the Interest Account and the Principal Account, and after transferring moneys from the Reserve Fund to such accounts, as provided in the Agreement, the amount on deposit in the Principal Account is insufficient to pay the full amount of the principal of each of the Bonds which is to be redeemed on the Interest Payment Date, the Fiscal Agent shall make a prorated payment of the principal of each of such Bonds as specified in an Officer's Certificate provided to the Fiscal Agent.

On September 2 of each year, beginning on September 2, 2014 the amount, if any, on deposit in the Principal Account (but not including, however, the amounts, if any, on deposit in the Interest Account and the Special Tax Prepayments Account), as determined by the City, together with the amount then on deposit in the Special Tax Fund (including the Surplus Account), shall not exceed the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Principal Account, together with the amounts then on deposit in the Special Tax Fund (including the Surplus Account), exceeds the maximum amount allowable pursuant to the preceding sentence, the excess shall be transferred by the Fiscal Agent, as directed in writing by the City (upon which the Fiscal Agent may conclusively rely), to the Reserve Fund to the extent that the amount on deposit therein is less than the Reserve Requirement, and any such excess remaining thereafter shall be transferred by the Fiscal Agent to the Administrative Expense Fund. On September 2 of each year, after any such excess amount has been transferred as hereinabove provided, the amount on deposit in the Principal Account, together with the amount then on deposit in the Special Tax Fund (including the Surplus Account), shall not exceed the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent shall have no obligation to monitor the City's obligations as set forth in this paragraph.

(C) Special Tax Prepayments Account Deposits and Disbursements. Within ten (10) Business Days after receiving a Special Tax Prepayment, the City shall deliver the amount thereof to the Fiscal Agent, together with an Officer's Certificate notifying the Fiscal Agent that the amount being delivered is a Special Tax Prepayment which is to be deposited in the Special Tax Prepayments Account. Upon receiving a Special Tax Prepayment from the City and such an Officer's Certificate, the Fiscal

Agent shall deposit the amount of the Special Tax Prepayment in the Special Tax Prepayments Account. Such an Officer's Certificate may be combined with the Officer's Certificate which the City is required to deliver to the Fiscal Agent pursuant the Agreement. A portion of the moneys on deposit in the Special Tax Prepayments Account shall be transferred by the Fiscal Agent, upon receipt of an Officer's Certificate directing such transfer and specifying the amount to be transferred (upon which the Fiscal Agent may conclusively rely), to the Principal Account on the next date for which notice of the redemption of the Bonds can timely be given under the Agreement, and shall be used to redeem the Bonds on the redemption date selected in accordance with the Agreement. The portion of the moneys on deposit in the Special Tax Prepayments Account representing funded interest on a portion of the Outstanding Bonds shall be transferred by the Fiscal Agent, upon receipt of an Officer's Certificate directing such transfer and specifying the amount to be transferred (upon which the Fiscal Agent may conclusively rely), to the Interest Account on or before each Interest Payment Date prior to and including the Interest Payment Date on which the redemption of such Bonds will occur. Pending such transfers, the moneys on deposit in the Special Tax Prepayments Account shall be invested in Permitted Investments of the type and at such yield as Bond Counsel shall determine is necessary to preserve the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. Investment earnings on the moneys on deposit in the Special Tax Prepayments Account shall be retained in such account.

(D) Investment. Except as provided in subsection (C) above, moneys in the Bond Fund, including all accounts therein, shall be invested and deposited in accordance with the Agreement. Investment Earnings shall be retained in the Bond Fund, except to the extent they are required to be deposited by the Fiscal Agent in the Rebate Fund in accordance with the Agreement.

Amounts in the Bond Fund, including all accounts therein, shall also be withdrawn and deposited in the Rebate Fund as provided in the Agreement.

#### Reserve Fund.

(A) Creation of Fund. The Agreement establishes, as a separate fund to be held by the Fiscal Agent, the "Community Facilities District No. 2006-1 of the City of Riverside Special Tax Bonds (Improvement Area No. 1) Reserve Fund" to the credit of which a deposit shall be made as required by the Agreement, which deposit is equal to the Reserve Requirement, and to which deposits shall be made as provided in the Agreement. Moneys in the Reserve Fund shall be held by the Fiscal Agent for the benefit of the Owners of the Bonds as a reserve for the payment of the principal of and interest and any premium on the Bonds and shall be subject to a lien in favor of the Owners of the Bonds.

(B) Use of Fund. Except as otherwise provided in this Section, all amounts on deposit in the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Interest Account and the Principal Account of the Bond Fund in the event of any deficiency at any time in either of such accounts of the amount then required for payment of the principal of and interest and any premium on the Bonds or, in accordance with the provisions of the Agreement, for the purpose of redeeming Bonds.

(C) Transfer Due to Deficiency in Interest and Principal Accounts. Whenever transfer is made from the Reserve Fund to the Interest Account or the Principal Account due to a deficiency in either such account, the Fiscal Agent shall provide written notice thereof to the City.

(D) Transfer of Excess of Reserve Requirement. Whenever, on any September 2, the amount in the Reserve Fund, less Investment Earnings resulting from the investment of the funds therein which pursuant to the Agreement must be rebated to the United States, exceeds the Reserve Requirement, the Fiscal Agent shall provide written notice to the City of the amount of the excess. The Fiscal Agent



shall, subject to the requirements of the Agreement, transfer an amount from the Reserve Fund which will reduce the amount on deposit therein to an amount equal to the Reserve Requirement to the Interest Account and the Principal Account, in the priority specified in the Agreement, to be used for the payment of the interest on and principal of the Bonds on the next succeeding Interest Payment Date in accordance with the Agreement.

(E) Transfer When Balance Exceeds Outstanding Bonds. Whenever the balance in the Reserve Fund is equal to or exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon receiving written direction from an Authorized Officer (upon which the Fiscal Agent may conclusively rely), transfer the amount in the Reserve Fund to the Interest Account and the Principal Account, in the priority specified in the Agreement, to be applied, on the next succeeding Interest Payment Date, to the payment and redemption, in accordance with the Agreement of all of the Outstanding Bonds. In the event that the amount available to be so transferred from the Reserve Fund to the Interest Account and the Principal Account exceeds the amount required to pay and redeem the Outstanding Bonds, the excess shall be transferred to the City to be used for any lawful purpose of the City.

(F) Transfers on Payment of Special Tax Obligations. Whenever the City receives a Special Tax Prepayment, the City shall by an Officer's Certificate notify the Fiscal Agent thereof and of the amount by which the Reserve Fund is to be reduced and which is transferable from the Reserve Fund to the Principal Account of the Bond Fund, which amount shall be specified in the Officer's Certificate. Each such Officer's Certificate shall be accompanied by a report of an Independent Financial Consultant verifying the accuracy of the calculation of the amount to be transferred from the Reserve Fund to the Principal Account ("Verification"). Upon receipt of each such Officer's Certificate and Verification, upon which the Fiscal Agent may conclusively rely, the Fiscal Agent shall at such time as the amount of such Special Tax Prepayment will be used to redeem Bonds, as provided in the Agreement, transfer the amount specified in such Officer's Certificate to the Principal Account and use such amount, together with the amount of such Special Tax Prepayment, to redeem Bonds, as provided in the Agreement. Notwithstanding the preceding provisions of this subsection, no amount shall be transferred from the Reserve Fund to the Principal Account if the amount on deposit in the Reserve Fund is, or as a result of such transfer would be, less than the Reserve Requirement.

(G) Investment. Moneys on deposit in the Reserve Fund shall be invested in Permitted Investments which do not have maturities extending beyond five (5) years; provided, however, if the Reserve Fund is invested in an investment agreement (as defined in clause (vii) of the definition of Permitted Investments the Agreement) or a repurchase agreement (as defined in clause (xi) of such definition) such agreement may have a maturity longer than five (5) years if the Fiscal Agent is authorized by the provisions of such agreement to draw the full amount thereof, without penalty, if required for the purposes of the Reserve Fund. The City shall cause the Permitted Investments, other than such investment agreements, in which moneys on deposit in the Reserve Fund are invested to be valued at fair market value and marked-to-market at least once in each Fiscal Year.

#### **OTHER COVENANTS OF THE CITY**

Punctual Payment. The City will punctually pay or cause to be paid the principal of and interest and any premium on the Bonds when and as due in strict conformity with the terms of the Agreement and any Supplemental Agreement to the extent that the Special Tax Revenues are available therefor, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Agreement and all Supplemental Agreements and of the Bonds.

Special Obligation. The Bonds are special obligations of the City and the District and are payable solely from and secured solely by the Special Tax Revenues and the amounts in the Bond Fund, the Reserve Fund and the Special Tax Fund.

Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the City shall not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and shall not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of the Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Against Encumbrances. The City shall not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien herein created for the benefit of the Bonds, except as permitted by the Agreement.

Books and Accounts. The City shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City in which complete and correct entries shall be made of all transactions relating to the expenditure of amounts disbursed from the Administrative Expense Fund. Such books of record and accounts shall at all times during business hours, upon reasonable notice, be subject to the inspection of the Owners of not less than ten percent (10%) of the aggregate principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

Protection of Security and Rights of Owners. The City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

Collection of Special Tax Revenues. The City shall comply with all requirements of the Act, including the enactment of necessary Ordinances, so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of the payment or collection of delinquent Special Taxes.

The City shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Act by August 10 of each year (or such later date as may be authorized by the Act or any amendment thereof) that the Bonds are Outstanding, such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within Improvement Area No. 1 for inclusion on the tax roll for the Fiscal Year then beginning. Upon the completion of the computation of the amounts of the levy of the Special Taxes, the City shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the tax roll. Notwithstanding the preceding provisions of this paragraph, the City Council may elect, as permitted by the Act, to collect the Special Taxes to be levied for any Fiscal Year directly from the owners of the parcels of taxable property upon which the Special Taxes are levied rather than by transmitting the Special Taxes to the Auditor for collection on the tax roll; provided that, in such event, the City shall otherwise comply with the provisions of the Agreement.

The City shall fix and levy the amount of Special Taxes within Improvement Area No. 1 required for the payment of the principal of and interest on any Outstanding Bonds becoming due and payable

during the ensuing calendar year, including any necessary replenishment or expenditure of the Reserve Fund, and the amount estimated to be sufficient to pay the Administrative Expenses during such calendar year. The Special Taxes so levied shall not exceed the authorized amounts for Improvement Area No. 1 as provided in the Rates and Method of Apportionment of Special Tax. The City shall not levy Special Taxes within Improvement Area No. 2 for the payment of any part of the principal of and interest on the Outstanding Bonds.

The Special Taxes shall be payable and be collected (except in the event of judicial foreclosure proceedings pursuant to the Agreement) in the same manner and at the same time and in the same installments as the general taxes on real property are payable, and have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property.

The City will not, in collecting the Special Taxes or in processing any such judicial foreclosure proceedings, exercise any authority which it has pursuant to Sections 53340, 53344.1, 53356.1 and 53356.8 of the California Government Code in any manner which would materially and adversely affect the interests of the Bondowners and, in particular, will not permit the tender of Bonds in full or partial payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the City having insufficient Special Tax Revenues in any Bond Year to pay the principal of and interest on the Bonds remaining Outstanding following such tender.

Levy of Special Taxes for Administrative Expenses. The City covenants that, (a) to the extent that it is legally permitted to do so, it will levy the Special Taxes for the payment of the Administrative Expenses which are expected to be incurred in each Fiscal Year, and (b) it will not initiate proceedings under the Act to reduce the Maximum Special Tax rates for Developed Property (the “Maximum Rates”) below the amounts which are necessary to provide Special Tax Revenues in an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Outstanding Bonds plus estimated Administrative Expenses for the then current Fiscal Year.

The City further covenants that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIII C of the California Constitution, which purports to reduce or otherwise alter the Maximum Rates, it will commence and pursue legal action seeking to preserve its ability to comply with its covenant contained in the preceding paragraph.

Further Assurances. The City will adopt, make, execute and deliver any and all such further ordinances, resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Agreement, and for better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Agreement.

Tax Covenants. The City covenants that:

(A) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of the initial issuance and delivery of the Bonds, would have caused any of the Bonds to be “arbitrage bonds” within the meaning of Section 103(b) and Section 148 of the Code;

(B) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Bonds, would result in loss of exclusion from gross income for purposes of federal income taxation under Section 103(a) of the Code of interest paid with respect to the Bonds;

(C) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Bonds, would have caused any of the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(D) It will comply with the Rebate Certificate as a source of guidance for achieving compliance with the Code; and

(E) In order to maintain the exclusion from gross income for purposes of federal income taxation of interest paid with respect to the Bonds, it will comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code.

The covenants of the City contained in this Section 5.10 shall survive the payment, redemption or defeasance of Bonds pursuant the Agreement.

Covenant to Foreclose. The City hereby covenants with and for the benefit of the Owners of the Bonds (i) that it will order, and cause to be commenced, judicial foreclosure proceedings against properties with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due, and (ii) that it will commence judicial foreclosure proceedings against all properties with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than ninety-five percent (95%) of the total Special Taxes levied, and diligently pursue to completion such foreclosure proceedings; provided that the City shall not be required to order, and cause to be commenced, judicial foreclosure proceedings against any such properties if the City determines that the amount of the delinquent Special Taxes for such properties is so small that the cost of foreclosure is not warranted.

Prepayment of Special Taxes. The City shall cause all applications of owners of property in Improvement Area No. 1 to prepay and satisfy the Special Tax obligation for their property to be reviewed by the Tax Consultant and shall not accept any such prepayment unless such consultant certifies in writing that following the acceptance of the proposed prepayment by the City and the redemption of Bonds with such prepayment, that the ratio of (i) the maximum amount of the Special Taxes that may be levied on all Developed Property in Improvement Area No. 1 which following such prepayment will be subject to the levy of the Special Taxes to (ii) Maximum Annual Debt Service on the Bonds which will remain Outstanding following such redemption (e.g., 1.10 to 1.0) plus estimated Administrative Expenses will not be less than such ratio as it existed prior to such prepayment.

Calculation of Prepayments. The City will cause all Special Tax Prepayments to be calculated to include the amount of the premium on the Outstanding Bonds that will be redeemed with the Special Tax Prepayment and negative arbitrage on the investment of the Special Tax Prepayment from the date of receipt until the Interest Payment Date upon which the Special Tax Prepayment and the amount to be transferred from the Reserve Fund to the Principal Account pursuant to the Agreement will be used to redeem Outstanding Bonds pursuant to the Agreement. The City will not include in any calculation of the amount of any Special Tax Prepayment for any parcel of taxable property in Improvement Area No. 1 a proportionate amount of the amount then on deposit in the Reserve Fund, if at the time of such calculation the amount on deposit in the Reserve Fund is less than the Reserve Requirement.

Continuing Disclosure. The City hereby covenants that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate.

Accountability Measures. The City shall comply with the requirements of Section 53410 of the California Government Code with respect to the deposit and expenditure of the Proceeds of the sale of the Bonds and shall cause the appropriate officer of the City to file a report with the City Council at least

once in each calendar year, beginning in 2014, which shall contain the information required by Section 53411 of the California Government Code with respect to the expenditure of the Proceeds and the status of the construction and acquisition of the Project.

Parity Bonds. The City shall not issue Parity Bonds for any purpose other than paying and discharging a portion of the indebtedness of the Outstanding Bonds pursuant to the Agreement.

### **INVESTMENTS; DISPOSITION OF INVESTMENT PROCEEDS; LIABILITY OF THE CITY**

Deposit and Investment of Moneys in Funds. Subject in all respects to the provisions of the Agreement, moneys in any fund or account created or established by the Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments, as directed pursuant to an Officer's Certificate filed with the Fiscal Agent at least two (2) Business Days in advance of the making of such investments. In the absence of any such Officer's Certificate, the Fiscal Agent shall invest any such moneys in Permitted Investments described in clause (iv) of the definition of Permitted Investments. The Fiscal Agent shall not have any responsibility for determining the legality of any Permitted Investments. The Fiscal Agent shall have no obligation to pay additional interest or maximize investment income on any funds held by it. Neither the City nor the Owners of the Bonds shall have any claim of any kind against the Fiscal Agent in connection with investments properly made pursuant to the Agreement. Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account, subject, however, to the requirements of the Agreement for transfer of Investment Earnings in funds and accounts.

The Fiscal Agent and its affiliates may act as sponsor, advisor, depository, principal or agent in the holding, acquisition or disposition of any investment. The Fiscal Agent shall not incur any liability for losses arising from any investments made pursuant to the Agreement. For purposes of determining the amount on deposit in any fund or account held hereunder, all Permitted Investments or investments credited to such fund or account shall be valued at the cost thereof (excluding accrued interest and brokerage commissions, if any).

Subject in all respects to the provisions of the Agreement, investments in any and all funds and accounts may be commingled in a single fund for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Fiscal Agent hereunder, provided that the Fiscal Agent shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Agreement.

The Fiscal Agent shall sell or present for redemption, any investment security 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 investment security is credited, and the Fiscal Agent shall not be liable or responsible for any loss resulting from the acquisition or disposition of any such investment security in accordance herewith.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City or the District the right to receive brokerage confirmations of securities transactions as they occur, the City for itself and the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent shall furnish the City periodic cash transaction statements which shall include detail for all investment transactions made by the Fiscal Agent hereunder.

The Fiscal Agent may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

Rebate Fund; Rebate to the United States. The Agreement creates, to be held by the Fiscal Agent, as a separate fund distinct from all other funds and accounts held by the Fiscal Agent under the Agreement, the Rebate Fund. The Fiscal Agent shall, in accordance with written directions received from an Authorized Officer, deposit into the Rebate Fund moneys transferred by the City to the Fiscal Agent pursuant to the Rebate Certificate or moneys transferred by the Fiscal Agent from the Reserve Fund. The Rebate Fund shall be held either uninvested or invested only in Federal Securities at the written direction of the City. Moneys on deposit in the Rebate Fund shall be applied only to payments made to the United States, to the extent such payments are required by the Rebate Certificate. The Fiscal Agent shall, upon written request and direction of the City, make such payments to the United States.

The Fiscal Agent may rely conclusively upon the City's determinations, calculations and certifications required by this Section. The Fiscal Agent shall have no responsibility to independently make any calculation or determination or to review the City's calculations hereunder. The Fiscal Agent's sole responsibilities under the Agreement are to follow the written instructions of the City pertaining hereto. The City shall be responsible for any fees and expenses incurred by the Fiscal Agent pursuant to the Agreement.

The Fiscal Agent shall, upon written request and direction from the City, transfer to or upon the order of the City any moneys on deposit in the Rebate Fund in excess of the amount, if any, required to be maintained or held therein in accordance with the Rebate Certificate.

Liability of City. The City shall not incur any responsibility in respect of the Bonds or the Agreement other than in connection with the duties or obligations explicitly herein or in the Bonds assigned to or imposed upon it. The City shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful default. The City shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Fiscal Agent herein or of any of the documents executed by the Fiscal Agent in connection with the Bonds.

In the absence of bad faith, the City may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the City and conforming to the requirements of the Agreement. The City shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts.

No provision of the Agreement shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Special Tax Revenues) in the performance of any of its obligations hereunder, or in the exercise of and of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The City may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The City may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of its duties under the Agreement the City shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of willful misconduct on the part of the City, be deemed to be conclusively proved and established by a certificate of the Fiscal Agent, and such certificate shall be full warranty to the City for any action taken or suffered under the provisions of the Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the City may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Employment of Agents by City. In order to perform its duties and obligations hereunder, the City may employ such persons or entities as it deems necessary or advisable. The City shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith hereunder, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

### **THE FISCAL AGENT**

Appointment of Fiscal Agent. U.S. Bank National Association is hereby appointed Fiscal Agent, registrar and paying agent for the Bonds. The Fiscal Agent undertakes to perform such duties, and only such duties, as are specifically set forth in the Agreement, and no implied covenants or obligations shall be read into the Agreement against the Fiscal Agent.

Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under the following paragraph of the Agreement, shall be the successor to the Fiscal Agent without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

The City may remove the Fiscal Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank, corporation or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000, and subject to supervision or examination by federal or state authority. If such bank, corporation or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Agreement, combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Fiscal Agent may at any time resign by giving written notice to the City and by giving to the Owners notice by mail of such resignation. Upon receiving notice of such resignation, the City shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent shall become effective upon acceptance of appointment by the successor Fiscal Agent.

If no appointment of a successor Fiscal Agent shall be made pursuant to the foregoing provisions of the Agreement within forty-five (45) days after the Fiscal Agent shall have given to the City written notice or after a vacancy in the office of the Fiscal Agent shall have occurred by reason of its inability to act, the Fiscal Agent, at the expense of the City, or any Owner may apply to any court of competent jurisdiction to appoint a successor Fiscal Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Fiscal Agent.

Liability of Fiscal Agent. The recitals of facts, covenants and agreements herein and in the Bonds contained shall be taken as statements, covenants and agreements of the City and the District, and the Fiscal Agent assumes no responsibility for the correctness of the same, nor makes any representations as to the validity or sufficiency of the Agreement or of the Bonds, nor shall the Fiscal Agent incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it. The Fiscal Agent shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Fiscal Agent assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

In the absence of bad faith, the Fiscal Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Fiscal Agent and conforming to the requirements of the Agreement. Except as provided above in this paragraph, the Fiscal Agent shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of the Agreement, upon any resolution, order, notice, request, consent or waiver, certificate, statement, affidavit, or other paper or document which it shall in good faith reasonably believe to be genuine and to have been adopted or signed by the proper person or to have been prepared and furnished pursuant to any provision of the Agreement, and the Fiscal Agent shall not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument.

The Fiscal Agent shall not be liable for any error of judgment made in good faith by the Fiscal Agent unless it shall be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts.

No provision of the Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

The Fiscal Agent shall not be responsible for accounting for, or paying to, any party to the Agreement, including, but not limited to the City and the Owners, any returns on or benefit from funds held for payment of unredeemed Bonds or outstanding checks and no calculation of the same shall affect, or result in any offset against, fees due to the Fiscal Agent under the Agreement.

The Fiscal Agent shall be under no obligation to exercise any of the rights or powers vested in it by the Agreement at the request or direction of any of the Owners pursuant to the Agreement unless such Owners shall have offered to the Fiscal Agent reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

The Fiscal Agent may become the owner of the Bonds with the same rights it would have if it were not the Fiscal Agent.

All indemnification and releases from liability granted herein to the Fiscal Agent shall extend to the directors, officers and employees of the Fiscal Agent.

The Fiscal Agent may rely upon a facsimile transmission with regard to any instruction for any transfer, disbursement or investment of funds held by the Fiscal Agent. The City shall confirm such transmission promptly in writing by mail.

The Fiscal Agent will not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of



such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to any project refinanced with the proceeds of the Bonds, malicious mischief, condemnation, and unusually severe weather and/or occurrences beyond the control of the Fiscal Agent.

Information. The Fiscal Agent shall provide to the City such information relating to the Bonds and the funds and accounts maintained by the Fiscal Agent hereunder as the City shall reasonably request, including, but not limited to, quarterly statements reporting funds held and transactions by the Fiscal Agent.

Notice to Fiscal Agent. The Fiscal Agent may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Fiscal Agent may consult with counsel, who may be counsel to the City, with regard to legal questions, and the advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Fiscal Agent hereunder in good faith and in accordance therewith.

Whenever in the administration of its duties under the Agreement the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of willful misconduct on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a certificate of the City, and such certificate shall be full warranty to the Fiscal Agent for any action taken or suffered under the provisions of the Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Compensation, Indemnification. The City shall pay to the Fiscal Agent from time to time reasonable compensation for all services rendered as Fiscal Agent under the Agreement, and also all reasonable expenses, charges, fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under the Agreement, and the Fiscal Agent shall have a first priority lien therefor on any funds at any time held by it in the Administrative Expense Fund, and the Fiscal Agent shall pay and reimburse all expenses, charges, fees and other disbursements, including those of its attorneys, agents and employees, incurred in connection therewith from the funds held by it in the Administrative Expense Fund. The City further agrees, to the extent permitted by applicable law, to indemnify and save the Fiscal Agent, its officers, employees, directors and agents, harmless against any liabilities, costs, claims, expenses or charges of any kind whatsoever (including fees and expenses of its attorneys) which it may incur in the exercise and performance of its powers and duties hereunder which are not due to its negligence or willful misconduct. The obligation of the City under this Section 7.05 shall survive resignation or removal of the Fiscal Agent under the Agreement and payment of the Bonds and discharge of the Agreement.

Books and Accounts. The Fiscal Agent shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Fiscal Agent, in which complete and correct entries shall be made of all transactions made by it to the expenditure of amounts disbursed from the Bond Fund, the Special Tax Fund, the Administrative Expense Fund, the Reserve Fund and the Costs of Issuance Fund. Such books of record and accounts shall, upon reasonable notice, at all times during

business hours be subject to the inspection of the City and the Owners of not less than ten percent (10%) of the aggregate principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

## **MODIFICATION OR AMENDMENT OF THE AGREEMENT**

### Amendments Permitted.

(A) The Agreement and the rights and obligations of the District and the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of the Owners, or with the written consent, without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Agreement. No such modification or amendment shall (i) extend the maturity of any Bond or the time for paying interest thereon, or otherwise alter or impair the obligation of the City on behalf of the District to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation of any pledge of or lien upon the Special Tax Revenues, or the moneys on deposit in the Special Tax Fund, the Bond Fund or the Reserve Fund, superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or the Agreement), (iii) reduce the percentage of Bonds required for the amendment hereof, or (iv) reduce the principal amount of or redemption premium on any Bond or reduce the interest rate thereon. Any such amendment may not modify any of the rights or obligations of the Fiscal Agent without its written consent. The Fiscal Agent shall be furnished an opinion of counsel that any such Supplemental Agreement entered into by the City and the Fiscal Agent complies with the provisions of the Agreement and the Fiscal Agent may conclusively rely on such opinion.

(B) The Agreement and the rights and obligations of the District and the City and the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Agreement contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power herein reserved to or conferred upon the City;

(2) to make modifications not adversely affecting any Outstanding series of Bonds of the District in any material respect;

(3) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provisions of the Agreement, or in regard to questions arising under the Agreement, as the City and the Fiscal Agent may deem necessary or desirable and not inconsistent with the Agreement, and which shall not adversely affect the rights of the Owners;

(4) to make such additions, deletions or modifications as may be necessary or desirable to assure compliance with Section 148 of the Code relating to required rebate of moneys to the United States or otherwise as may be necessary to assure exclusion from gross income for federal income tax purposes of interest on the Bonds or to conform with the Regulations; or

(5) to pay and discharge the indebtedness of a portion of the Outstanding Bonds ( a “Partial Discharge”) pursuant the Agreement.

Owners' Meetings. The City may at any time call a meeting of the Owners. In such event, the City is authorized to fix the time and place of any such meeting and to provide for the giving of notice thereof and to fix and adopt rules and regulations for the conduct of the meeting.

Procedure for Amendment with Written Consent of Owners. The City and the Fiscal Agent may at any time enter into a Supplemental Agreement amending the provisions of the Bonds or of the Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by the Agreement, to take effect when and as provided in the Agreement. A copy of the Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, postage prepaid, by the Fiscal Agent to each Owner of Bonds Outstanding, but failure to mail copies of the Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as in this Section provided.

Such a Supplemental Agreement shall not become effective unless there shall be filed with the Fiscal Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Agreement) and a notice shall have been mailed as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by the Agreement. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Fiscal Agent prior to the date when the notice hereinafter in this Section provided for has been mailed.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Owners in the manner hereinbefore provided in this Section for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice shall be filed with the Fiscal Agent. A record, consisting of the documents required by this Section 8.03 to be filed with the Fiscal Agent, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Agreement shall become effective upon the filing with the Fiscal Agent of the proof of mailing of such notice, and the Supplemental Agreement shall be deemed conclusively binding (except as otherwise hereinabove specifically provided in the Agreement) upon the City, the District and the Owners of all Bonds then Outstanding at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty (60)-day period.

Disqualified Bonds. Bonds owned or held for the account of the City, excepting any pension or retirement fund, shall not be deemed Outstanding for the purpose of any vote, consent or other action or any calculation of Outstanding Bonds provided for in the Agreement, and shall not be entitled to vote upon, consent to, or participate in any action provided for in the Agreement. Upon request of the Fiscal Agent, the City shall specify to the Fiscal Agent those Bonds disqualified pursuant to this Section and the Fiscal Agent may conclusively rely on such certificate.

Effect of Supplemental Agreement. From and after the time any Supplemental Agreement becomes effective pursuant to the Agreement, the Agreement shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Agreement of the City and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions

of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of the Agreement for any and all purposes.

Endorsement or Replacement of Bonds Issued After Amendments. The City may determine that Bonds issued and delivered after the effective date of any action taken as provided in the Agreement shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and upon presentation of his Bond for that purpose at the Principal Office of the Fiscal Agent or at such other office as the City may select and designate for that purpose, a suitable notation shall be made on such Bond. The City may determine that new Bonds, so modified as in the opinion of the City is necessary to conform to such action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the Principal Office of the Fiscal Agent without cost to any Owner, for like Bonds then Outstanding, upon surrender of such Bonds.

Amendatory Endorsement of Bonds. The provisions of the Agreement shall not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Discharge of Agreement.

If the City shall pay and discharge the indebtedness on all or a portion (a "Partial Discharge") of the Outstanding Bonds in any one or more of the following ways:

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

(B) by depositing with the Fiscal Agent, at or before maturity, an amount of money which, together with the amounts then on deposit in the Bond Fund (including all accounts therein), the Special Tax Fund (including the Surplus Account) and the Reserve Fund, or in the event of a Partial Discharge, the appropriate portion of such amounts, as determined by the City and confirmed by an Independent Financial Consultant, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums, if any; or

(C) by irrevocably depositing with the Fiscal Agent, cash or non-callable Defeasance Securities in such amount as the City shall determine, as confirmed by an Independent Financial Consultant, will, together with the interest to accrue thereon and amounts then on deposit in the Bond Fund (including all accounts therein), the Special Tax Fund (including the Surplus Account) and the Reserve Fund, or in the event of a Partial Discharge, the appropriate portion of such amounts, as determined by the City and confirmed by an Independent Financial Consultant, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any such Bonds shall not have been surrendered for payment, the pledge of the Special Tax Revenues and other funds provided for in the Agreement and all other obligations of the City and the District under the Agreement with respect to such Bonds shall cease and terminate, except the obligation of the City to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon, the obligation of the City to pay all amounts owing to the Fiscal Agent pursuant to the Agreement, and the obligations of the City pursuant to the covenants contained the Agreement; and thereafter Special Taxes

shall not be payable to the Fiscal Agent. Notice of such election shall be filed with the Fiscal Agent. The satisfaction and discharge of the Agreement as to all of the Outstanding Bonds shall be without prejudice to the rights of the Fiscal Agent to charge and be reimbursed by the City for the expenses which it shall thereafter incur in connection herewith.

Any funds held by the Fiscal Agent to pay and discharge the indebtedness on such Bonds, upon payment of all fees and expenses of the Fiscal Agent, which are not required for such purpose, shall be paid over to the City.

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## APPENDIX E

### FORMS OF CONTINUING DISCLOSURE CERTIFICATES OF THE DISTRICT AND TRI POINTE

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#### CONTINUING DISCLOSURE CERTIFICATE THE DISTRICT

This Continuing Disclosure Certificate dated as of June 1, 2013 (the “Disclosure Certificate”) is executed and delivered by Community Facilities District No. 2006-1 (Riverwalk Vista) (the “Issuer”) in connection with the issuance and delivery by the Issuer of its 2013 Special Tax Bonds (Improvement Area No. 1) (the “Bonds”). The Bonds are being issued pursuant to a Fiscal Agent Agreement dated as of June 1, 2013 (the “Fiscal Agent Agreement”) by and between the Issuer and U.S. Bank National Association, as fiscal agent thereto (the “Fiscal Agent”). The Issuer covenants as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the Issuer, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

**SECTION 2. Definitions.** In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

“City” means the City of Riverside, California.

“Disclosure Representative” shall mean the City Manager of the City, the Finance Director of the City or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean, initially, the Issuer, or any successor Dissemination Agent designated in writing by the Issuer which has filed with the then current Dissemination Agent a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Issuer” shall mean the Community Facilities District No. 2006-1 (Riverwalk Vista) established by the City of Riverside.

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

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Official Statement” means the Official Statement for the Bonds dated June 12, 2013.

“Participating Underwriter” shall mean Stifel, Nicolaus & Company, Incorporated.

“Rate and Method of Apportionment” shall mean, together, the Amended and Restated Rate and Method of Apportionment of Special Tax for Improvement Area No. 1 of Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside attached as Appendix A to the Official Statement, as such Rate and Method of Apportionment may be amended from time to time.

“Repository” shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

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

### SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than 270 days after the end of the Issuer’s fiscal year (which currently ends on June 30), commencing with the report for the fiscal year ending June 30, 2013, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify the Repository of a change in the fiscal year dates.

(b) In the event that the Dissemination Agent is an entity other than the Issuer, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to the due date for an Annual Report the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a). The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is other than the Issuer and if the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository, in the form required by the Repository.

(d) If the Dissemination Agent is other than the Issuer, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository if other than the MSRB; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided to the Repository and the date it was provided.



(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports.

(a) The first annual Report shall be comprised of the financial statements listed in (b) below and a copy of the Official Statement. Thereafter, the Annual Report shall consist of the financial statements described in (b) below and the financial and operating data described in (c) below.

(b) Financial Statements. The audited financial statements of the City for the most recent fiscal year then ended shall be provided in the Annual Report. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the City in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the City shall be audited by such auditor as shall then be required or permitted by State law and shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the City may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the City shall modify the basis upon which its financial statements are prepared, the City shall provide the information referenced in Section 8(d) below.

(c) Financial and Operating Data. In addition to the financial statements, the Annual Report shall contain or incorporate by reference the following information:

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

(ii) the balance in each fund under the Fiscal Agent Agreement as of the September 2 preceding the filing of the Annual Report;

(iii) any changes to the Rate and Method approved or submitted to the electors for approval prior to the filing of the Annual Report;

(iv) the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes levied on parcels in Improvement Area No. 1;

(v) the identity of any property owner whose delinquent special taxes represent more than 5% of the amount levied and the number of lots, assessed value, delinquency amount value-to-lien ratios, prior delinquencies and foreclosure status of the applicable properties;

(vi) an update of the value-to-lien information in Table 4 calculated using the assessed property values applicable for the next succeeding fiscal year;

information regarding the percentage of delinquency, if any, in the collection of special taxes levied on property in Improvement Area No. 1 for the Fiscal Year preceding the Annual Report date in the form set forth in Table 5, the number of parcels delinquent, amount delinquent compared to the total levy and the assessed value of each delinquent parcel; and

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

In addition to any of the information expressly required to be provided under paragraphs (a) or (b) of this Section, the Issuer shall provide such further information, if any, as may be necessary to make the specifically required statements set forth in clauses (i) to (vii), in the light of the circumstances under which they were made, not misleading.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the Repository. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

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

(b) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
3. appointment of a successor or additional trustee or the change of the name of a trustee;
4. nonpayment related defaults;
5. modifications to the rights of Owners of the Bonds;
6. notices of redemption; and
7. release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event under Section 5(b) above, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with the Repository in a timely manner not more than 10 business days after the event.

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

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

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (i) such amendment is made in

connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby; (ii) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (iii) the Issuer shall have delivered to the Dissemination Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (ii) above; (iv) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners; and (v) the Issuer shall have delivered copies of such opinion and amendment to the Repository.

(b) This Disclosure Certificate also may be amended by written agreement of the parties upon obtaining consent of Owners in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of the Owners of the Bonds; provided that the conditions set forth in Section 8(a)(i), (ii), (iii) and (v) have been satisfied.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Where an entity other than the Issuer is acting as the Dissemination Agent, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of

liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent other than the Issuer shall be paid (i) compensation by the Issuer for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) 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 it by the Issuer pursuant to this Disclosure Certificate. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices with respect to this Disclosure Certificate should be sent in writing to:

Disclosure Representative:      City of Riverside  
   92522 Main Street  
   Riverside, California 92522  
   Attention: Finance Director

IN WITNESS WHEREOF, this Certificate is executed as of the date and year first set forth above.

COMMUNITY FACILITIES DISTRICT NO. 2006-1  
(RIVERWALK VISTA)

By: \_\_\_\_\_  
   Disclosure Representative

## CONTINUING DISCLOSURE CERTIFICATE OF TRI POINTE HOMES, INC.

This Continuing Disclosure Certificate (the “Disclosure Certificate”) dated as of June 1, 2013, 2013 is executed and delivered by TRI Pointe Homes, Inc., a Delaware corporation (the “Developer”), in connection with the execution and delivery by Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside (the “District”) of its 2013 Special Tax Bonds (Improvement Area No. 1) (the “Bonds”). The Bonds are being executed and delivered pursuant to a Fiscal Agent Agreement by and between the City, for and on behalf of the District, and U.S. Bank National Association, as fiscal agent (the “Fiscal Agent”), dated as of June 1, 2013, (the “Fiscal Agent Agreement”). The Developer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Developer for the benefit of the Bondowners and Beneficial Owners and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). Pursuant to this Disclosure Certificate, the Developer agrees to provide the information required to be provided by this Disclosure Certificate. This Disclosure Certificate does not address additional undertakings, if any, by or with respect to persons other than the Developer who may be considered obligated persons or purposes of the Rule, which additional undertakings, if any, may be required for the Participating Underwriter to comply with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Affiliate” shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as an agent, guardian or other fiduciary, twenty-five percent (25%) or more of any class of Equity Securities of such Person, (b) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (c) each of such Person’s executive officers, directors, joint venturers and general partners; provided, however, that in no case shall the District be deemed to be an Affiliate of the Developer for purposes of this Disclosure Agreement. For the purpose of this definition, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“Annual Report” shall mean any Annual Report provided by the Developer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

“Disclosure Representative” shall mean the Vice President, Project Development or his designee acting on behalf of the Developer, or such other officer or employee as the Developer.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Equity Securities” of any Person shall mean (a) all common stock, preferred stock, participations, shares, general partnership interests or other equity interests in and of such person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30.

“Government Authority” shall mean any national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any other Person exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Listed Event” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement, dated June 12, 2013, relating to the Bonds.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds, which is Stifel Nicolaus & Company, Incorporated, whose address for purposes of this Disclosure Certificate is One Ferry Building, Suite 275, San Francisco, California 94111.

“Person” shall mean any natural person, corporation, partnership, firm, association, Government Authority or any other Person whether acting in an individual fiduciary, or other capacity.

“Repository” shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

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

“Semiannual Report” shall mean any report to be provided by the Developer on or prior to October 1 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“State” shall mean the State of California.

### SECTION 3. Provision of Annual Reports.

(a) The Developer shall, not later than April 1 of each year, commencing April 1, 2014, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If, in any year, April 1 falls on a Saturday, Sunday or a holiday on which the Fiscal Agent’s offices are closed for business, such deadline shall be extended to the next following day on which the Fiscal Agent’s offices are open for business. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate, provided that the audited financial statements, if any, of the Developer may be submitted separately from the balance of the Annual Report and later than the date required for the filing of the Annual Report if they are not available by that date. In addition, the Developer shall, not later than October 1 of each year, commencing October 1, 2013, provide to the Repository a Semiannual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If, in any year, October 1 falls on a Saturday, Sunday or a holiday on which the Fiscal Agent’s offices are closed for business, such deadline shall be extended to the next following day on which the Fiscal Agent’s offices are open for business.

(b) If the Developer is unable to provide an Annual Report or Semiannual Report to the Repository by the date required in subsection (a), the Developer shall send a notice to the Repository in the form required by the Repository.

(c) The Developer shall:

(i) determine each year prior to the date for providing the Annual Report and the Semiannual Report the name and address of the Repository; and

(ii) promptly after filing the Annual Report or Semiannual Report, provide notice the District certifying that the Annual Report or the Semiannual Report, as applicable, has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the Repository.

(d) Notwithstanding any other provision of this Disclosure Certificate, any of the required filings hereunder shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

#### SECTION 4. Content of Annual Report and Semiannual Report.

(a) The Developer's Annual Report and Semiannual Report shall contain or include by reference the information which is available thirty (30) days prior to the filing of the Annual Report or the Semiannual Report, as applicable, relating to the following:

1. An update to the parts of the section in the Official Statement entitled "IMPROVEMENT AREA NO. 1— TRI Pointe Homes" corresponding to the Developer, including an update of the tables therein setting forth the number of homes owned by individual owners, and a discussion of the sources of funds to finance development of property owned by the Developer and its Affiliates within the District, and whether any material defaults exist under any loan arrangement related to such financing.

2. A summary of development activity within the District, including the number of parcels for which building permits have been issued, the number of home closings, the number of homes under construction, and the expected build out of the property.

3. Status of completion of the development being undertaken by the Developer and its Affiliates and any major legislative, administrative and judicial challenges known to the Developer to or affecting the construction of the development or the time for construction of any public or private improvements to be made by the Developer or any Affiliate within the District other than the public improvements described in (5) below (the "Developer Improvements").

4. Any significant amendments to land use entitlements with respect to parcels owned by the Developer or its Affiliates within the District, or that are otherwise known to the Developer, including an update of the total acres subject to the levy of Special Taxes if the amendment affects the total number of acres subject to the levy of the Special Taxes.

5. Status of Special Tax payments on all parcels owned by the Developer and its Affiliates.

6. In the Annual Report only, the audited financial statements of the Developer for its most recently completed fiscal year (which currently ends on each December 31), prepared in accordance with generally accepted accounting principles as promulgated to apply to private entities from time to time by the Financial Accounting Standards Board. If the Developer has audited financial statements prepared and the 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 for the preceding year, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.



(b) Any and all of the items listed above may be included by specific reference to other documents, including official statements of debt issues which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Developer 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 Developer shall give notice of the occurrence of any of the following events with respect to the Bonds, if material under clauses (b) and (c) as soon as practicable after the occurrence of any of the following events:

1. Failure to pay any real property taxes, special taxes or assessments levied within the District on a parcel owned by the Developer or any Affiliate;

2. Damage to or destruction of any of the Developer Improvements or the District Improvements which has a material adverse effect on the value of the parcels owned by the Developer or any Affiliate;

3. Material default by the Developer or any Affiliate on any loan with respect to the construction or permanent financing of the Developer Improvements;

4. Material default by the Developer or any Affiliate on any loan secured by property within the District owned by the Developer or any Affiliate;

5. Payment default by the Developer or any Affiliate on any loan of the Developer or any Affiliate (whether or not such loan is secured by property within the District) which is beyond any applicable cure period in such loan;

6. The filing of any proceedings with respect to the Developer or any Affiliate, in which the Developer or any Affiliate, may be adjudicated as bankrupt or discharged from any or all of their respective debts or obligations or granted an extension of time to pay debts or a reorganization or readjustment of debts; and

7. The filing of any lawsuit against the Developer or any of its Affiliates which, in the reasonable judgment of the Developer, will adversely affect the completion of the District Improvements, the Developer Improvements or the development of parcels owned by the Developer or its Affiliates within the District, or litigation which if decided against the Developer, or any of its Affiliates, in the reasonable judgment of the Developer, would materially adversely affect the financial condition of the Developer or its Affiliates.

(b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall as soon as possible determine if such event would be material under applicable federal securities laws. The Fiscal Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) If the Developer determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Developer shall promptly file a notice of such occurrence with the Repository, with a copy to the District.

SECTION 6. Termination of Reporting Obligation. The Developer's obligations under this Disclosure Certificate shall terminate upon the following events:

- (a) the legal defeasance, prior redemption or payment in full of all of the Bonds,
- (b) if, at any time, the Developer and its Affiliates own property within the District which is responsible for less than twenty percent (20%) of the Special Taxes levied in the current Fiscal Year, or
- (c) upon the delivery by the Developer to the District of an opinion of nationally recognized bond counsel to the effect that the information required by this Disclosure Certificate is no longer required. Such opinion shall be based on information publicly provided by the Securities and Exchange Commission or a private letter ruling obtained by the Developer or a private letter ruling obtained by a similar entity to the Developer. If such termination occurs prior to the final maturity of the Bonds, the Developer shall give notice of such termination in the same manner as for an Annual Report or Semiannual Report hereunder.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Developer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;
- (b) This Disclosure Certificate, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel addressed to the District, the Fiscal Agent and the Participating Underwriter, 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;
- (c) The amendment or waiver either (i) is approved by the Bondowners in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel addressed to the District and the Fiscal Agent, materially impair the interests of the Bondowners or Beneficial Owners of the Bonds; and
- (d) The Developer shall have delivered copies of the amendment and any opinions delivered under (b) and (c) above.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Developer shall describe such amendment in the next Annual Report or Semiannual 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 Developer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given to the Repository, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison of financial data described in clause (ii) of the preceding sentence shall be provided at the time financial statements, if any, are filed under Section 4(a)(8) hereof.

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Developer from disseminating any other information, using the means of dissemination set forth in

this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report, Semiannual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Developer chooses to include any information in any Annual Report, Semiannual Report, or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Developer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report, Semiannual Report, or notice of occurrence of a Listed Event.

The Developer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Developer, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Developer under such laws.

SECTION 9. Default. In the event of a failure of the Developer to comply with any provision of this Disclosure Certificate, any Participating Underwriter or any Bondowner 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 Developer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Developer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 10. Reporting Obligation of Developer's Transferees; Covenant Running With Land. The Developer shall, in connection with any sale or transfer of ownership of land within the District which will result in the transferee (which term shall include any successors and assigns of the Developer) becoming responsible (i) for the payment of more than 20 percent of the Special Taxes levied on property within the District in the Fiscal Year following such transfer, cause such transferee to enter into a disclosure agreement with terms substantially similar to the terms of this Disclosure Certificate, whereby such transferee agrees to be bound by the obligations of the Developer under this Disclosure Certificate as an additional obligated party. The Developer agrees that its obligations pursuant to this Disclosure Certificate shall be a covenant running with the land owned by the Developer within the District such that its obligations pursuant to this Disclosure Certificate shall be binding upon all such transferees described above as though the obligations of the Developer and such transferees were expressly set forth in the grant deeds whereby such transferees obtain title to or an estate in such land from the Developer as provided in Sections 1460 through 1470 of the Civil Code of the State of California. Notwithstanding the foregoing, this Section shall not apply to sales to homeowners.

SECTION 11. Developer as Independent Contractor. In performing under this Disclosure Certificate, it is understood that the Developer is an independent contractor and not an agent of the District.

SECTION 12. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Developer: TRI Pointe Homes, Inc.  
19520 Jamboree Road, Suite 200  
Irvine, CA. 92612  
Attn: Vice President, Project Manager

Fiscal Agent: U.S. Bank National Association  
633 West Fifth Street, 24th Floor  
Los Angeles, CA 90071  
Attn: Corporate Trust Services

Participating Underwriter: Stifel Nicolaus & Company, Incorporated  
One Ferry Building, Suite 275  
San Francisco, California 94111  
Attn: Municipal Bond Division

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Developer, the District, the Fiscal Agent, the Participating Underwriter and Bondowners 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 Certificate 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.

TRI POINTE HOMES, INC., a Delaware corporation

By: \_\_\_\_\_

Its: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

## APPENDIX F

### FORM OF OPINION OF BOND COUNSEL

[Closing Date]

City of Riverside  
3900 Main Street  
Riverside, CA 92522

Re: \$4,415,000 Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside 2013 Special Tax Bonds (Improvement Area No. 1)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside (the "District"), of \$4,415,000 aggregate principal amount of Community Facilities District No. 2006-1 (Riverwalk Vista) of the City of Riverside 2013 Special Tax Bonds, (the "Bonds"). The Bonds are issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Act"), a resolution adopted by the City of Riverside on May 28, 2013 (the "Resolution"), and a Fiscal Agent Agreement, dated as of June 1, 2013 (the "Agreement"), between the City of Riverside and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent").

We have examined the Act, the Resolution, the Agreement and certified copies of the proceedings taken for the issuance and sale of the Bonds. As to questions of fact which are material to our opinions, we have relied upon the representations of the City contained in the Agreement and in certificates of its authorized officers which have been delivered to us for the purpose of supplying such facts, without having undertaken to verify the accuracy of any such representations by independent investigation.

Based upon such examination, we are of the opinion, as of the date hereof, that the proceedings referred to above have been taken in accordance with the laws and the Constitution of the State of California, and that the Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchaser thereof, and the Agreement constitute the legally valid and binding obligations of the District enforceable in accordance with their terms subject to the qualifications specified below and the Bonds, except where funds are otherwise available, as may be permitted by law, are payable, as to both principal and interest, solely from certain special taxes to be levied and collected within the District and other funds available therefor held under the Agreement.

The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest on the Bonds to be and remain exempt from federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of issuance of the Bonds. Pursuant to the Agreement, the City has covenanted to comply with the requirements of the Code and applicable regulations promulgated thereunder.

We are of the opinion that, under existing statutes, regulations, rulings and court decisions, and assuming compliance by the City with the aforementioned covenants, the interest on the Bonds is excluded from gross income for purposes of federal income taxation and is exempt from personal income taxation imposed by the State of California.

We are further of the opinion that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. However, interest on the Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations.

Although interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Agreement may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

## APPENDIX G

### INFORMATION CONCERNING DTC

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC to the District which the District believes to be reliable, but the District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited through the facilities of DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in 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 affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as prepayments, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 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 District or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of 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.

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

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, physical certificates are required to be printed and delivered.

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



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

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