

NEW ISSUE-BOOK ENTRY ONLY

NOT RATED

(See "CONCLUDING INFORMATION - No Rating" herein)

In the opinion of Burke, Williams & Sorensen, LLP, Bond Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.

COUNTY OF RIVERSIDE

STATE OF CALIFORNIA



\$16,890,000

**COMMUNITY FACILITIES DISTRICT NO. 2001-2
(VILLAGES OF AVALON) OF THE CITY OF PERRIS
SPECIAL TAX REVENUE BONDS,
2002 SERIES A**

Dated: Date of Delivery

Due: September 1, as shown below

The cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the Bonds involves risks. See "BONDOWNERS' RISKS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.

Interest on the Bonds is payable on September 1, 2002, and semiannually thereafter on March 1 and September 1 of each year until maturity or earlier redemption (see "THE BONDS - General Provisions" and "THE BONDS - Redemption" herein).

The information contained within this Official Statement was prepared under the direction of the City by the following firm serving as Financing Consultant to the City.



Rod Gunn Associates, Inc.

MATURITY SCHEDULE

\$1,235,000 5.625% Term Bond due September 1, 2012, Price 99.024%

\$6,050,000 6.250% Term Bond due September 1, 2023, Price 98.260%

\$9,605,000 6.375% Term Bond due September 1, 2032, Price 98.348%

The Bonds are 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). Repayment of the Bonds will be from the Special Taxes (as defined herein) to be levied within the Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris, as described herein (see "SOURCES OF PAYMENT FOR THE BONDS" and "BONDOWNERS' RISKS" herein). It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company on or about March 7, 2002 (see "THE BONDS - General Provisions - Book-Entry Only System" herein).

The date of the Official Statement is February 27, 2002.



**(VILLAGES OF AVALON) OF THE CITY OF PERRIS
PERRIS, CALIFORNIA**

CITY COUNCIL

Daryl Busch, *Mayor*
Raul (Mark) Yarbrough, *Mayor Pro Tem*
Al Landers, *Council Member*
John Motte, *Council Member*
Rita Rogers, *Council Member*

CITY STAFF

William G. Vasquez, *City Manager*
Connie Rogers-Elmore, *Finance Director*
David Aleshire, *City Attorney*
Margaret Rey, *City Clerk*

PROFESSIONAL SERVICES

Bond Counsel

Burke, Williams & Sorensen, LLP
Irvine, California

City Attorney

Burke, Williams & Sorensen, LLP
Irvine, California

Underwriter's Counsel

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

Financing Consultant

Rod Gunn Associates, Inc.
Seal Beach, California

Special Tax Consultant

MuniFinancial
Temecula, California

Fiscal Agent

Wells Fargo Bank, National Association
Los Angeles, California

Underwriter

O'Connor SWS Securities
Newport Beach, California

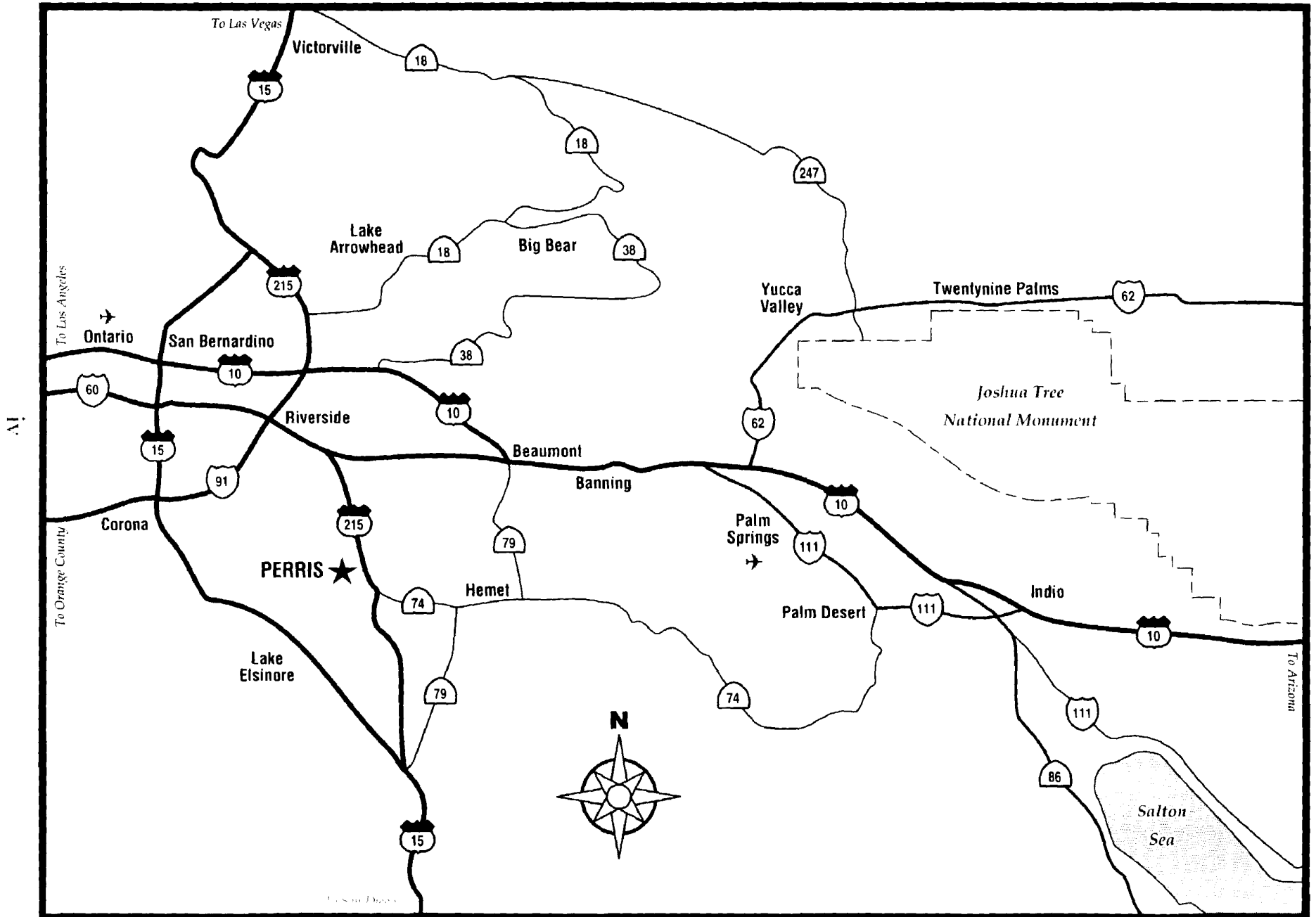
FOR ADDITIONAL INFORMATION

William G. Vasquez, City of Perris, California (909) 943-6100
Rod Gunn Associates, Inc. (562) 598-7677
O'Connor SWS Securities (949) 717-2000

TABLE OF CONTENTS

<p>INTRODUCTORY STATEMENT1</p> <p style="padding-left: 20px;">The District.....1</p> <p style="padding-left: 20px;">Security and Sources of Repayment.....2</p> <p style="padding-left: 20px;">Purpose.....3</p> <p style="padding-left: 20px;">The Bonds3</p> <p style="padding-left: 20px;">Legal Matters4</p> <p style="padding-left: 20px;">Professional Services.....4</p> <p style="padding-left: 20px;">The Refunding Program.....4</p> <p style="padding-left: 20px;">Offering of the Bonds.....5</p> <p style="padding-left: 20px;">Information Concerning this Official Statement.....5</p> <p>SELECTED ESSENTIAL FACTS.....8</p> <p>THE BONDS9</p> <p style="padding-left: 20px;">General Provisions9</p> <p style="padding-left: 20px;">Authorization..... 11</p> <p style="padding-left: 20px;">Estimated Sources and Uses of Funds..... 12</p> <p style="padding-left: 20px;">Investment of Funds..... 12</p> <p style="padding-left: 20px;">Improvement Fund – Escrow Account..... 13</p> <p style="padding-left: 20px;">Redemption..... 14</p> <p>SOURCES OF PAYMENT FOR THE</p> <p>BONDS 18</p> <p style="padding-left: 20px;">Repayment of the Bonds..... 18</p> <p>BONDOWNERS’ RISKS 21</p> <p style="padding-left: 20px;">General 21</p> <p style="padding-left: 20px;">The Bonds 21</p> <p>THE CITY 33</p> <p style="padding-left: 20px;">Government Organization 33</p> <p>THE DISTRICT 34</p> <p style="padding-left: 20px;">Boundaries of the Community Facilities</p> <p style="padding-left: 40px;">District 34</p> <p style="padding-left: 20px;">The Property Owner 34</p> <p style="padding-left: 20px;">Facilities to be Financed by the District 37</p> <p style="padding-left: 20px;">Facilities Cost Estimate..... 38</p> <p style="padding-left: 20px;">Market Absorption Study..... 38</p> <p style="padding-left: 20px;">The Appraisal 40</p> <p style="padding-left: 20px;">The Development..... 40</p> <p>DEBT STRUCTURE 45</p> <p style="padding-left: 20px;">Outstanding Indebtedness 45</p> <p style="padding-left: 20px;">Additional Obligations..... 45</p> <p style="padding-left: 20px;">Direct and Overlapping Debt..... 48</p> <p style="padding-left: 20px;">Scheduled Debt Service on the Bonds..... 49</p>	<p>SUMMARY OF THE LEGAL DOCUMENTS ... 50</p> <p>THE FISCAL AGENT AGREEMENT 50</p> <p style="padding-left: 20px;">Funds and Accounts; Flow of Funds..... 50</p> <p style="padding-left: 20px;">Certain Covenants of the District 56</p> <p style="padding-left: 20px;">Investments; Disposition of Investment</p> <p style="padding-left: 40px;">Proceeds 58</p> <p style="padding-left: 20px;">Events of Default and Remedies of Bond</p> <p style="padding-left: 40px;">Owners 58</p> <p style="padding-left: 20px;">The Fiscal Agent..... 60</p> <p style="padding-left: 20px;">Modification or Amendment of the Fiscal</p> <p style="padding-left: 40px;">Agent Agreement..... 60</p> <p style="padding-left: 20px;">Miscellaneous 61</p> <p>FINANCIAL INFORMATION..... 63</p> <p style="padding-left: 20px;">City Accounting Records and Financial</p> <p style="padding-left: 40px;">Statements 63</p> <p style="padding-left: 20px;">Budgetary Process and Administration..... 63</p> <p style="padding-left: 20px;">Rate and Method of Special Tax</p> <p style="padding-left: 40px;">Apportionment..... 64</p> <p style="padding-left: 20px;">Delinquencies and Foreclosure Actions..... 67</p> <p>LEGAL MATTERS 68</p> <p style="padding-left: 20px;">Enforceability of Remedies 68</p> <p style="padding-left: 20px;">Approval of Legal Proceedings..... 68</p> <p style="padding-left: 20px;">Tax Exemption..... 68</p> <p style="padding-left: 20px;">Absence of Litigation 69</p> <p>CONCLUDING INFORMATION 70</p> <p style="padding-left: 20px;">No Rating on the Bonds 70</p> <p style="padding-left: 20px;">Underwriting 70</p> <p style="padding-left: 20px;">Experts 70</p> <p style="padding-left: 20px;">The Financing Consultant 70</p> <p style="padding-left: 20px;">Additional Information..... 71</p> <p style="padding-left: 20px;">References 71</p> <p style="padding-left: 20px;">Execution 71</p> <p>DEFINITIONS OF CERTAIN TERMS USED</p> <p>IN THE FISCAL AGENT AGREEMENT..... A-1</p> <p>CITY OF PERRIS INFORMATION</p> <p>STATEMENT B-1</p> <p>MARKET ABSORPTION STUDY..... C-1</p> <p>APPRAISAL REPORT D-1</p> <p>RATE AND METHOD OF SPECIAL TAX</p> <p>APPORTIONMENT..... E-1</p> <p>FORM OF CONTINUING DISCLOSURE</p> <p>AGREEMENTS F-1</p> <p>FORM OF BOND COUNSEL OPINION G-1</p>
---	--

Perris Vicinity Map



OFFICIAL STATEMENT

\$16,890,000

COMMUNITY FACILITIES DISTRICT NO. 2001-2 (VILLAGES OF AVALON) OF THE CITY OF PERRIS SPECIAL TAX REVENUE BONDS, 2002 SERIES A

This Official Statement which includes the cover page and appendices (the "Official Statement") is provided to furnish certain information concerning the sale of Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris Special Tax Revenue Bonds, 2002 Series A (the "Bonds"), in the aggregate principal amount of \$16,890,000.

INTRODUCTORY STATEMENT

This Introductory Statement contains only a brief description of this issue and does not purport to be complete. The Introductory Statement is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Investment in the Bonds involves risks. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Bonds (see "BONDOWNERS' RISKS" herein).

The District

The Mello-Roos Community Facilities Act of 1982, as amended, constituting Sections 53311 et seq. of the Government Code of the State of California (the "Act"), was enacted by the California Legislature to provide an alternative method of financing certain public facilities, improvements and services. The Act authorizes local governmental entities to establish community facilities districts as legally constituted governmental entities within defined boundaries, with the legislative body of the local applicable governmental entity acting on behalf of such district. Subject to approval by at least a two-thirds vote of the votes cast by qualified electors within such district and compliance with the provisions of the Act, the legislative body may issue bonds for such community facilities district established by it and may levy and collect a special tax (the "Special Tax") within such district to repay such bonds.

On January 8, 2002, the City of Perris formed Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris (the "District") by the adoption of Resolution No. 2904. On January 8, 2002, at an election held pursuant to the Act, the sole elector at that time within the boundaries of the District voted in favor of the ballot proposition (see "SELECTED ESSENTIAL FACTS" and "FINANCIAL INFORMATION - Rate and Method of Special Tax Apportionment" herein).

The District is located along the southerly and westerly boundaries of the Ramona Expressway and extends southerly and westerly from the Ramona Expressway southerly to Rider Road in the City. The area within the District consists of approximately 262.69 acres. The City has approved a specific plan for the entire area within the District. The specific plan provides for the development of 1,359 residential lots and two public park areas which have been created by fourteen separate approved and recorded tract maps. However, the Val Verde School District hold options on some lots for the creation at one or two school sites. If the School District exercises its option for two school sites, the number of residential parcels will be reduced to 1,154. The sizing of the Bonds, revenue coverage and value-to-lien ratios have all been calculated based on the assumption that the School District will exercise both options and residential development is limited to 1,154 units.

Barratt American Incorporated (the "Property Owner" or the "Developer") plans to construct approximately 315 single family homes within the area defined by three of these tract maps. The remainder of the tracts may be sold to merchant builders. It is anticipated by the Property Owner that the sales price of homes constructed within the District will range from approximately \$157,000 to \$211,000 (see "THE DEVELOPMENT" herein).

On May 16, 1988, after holding a noticed public hearing, the City Council formed Community Facilities District No. 88-2 of the City of Perris (McCanna Ranch) (the "Prior District"), and, by the adoption of Resolution No. 1501, authorized the holding of a special election pursuant to the Act requesting authorization for the Prior District to incur bonded indebtedness and approval of the levy of Special Taxes to pay the principal of and interest on the bonds issued. On May 27, 1988, at an election held pursuant to the Act, the Developer, the sole elector at that time within the boundaries of the Prior District, voted in favor of the ballot proposition.

The land included within the Prior District is substantially the same as the land included within the District. The sole property owner within the Prior District, Barratt American Incorporated, is also the sole Property Owner within the District.

In October, 1988 the Prior District issued its Special Tax Bonds, 1988 Series A in the principal amount of \$11,150,000, of which \$1,715,000 remain outstanding (the "1988 Series A Bonds"). In September, 1989 the Prior District issued its Special Tax Parity Bonds, 1989 Series B in the principal amount of \$3,620,000, of which \$3,145,000 remain outstanding (the "1989 District Bonds"). In September, 1989, the Perris Public Financing Authority issued its Revenue (Special Tax) Bonds, 1989 Series B in the principal amount of \$7,825,000, of which \$3,145,000 remain outstanding (the "1989 Authority Bonds"). Collectively, the 1988 Series A Bonds, the 1989 District Bonds and the 1989 Authority Bonds are referred to herein as the "Prior Bonds".

On February 28, 2002, the Developer advanced \$458,930 to the City, which amount was deposited with the respective trustees for the Prior Bonds. Such amount, along with moneys held by such trustees, are sufficient and will be used to redeem all the Prior Bonds not previously refunded on March 1, 2002. The City intends to file a Notice of Cessation of Special Tax with respect to all of the land within the Prior District.

Security and Sources of Repayment

The Bonds are secured under a Fiscal Agent Agreement between the City and Wells Fargo Bank, National Association, Los Angeles, California, as the Fiscal Agent (the "Fiscal Agent") dated as of March 1, 2002 (the "Fiscal Agent Agreement") (see "SUMMARY OF THE LEGAL DOCUMENTS" herein). The District has covenanted in the Fiscal Agent Agreement to levy in each Fiscal Year the Special Taxes on parcels of land subject to the Special Taxes within the District in an amount sufficient to pay Annual Debt Service on the Bonds and administrative expenses, subject to the limitation on the Maximum Annual Special Tax that may be levied on such land within the District (see "FINANCIAL INFORMATION - Rate and Method of Special Tax Apportionment" for a description of the Special Tax), ("SOURCES OF PAYMENT FOR THE BONDS" and "BONDOWNERS' RISKS" herein).

The Bonds are special obligations of the District. The Bonds do not constitute a debt or liability of the City of Perris, the State of California or of any political subdivision thereof, other than the District. The District shall only be obligated to pay the principal of the Bonds, or the interest thereon, from the funds described herein, and neither the faith and credit nor the taxing power of the City of Perris, the State of California or any of its political subdivisions is pledged to the payment of the principal of or the interest on the Bonds. The District has no ad valorem taxing power (see "SOURCES OF PAYMENT FOR THE BONDS" and "BONDOWNERS' RISKS" herein).

Purpose

The Bonds are being issued to provide the District with funds to repay certain amounts relating to the defeasance of the Prior Bonds (see “**The Refunding Program**” below), to finance public infrastructure (see “**THE DISTRICT - Facilities to be Financed by the District**”), to make a deposit to the Reserve Account, to fund interest on the Bonds to and including September 1, 2003, and to pay the expenses of the District in connection with the issuance of the Bonds. The amount of Bond proceeds deposited into the Reserve Account will be in an amount equal to \$1,437,631.26 (see “**APPENDIX A - DEFINITIONS OF CERTAIN TERMS USED IN THE FISCAL AGENT AGREEMENT**” and “**THE BONDS - Sources and Uses of Funds**” herein).

The Bonds

Redemption. The Bonds maturing September 1, 2012, September 1, 2023 and September 1, 2032 are subject to mandatory redemption, without premium, prior to their maturity date, in part by lot on September 1 in each year commencing September 1, 2004 with respect to the Bonds maturing September 1, 2012, commencing September 1, 2013 with respect to the Bonds maturing September 1, 2023, and commencing September 1, 2024 with respect to the Bonds maturing September 1, 2032 from Sinking Account payments under the Fiscal Agent Agreement (see “**THE BONDS - Redemption - Mandatory Redemption**” herein).

The Bonds are subject to optional redemption prior to maturity, in whole or in part, in a manner determined by the City, on September 1, 2012, and on any date thereafter at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption, plus a premium, as described herein (see “**THE BONDS - Redemption - Optional Redemption**” herein).

The Bonds are subject to mandatory redemption, in part, on any date from amounts constituting prepayments of the Special Taxes at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption, plus a premium, as described herein (see “**THE BONDS - Redemption - Mandatory Redemption from Prepayment of Special Taxes**” herein).

The Bonds are subject to special mandatory redemption in whole or in part, on any date without premium under certain other circumstances as described herein (see “**THE BONDS - Redemption**” herein).

Denominations. The Bonds will be issued in the minimum denomination of \$5,000 each or any integral multiple thereof (see “**THE BONDS - General Provisions**” herein).

Registration, Transfer and Exchange. The Bonds will be issued in fully registered form without coupons. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Fiscal Agent Agreement (see “**THE BONDS - General Provisions - Transfer or Exchange of Bonds**” herein). When delivered, the Bonds will be registered in the name of The Depository Trust Company, New York, New York (“DTC”), or its nominee. DTC will act as securities depository for the Bonds. Individual purchases of Bonds will be made in book-entry form only in the principal amount of \$5,000 each or any integral thereof. Purchasers of the Bonds will not receive certificates representing their Bonds purchased (see “**THE BONDS - General Provisions - Book-Entry Only System**” herein).

Payment. Principal of the Bonds and any premium upon redemption will be payable in each of the years and in the amounts set forth on the cover page hereof upon surrender at the corporate trust office of the Fiscal Agent in Los Angeles, California. Interest on the Bonds will be paid by check of the Fiscal Agent mailed by first class mail on the Interest Payment Date to the person entitled thereto (except as otherwise described herein for interest paid to an account in the continental United States of

America by wire transfer as requested in writing no later than the applicable Record Date by owners of \$1,000,000 or more in aggregate principal amount of Bonds) (see "THE BONDS - General Provisions" herein). Initially, interest on and principal and premium, if any, of the Bonds will be payable when due by wire of the Fiscal Agent to DTC which will in turn remit such interest, principal and premium, if any, to DTC Participants (as defined herein), which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds (see "THE BONDS - General Provisions - Book-Entry Only System" herein) .

Notice. Notice of any redemption will be mailed by first class mail by the Fiscal Agent at least thirty (30) but no more than sixty (60) days prior to the date fixed for redemption to the registered owners of any Bonds designated for redemption and to the Securities Depositories and Information Services provided in the Fiscal Agent Agreement. Neither failure to receive such notice nor any defect in the notice so mailed will affect the sufficiency of the proceedings for redemption of such Bonds or the cessation of accrual of interest on the redemption date (see "THE BONDS - Redemption - Notice of Redemption" herein).

Legal Matters

The legal proceedings in connection with the issuance of the Bonds are subject to the approving opinion of Burke, Williams & Sorensen, LLP, Irvine, California, as Bond Counsel. Such opinion, and certain tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, are described more fully under the heading "LEGAL MATTERS" herein. Certain legal matters will be passed on for the District and the City by Burke, Williams & Sorensen, LLP, Irvine, California, as City Attorney. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski L.L.P., Los Angeles, California, Underwriter's Counsel.

Professional Services

Wells Fargo Bank, National Association, Los Angeles, California, will serve as fiscal agent (the "Fiscal Agent") under the Fiscal Agent Agreement. The Fiscal Agent will act on behalf of the Bondowners for the purpose of receiving all moneys required to be paid to the Fiscal Agent, to allocate, use and apply the same, to hold, receive and disburse the Revenues and other funds held under the Fiscal Agent Agreement, and otherwise to hold all the offices and perform all the functions and duties provided in the Fiscal Agent Agreement to be held and performed by the Fiscal Agent.

MuniFinancial, Temecula, California, prepared the cash flow certificate demonstrating that there will be sufficient Special Taxes, assuming timely receipt, to pay debt service on the Bonds (see "CONCLUDING INFORMATION - Experts" herein).

Rod Gunn Associates, Inc., Seal Beach, California, Financing Consultant, advised the City as to the financial structure and certain other financial matters relating to the Bonds. Fees payable to Bond Counsel and the Financing Consultant are contingent upon the sale and delivery of the Bonds.

The Refunding Program

On February 28, 2002, the Developer advanced \$458,930 to the City, which amount was deposited with the respective trustees for the Prior Bonds. Such amount, along with moneys held by such trustees, are sufficient and will be used to redeem all the Prior Bonds not previously refunded on March 1, 2002. The City intends to file a Notice of Cessation of Special Tax with respect to all of the land within the Prior District. A portion of the proceeds of the Bonds will be used to reimburse the Developer for the advance.

In the opinion of Bond Counsel, the lien of the Prior Bonds will be discharged, terminated and of no further force and effect upon the deposit with the respective trustees of the Prior Bonds of the amount advanced by the Developer as described above.

Offering of the Bonds

Authority for Issuance. The Bonds are issued in accordance with the laws of the State of California (the "State"), and particularly the Mello-Roos Community Facilities Act of 1982, as amended constituting Sections 53311 et seq. of the California Government Code.

The District is authorized to issue Additional Bonds secured by the Special Taxes pledged pursuant to a Supplemental Fiscal Agent Agreement (see "DEBT STRUCTURE - Additional Obligations" herein).

The Bonds are being sold to O'Connor SWS Securities (the "Underwriter"), pursuant to a Purchase Contract approved by the City by Resolution No. 2907 adopted January 8, 2002.

Offering and Delivery of the Bonds. The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Burke, Williams & Sorensen, LLP, Irvine, California, as Bond Counsel. Certain legal matters will be passed upon for the City by Burke, Williams & Sorensen, LLP, Irvine, California, as City Attorney and for the Underwriter by Fulbright & Jaworski L.L.P., Los Angeles, California, Underwriter's Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company on or about March 7, 2002.

No dealer, broker, salesperson or other person has been authorized by the City, the Financing Consultant or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Bonds described herein, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell nor the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale or to any person to whom it is unlawful to make such offer, solicitation or sale.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

Information Concerning this Official Statement

This Official Statement speaks only as of its date. The information set forth herein has been obtained by Rod Gunn Associates, Inc., from the District, the City, the Property Owner and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness, nor has it been independently verified and is not to be construed as a representation by the Financing Consultant, the City or the District. 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. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended as such and are not to be construed as representations of fact.

Official Statement Deemed Final. The information set forth herein is in a form deemed final, as of its date, by the City for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. The information and expressions of opinion herein are subject to change without notice and the delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the City or the District since the date hereof.

Continuing Disclosure. The District and the Property Owner have covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District each year and to provide certain financial information and operating data relating to the District on a semi-annual basis. The District has agreed to make such information available not later than February 15 of each year commencing February 15, 2003, and the Developer has agreed to make such information available not later than February 1 of each year, commencing February 1, 2003 (each an "Annual Report" and collectively the "Annual Reports"), and to provide notices of the occurrences of certain enumerated events, if material. The District and the Developer shall file or cause to be filed the Annual Reports with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State information depository, if any. The notices of material events will be filed by the Dissemination Agent on behalf of the District and the Developer with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). The specific nature of information to be contained in the Annual Reports or the notice of material events is summarized in "APPENDIX F – FORM OF CONTINUING DISCLOSURE AGREEMENTS." These covenants have been made by the District and the Developer in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the "Rule") promulgated by the Securities and Exchange Commission. The Developer will be released from its obligation under its Continuing Disclosure Agreement to provide its Annual Report at such time as the property owned by such Developer is no longer responsible for payment of 20% or more of the Special Taxes. The District has never failed to meet its continuing disclosure requirement under such rule.

Each year until the final maturity of the Bonds, the District is required to, not later than October 30 of each year, supply the following information to the California Debt and Investment Advisory Commission by mail, postage prepaid:

1. The principal amount of Bonds outstanding.
2. The balance in any Bond reserve fund.
3. The balance in any capitalized interest fund.
4. The number of parcels which are delinquent with respect to their Special Tax payments, the amount that each parcel is delinquent, the length of time that each has been delinquent, and when foreclosure was commenced for each delinquent parcel.
5. The balance in any construction funds.
6. The assessed value of all parcels subject to Special Tax to repay the Bonds as shown on the most recent equalized roll.

In addition, the District is required to notify the California Debt and Investment Advisory Commission by mail, postage prepaid, within 10 days if any of the following events occur:

1. The City, the District or the Fiscal Agent fails to pay principal and interest due on any scheduled payment date.
2. Funds are withdrawn from any reserve fund to pay principal and interest on the Bonds.

Neither the District, the City nor the California Debt and Investment Advisory Commission will be liable for any inadvertent error in reporting the required information. The failure by the District to comply with its reporting obligations is not, initially, a default under the Fiscal Agent Agreement.

Availability of Legal Documents. The summaries and references contained herein with respect to the Fiscal Agent Agreement, the Bonds, the Escrow Deposit Agreements, and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Fiscal Agent Agreement. Definitions of certain terms used herein are set forth in "APPENDIX A" hereto. Copies of the documents described herein are available for inspection during the period of initial offering of the Bonds at the offices of the Financing Consultant, Rod Gunn Associates, Inc., 3010 Old Ranch Parkway, Suite 330, Seal Beach, California 90740, telephone (562) 598-7677, or the Underwriter, O'Connor SWS Securities, 3 Civic Plaza, Suite 100, Newport Beach, California 92660, telephone (949) 717-2000. Copies of these documents may be obtained after delivery of the Bonds from the City at 101 North "D" Street, Perris, California 92570, telephone (909) 943-6100.

SELECTED ESSENTIAL FACTS

The following summary does not purport to be complete. Reference is hereby made to the complete Official Statement in this regard. Further, the following summary makes certain assumptions regarding valuation of property within the District. Neither the City nor the District makes any representation as to the current value of property in the District or provides any assurance as to the estimated values of property being achieved (see "BONDOWNERS' RISKS" herein).

THE BONDS

Principal Amount of Bonds:	\$16,890,000
Additional Bonds:	Additional Bonds on a parity with the Bonds are authorized (see "DEBT STRUCTURE - Additional Obligations" herein).
First Optional Redemption Date:	September 1, 2012 at 102% of Principal Amount (see "THE BONDS-Redemption" herein).
First Mandatory Redemption Date:	On any date from prepayment of Special Taxes at a premium, as described herein.
Primary Source of Revenues for Repayment:	Special Taxes levied within the District as defined herein (see "FINANCIAL INFORMATION - Rate and Method of Special Tax Apportionment" herein).
Priority:	The Bonds are secured by a first pledge of and lien on all Special Taxes levied in the District (see "SOURCES OF PAYMENT FOR THE BONDS" and "BONDOWNERS' RISKS" herein).

THE DISTRICT

Description of Proposed Development:	Master planned residential communities (see "THE DISTRICT" herein).
Estimated Acreage in the District:	262.69 acres.
Number of Property Owners on the Date of Delivery of the Bonds:	One (1).
Property Owner:	Barratt American Incorporated, a Delaware corporation
Appraised Fair Market Value of Raw Land within the District, plus the Improvements Financed with Bond Proceeds:	\$21,970,000
Minimum Ratio of Market Value to Principal Amount of Bonds ⁽¹⁾ :	3 to 1
Minimum Ratio of Authorized Maximum Annual Special Taxes in any Fiscal Year to Annual Debt Service on the Bonds and any Parity Bonds:	110%

⁽¹⁾ Bond proceeds in excess of \$7,323,333 will not be released until certain conditions specified in the Fiscal Agent Agreement are met (see "ESTIMATED SOURCES AND USES OF FUNDS" herein).

THE BONDS

General Provisions

Repayment of the Bonds. Interest is payable on the Bonds at the rate per annum set forth on the cover page hereof. Interest with respect to the Bonds will be computed on the basis of a year consisting of 360 days and twelve 30-day months.

Each Bond will be dated the Date of Delivery, and interest with respect thereto will be payable from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event interest with respect thereto will be payable from such Interest Payment Date; (b) it is authenticated on or before August 15, 2002, in which event interest with respect thereto will be payable from Date of Delivery; or (c) interest with respect to any Outstanding Bond is in default, in which event interest with respect thereto will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest with respect to the Bonds will be payable by check of the Fiscal Agent mailed by first class mail on the applicable Interest Payment Date to the Owners thereof provided that in the case of an Owner of \$1,000,000 or greater in principal amount of Outstanding Bonds, such payment may, at such Owner's option, be made by wire transfer of immediately available funds to an account in the continental United States in accordance with written instructions provided prior to the applicable Record Date to the Fiscal Agent by such Owner. The Owners of the Bonds shown on the Registration Books on the Record Date for the Interest Payment Date will be deemed to be the Owners of the Bonds on said Interest Payment Date for the purpose of the paying of interest. Principal of the Bonds and any premium upon early redemption is payable upon presentation and surrender thereof, at the corporate trust office of the Fiscal Agent in Los Angeles, California.

Book-Entry-Only System. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the 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, but Beneficial Owners are 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 Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City and the District believe to be reliable, but the City or the District take no responsibility for the accuracy thereof.

Transfer or Exchange of Bonds. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Fiscal Agent Agreement, upon surrender of such Bond for cancellation at the corporate trust office of the Fiscal Agent. Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the Fiscal Agent shall authenticate and deliver a new Bond or Bonds for like aggregate principal amount. The Fiscal Agent may require the payment by the Bondowner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange. The Fiscal Agent is not required to transfer or exchange (a) any Bonds or portions thereof during the period established by the Fiscal Agent for selection of Bonds for redemption, or (b) any Bonds selected for redemption.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, the City, at the expense of the Bondowner, will execute, and the Fiscal Agent will thereupon authenticate and deliver, a new Bond of like series, tenor and authorized denomination in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent will be canceled by it. If any Bond issued under the Fiscal Agent Agreement is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to it and indemnity satisfactory to it is given, the City, at the expense of the Bondowner, will execute, and the Fiscal Agent will thereupon authenticate and deliver, a new Bond of like series and tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond has matured or has been called for redemption, instead of issuing a substitute Bond, the Fiscal Agent may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Fiscal Agent). The City may require payment by the Bondowner of a sum not exceeding the actual cost of preparing each new Bond issued under the provisions of the Fiscal Agent Agreement described in this paragraph and of the expenses which may be incurred by the City and the Fiscal Agent. Any Bond issued under the provisions of the Fiscal Agent Agreement described in this paragraph in lieu of any Bond alleged to be lost, destroyed or stolen will be equally and proportionately entitled to the benefits of the Fiscal Agent Agreement with all other Bonds secured by the Fiscal Agent Agreement.

Authorization

The Bonds are being issued pursuant to the Fiscal Agent Agreement. The Bonds are being sold to the Underwriter pursuant to, and subject to the terms and conditions of, the Purchase Contract between the Underwriter and the District, dated February 27, 2002 (the "Purchase Contract"). The Fiscal Agent Agreement and the Purchase Contract were approved by the City pursuant to Resolution No. 2907 adopted January 8, 2002.

Estimated Sources and Uses of Funds

Under the provisions of the Fiscal Agent Agreement, the Fiscal Agent will receive the proceeds from the sale of the Bonds and will apply them as follows:

Sources of Funds

Principal Amount of the Bonds	\$16,890,000.00
Original Issue Discount	(275,998.20)
Underwriter's Discount	<u>(337,800.00)</u>
Total Bond Proceeds	\$16,276,201.80

Uses of Funds

Bond Fund	
Reserve Account ⁽¹⁾	\$ 1,437,631.26
Capitalized Interest Account ⁽²⁾	2,102,159.79
Costs of Issuance Fund ⁽³⁾	410,000.00
Improvement Fund	
Acquisition Account ⁽⁴⁾	3,373,542.28
Escrow Account ⁽⁵⁾	<u>8,952,868.47</u>
Total	\$16,276,201.80

(1) Equal to the initial Reserve Requirement.

(2) Estimated Capitalized Interest for 24 months on the Bonds.

(3) Expenses include fees of Bond Counsel, the Financing Consultant, Underwriter's Counsel, the Appraiser, Market Consultant, Special Tax Consultant, the Fiscal Agent, Verification Agent, costs of printing the Official Statement, and other costs of issuance of the Bonds.

(4) A portion of the amount deposited in the Acquisition Account in the amount of \$458,930 will be used to reimburse the Developer for an advance made by the Developer in connection with the defeasance of the Prior Bonds (see "INTRODUCTORY STATEMENT - The Refunding Program" herein).

(5) See "Improvement Fund - Escrow Account" below.

Investment of Funds

All moneys in any of the funds or accounts established with the Fiscal Agent pursuant to the Fiscal Agent Agreement will be invested solely in Permitted Investments (see "APPENDIX A - DEFINITION OF CERTAIN TERMS USED IN THE FISCAL AGENT AGREEMENT" herein), as directed pursuant to the Written Request of the City or the District 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 Written Request, the Fiscal Agent will invest any such moneys in commercial paper or money market funds. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. For the purpose of determining the amount in any fund, the value of Permitted Investments credited to such fund will be calculated at the market thereof (excluding any accrued interest).

Improvement Fund – Escrow Account

As of January 17, 2002, the appraised value of property within the District was \$21,970,000. The Bonds in the aggregate principal amount of \$16,890,000 are to be sold and issued on the Closing Date, of which \$3,373,542.28 is to be placed in the Acquisition Account of the Improvement Fund, and \$8,952,868.47 is to be placed in the Escrow Account of the Improvement Fund. Upon the issuance of Bonds, the value to lien ratio will be 3 to 1, excluding Bond proceeds deposited into the Escrow Account of the Improvement Fund.

To develop the property within the District, the Developer will be required to secure from the City the following permits pursuant to which certain work will be performed: (i) rough grading permit (the “Rough Grading Permit”); (ii) building permit (the “Building Permit”); and final sign-off on the construction pursuant to a Building Permit (the “Final Sign-off”). The Appraiser has determined that (i) the completion of the work allowed by the Rough Grading Permit, (ii) the issuance of a Building Permit or (iii) the Final Sign-off will increase the value of the property within the District (the “Augmentation Value”). The Augmentation Value, on a per lot basis, will be realized upon the completion of the work required by a Rough Grading Permit, or securing either a Building Permit or Final Sign-off has been determined to be as follows:

Permit/Certificate	Per Lot Augmentation Value
Rough Grading Permit	\$ 15,000
Issuance of Building Permit	\$ 30,000
Securing Final Sign-off	\$125,000

Quarterly, beginning three months after the Closing Date, the City’s Special Tax Consultant is required to prepare a report (the “Quarterly Report”) to determine whether any of the events identified above have occurred with regard to any lot within the District. Completed work under a Rough Grading Permit is required to have resulted in a “blue top lot”.

The Augmentation Value to be realized by the issuance of a Building Permit for a specific lot assumes that the necessary wet and dry utilities have been installed and made available to the particular lot for which the Building Permit is to be issued or that bonds securing installation of those utilities have been provided. The Developer covenants that it will not make application for a Building Permit for a particular lot until the wet and dry utilities required for the lot have been installed and made available to said lot.

The City’s Special Tax Consultant will multiply the number of lots for which the work has been completed pursuant to a Rough Grading Permit, a Building Permit has been issued or Final Sign-off has been obtained by the dollar amount stated above. The City’s Special Tax Consultant will then total the dollar amounts and said total will be considered to represent the Augmentation Value that has been received by property within the District during the three month period represented by the Quarterly Report (the “Quarterly Augmentation Value”). The City’s Special Tax Consultant will divide the Quarterly Augmentation Value by four and the resulting quotient will be deemed to be the amount to be released from the Escrow Account of the Improvement Fund (the “Release Amount”) and deposited in the Acquisition Account of the Improvement Fund.

It will be the responsibility of the City’s Special Tax Consultant to compare a Quarterly Report with the prior Quarterly Report to determine whether the status of one or more lots has changed by the completion of work, the issuance of a Building Permit or receipt of Final Sign-off, allowing for the value of the lot to be increased. The City’s Special Tax Consultant is to consider only the increase in a particular lot’s value indicated by a Quarterly Report in determining the Quarterly Augmentation Value.

The City’s Special Tax Consultant will prepare the written notice (the “Notice of Release of Escrow Funds”) to the Fiscal Agent directing that the Release Amount be transferred from the Escrow Account to the Acquisition Account.

At any time after the Closing Date and prior to the release of all moneys held in the Escrow Account, the Developer, at its sole election, may cause a formal appraisal to be prepared, at its cost, consistent with the appraisal standards of the City to determine the value of the property (the “Additional Appraisal”). Copies of the Additional Appraisal are to be provided to the Financial Consultant, Bond Counsel, the City’s Special Tax Consultant and the Underwriter. If the City’s Special Tax Consultant approves the Additional Appraisal and the value of the property established by the Additional Appraisal indicates that additional moneys are to be released from the Escrow Account as long as a value to lien ratio of 4 to 1 is maintained, then the City’s Special Tax Consultant will cause a Notice of Release of Escrow Funds to be provided to the Fiscal Agent for the Release Amount.

Redemption

Notwithstanding any provisions in the Fiscal Agent Agreement to the contrary, upon any optional redemption or special mandatory redemption from Special Taxes in part, the City shall deliver a Written Certificate to the Fiscal Agent at least sixty (60) days prior to the proposed redemption date or such later date as shall be acceptable to the Fiscal Agent so stating that the remaining payments of principal and interest on the Bonds, together with Special Taxes to be available, will be sufficient on a timely basis to pay debt service on the Bonds, as demonstrated in a Cash Flow Certificate delivered to the Fiscal Agent with such Written Certificate.

The City is required, in such Written Certificate, to certify to the Fiscal Agent that sufficient moneys for purposes of such redemption are or will be on deposit in the Bond Fund and is required to deliver such moneys to the Fiscal Agent together with other Revenues, if any, then to be delivered to the Fiscal Agent pursuant to the Fiscal Agent Agreement, which moneys are required to be identified to the Fiscal Agent in the Written Certificate delivered with the Revenues.

Optional Redemption. The Bonds are subject to redemption prior to maturity at the option of the City on any date on or after September 1, 2012, as a whole or in part, by lot, from any available source of funds at the following redemption prices, (expressed as a percentage of the principal amount of Bonds to be redeemed) together with accrued interest thereon to the date fixed for redemption as follows:

<u>Redemption Periods</u>	<u>Redemption Prices</u>
September 1, 2012 through August 31, 2013	102.0%
September 1, 2013 through August 31, 2014	101.0%
September 1, 2014 and thereafter	100.0%

Special Mandatory Redemption from Prepayment of Special Taxes. The Bonds are subject to redemption prior to maturity on any date, in part, in a manner determined by the City from prepayments of Special Taxes at the following redemption prices, (expressed as a percentage of the principal amount of Bonds to be redeemed) together with accrued interest thereon to the date fixed for redemption as follows:

<u>Redemption Periods</u>	<u>Redemption Prices</u>
September 1, 2002 through August 31, 2006	103.0%
September 1, 2006 through August 31, 2012	102.5%
September 1, 2012 and thereafter as provided for optional redemption	

Mandatory Sinking Payment Redemption. The Bonds are subject to mandatory redemption, in part by lot, on September 1 in each year commencing September 1, 2004 with respect to the Bonds maturing September 1, 2012, commencing September 1, 2013 with respect to the Bonds maturing September 1, 2023, and commencing September 1, 2024 with respect to the Bonds maturing September 1, 2032 from mandatory sinking payments made by the City into the Principal Account pursuant to the Fiscal Agent Agreement at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date of redemption in the aggregate principal amounts and on September 1 in the respective years as set forth in the following schedules; provided, however, that (i) in lieu of redemption thereof, the Bonds may be purchased by the City and tendered to the Fiscal Agent, and (ii) if some but not all of the Bonds have been redeemed pursuant to optional redemption, mandatory redemption from Special Taxes or special mandatory redemption provisions described herein, the total amount of all future sinking payments will be reduced by the aggregate principal amount of the Bonds so redeemed, to be allocated among such sinking payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000 as determined by the City. The City need not apply the moneys derived from prepayment of Bonds to the redemption of the Bonds under certain circumstances as provided in the Fiscal Agent Agreement.

**SCHEDULE OF MANDATORY SINKING PAYMENT REDEMPTIONS
TERM BONDS MATURING SEPTEMBER 1, 2012**

<u>September 1 Year</u>	<u>Principal Amount</u>	<u>September 1 Year</u>	<u>Principal Amount</u>
2004	\$ 25,000	2009	\$ 160,000
2005	50,000	2010	195,000
2006	75,000	2011	230,000
2007	100,000	2012	270,000 (maturity)
2008	130,000		

**SCHEDULE OF MANDATORY SINKING PAYMENT REDEMPTIONS
TERM BONDS MATURING SEPTEMBER 1, 2023**

September 1 Year	Principal Amount	September 1 Year	Principal Amount
2013	\$ 310,000	2019	\$ 610,000
2014	355,000	2020	645,000
2015	405,000	2021	685,000
2016	455,000	2022	730,000
2017	510,000	2023	775,000 (maturity)
2018	570,000		

**SCHEDULE OF MANDATORY SINKING PAYMENT REDEMPTIONS
TERM BONDS MATURING SEPTEMBER 1, 2032**

September 1 Year	Principal Amount	September 1 Year	Principal Amount
2024	\$ 825,000	2029	\$1,120,000
2025	875,000	2030	1,190,000
2026	930,000	2031	1,270,000
2027	990,000	2032	1,350,000 (maturity)
2028	1,055,000		

Special Mandatory Redemption. The Bonds are subject to special mandatory redemption on any date to which timely notice of redemption may be given, in integral multiples of \$5,000 equal to the principal amount of unused proceeds after completion or abandonment of the improvements to be financed with such proceeds, from the deposit of fees with the District by a public agency which has accepted facilities serving an area of the District, and from insurance or condemnation proceeds or other mandatory redemption, sale or acceleration relating to the Bonds, without premium, plus accrued interest to the redemption date, all as determined by the City. In addition, the Bonds maturing September 1, 2032 are subject to Special Mandatory Redemption on or after September 1, 2004, in whole or in part, from amounts, if any, remaining in the Escrow Account, without premium, plus accrued interest to the redemption date (see "THE DISTRICT - Facilities to be Financed by the District" for a description of the scope of the Project).

Upon any optional redemption, special mandatory redemption from Special Taxes or other special mandatory redemption in part, as described above, the maturity or maturities of the Bonds to be redeemed will be specified by the City as further provided in the Fiscal Agent Agreement.

Notice of Redemption. When redemption is authorized or required, the Fiscal Agent is required to give written notice of the redemption of Bonds to the Bondowners designated for redemption at their addresses appearing on the bond registration books, to certain Securities Depositories, and to one or more Information Services, all as provided in the Fiscal Agent Agreement, by first class mail, postage prepaid, no less than thirty (30), nor more than sixty (60), days prior to the date fixed for redemption. Neither failure to receive such notice nor any defect in the notice so mailed will affect the sufficiency of the proceedings for redemption of such Bonds or the cessation of accrual of interest on the redemption date.

Effect of Redemption. The rights of a Bondowner to receive interest will terminate on the date, if any, on which the Bond is to be redeemed pursuant to a call for redemption. The Fiscal Agent Agreement contains no provisions requiring any publication of notice of redemption, and Bondowners must maintain a current address on file with the Fiscal Agent to receive any notices of redemption.

Partial Redemption. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the City will execute and the Fiscal Agent will authenticate and deliver to the Bondowner thereof, at the expense of the City, a new Bond or Bonds of the same series and maturity date, of authorized denominations in an aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

SOURCES OF PAYMENT FOR THE BONDS

Repayment of the Bonds

General. The Bonds are payable solely from and secured by Special Taxes collected on real property within the District, the Bond Fund held pursuant to the Fiscal Agent Agreement, and certain investment earnings on the funds and accounts held under the Fiscal Agent Agreement. The principal of, premium, if any, and the interest on the Bonds, and the Administrative Expenses of the City and the District, are payable from the Special Taxes collected on real property within the District and funds held by the Fiscal Agent and available for such purposes pursuant to the Fiscal Agent Agreement.

The Bonds are limited obligations of the District payable solely from the proceeds of Special Taxes levied on certain parcels within the District. The Bonds shall not be deemed to constitute a debt or liability of the State of California or of any political subdivision thereof, other than the District. Neither the faith and credit nor the taxing power of the City of Perris, the State of California or any of its political subdivisions is pledged to the payment of the principal of or the interest on the Bonds.

Special Taxes. The Special Taxes are excepted from the tax rate limitation of California Constitution Article XIII A pursuant to Section 4 thereof as a "special tax" authorized by at least a two-thirds vote of the qualified electors as set forth in the Act. Consequently, the City Council of the City on behalf of the District has the power and is obligated by the Fiscal Agent Agreement to cause the levy and collection of the Special Taxes.

The District has covenanted in the Fiscal Agent Agreement to levy subject to the Maximum Annual Special Tax in each Fiscal Year the Special Taxes in an amount sufficient to pay the debt service on the Bonds and the cost of providing certain Administrative Expenses of the District and the City.

The Special Taxes are to be levied and collected according to the Rate and Method of Special Tax Apportionment described in the section entitled "FINANCIAL INFORMATION - Rate and Method of Special Tax Apportionment" herein.

Although the Special Taxes will constitute a lien on parcels of real property within the District, they do not constitute a personal indebtedness of the owner(s) of real property. There is no assurance that the property owners, or any successors and/or assigns thereto or subsequent purchaser(s) of land within the District, will be able to pay the annual Special Taxes or if able to pay the Special Taxes that they will do so (see "BONDOWNERS' RISKS" herein).

The Special Taxes initially are required to be collected by the County of Riverside Tax Collector in the same manner and at the same time as regular ad valorem property taxes are collected by the Tax Collector of the County. When received, such Special Taxes will be deposited in the Special Tax Fund for the District to be held by the City and transferred by the City to the Fiscal Agent as provided in the Fiscal Agent Agreement.

Capitalized Interest. There will be an initial deposit to the Bond Fund out of Bond proceeds which has been calculated to be sufficient to make interest payments on the Bonds due to and including March 1, 2004.

Covenant for Superior Court Foreclosure. Pursuant to Section 53356.1 of the Act, in the event of a delinquency in the payment of the Special Taxes levied on a parcel, the District may order the institution of a superior court action to foreclose the lien therefor, provided such action is brought not later than four years after the final maturity date of the Bonds. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale.

The District has covenanted in the Fiscal Agent Agreement for the benefit of the owners of the Bonds that the District will determine or cause to be determined, no later than July 1 of each year the amount of Special Tax collected in the prior Fiscal Year; and with respect to individual delinquencies, if the District determines that any single property owner subject to the Special Tax is delinquent in the payment of Special Taxes, in the aggregate of \$5,000 or more or that as to any single parcel the delinquent Special Taxes represent more than 5% of the aggregate Special Taxes within the District, then the District will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) the District will cause judicial foreclosure proceedings to be filed in the Superior Court within 90 days of such determination against any property for which the Special Taxes remain delinquent.

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. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not require the District or the City to purchase or otherwise acquire any lot or parcel of property sold at the execution sale pursuant to the judgment in any such action if there is no other purchaser at such sale, nor does the Act specify the priority relationship, if any, between the Special Taxes and other taxes and assessment liens.

As a result of the foregoing, in the event of a delinquency or nonpayment by the property owners in the District of one or more Special Taxes installments, there can be no assurance that there would be available to the District sufficient funds to pay when due the principal of, interest on and premium, if any, on the Bonds (see “**BONDOWNERS’ RISKS - Concentration of Ownership**” “**BONDOWNERS’ RISKS - Bankruptcy and Foreclosure Delays**” and “**BONDOWNERS’ RISKS - Property Controlled by Federal Deposit Insurance Corporation and other Federal Agencies**” herein).

Prepayment of Special Tax. A property owner may prepay its Special Taxes and thereby cause a redemption of Bonds. See “**APPENDIX E - RATE AND METHOD OF SPECIAL TAX APPORTIONMENT**” herein.

Reserve Account. In order to secure further the timely payment of principal of and interest on the Bonds, the City is required, upon delivery of the Bonds, to deposit in the Reserve Account for the Bonds an amount equal to the Reserve Requirement. Thereafter, the City is required to deposit from the Special Taxes and maintain an amount of money equal to the Reserve Requirement in the Reserve Account at all times while the Bonds are Outstanding. Amounts in the Reserve Account will be used to pay debt service on the Bonds to the extent other moneys are not available therefor. Amounts in the Reserve Account in excess of the Reserve Requirement will be deposited into the Bond Fund. Amounts in the Reserve Account may be used to pay the final year’s debt service on the Bonds (see “**SUMMARY OF THE LEGAL DOCUMENTS**” herein). Upon mandatory redemption, amounts on deposit in the Reserve Account shall be reduced (to an amount not less than the Reserve Requirement) and excess money shall be transferred to the Prepayment Account and used for the redemption of Bonds.

The City may fund all or a portion of the Reserve Requirement with one or more Qualified Reserve Account Credit Instruments. Upon deposit of any Qualified Reserve Account Credit Instrument with the Fiscal Agent, the Fiscal Agent shall pay to the City from amounts in the Reserve Account an amount equal to the principal of the Qualified Reserve Account Credit Instrument (see “**SUMMARY OF THE LEGAL DOCUMENTS**” herein).

Escrow Account of the Improvement Fund. Approximately \$8,952,868 of Bond proceeds will be held initially in the Escrow Account within the Improvement Fund established under the Fiscal Agent Agreement. Amounts on deposit in the Escrow Account are to be invested in Authorized Investments (as defined in “APPENDIX A - DEFINITIONS OF CERTAIN TERMS USED IN THE FISCAL AGENT AGREEMENT” herein). On each Interest Payment Date investment earnings on the Escrow Account will be transferred from the Escrow Account to the Bond Fund.

Amounts in the Escrow Account may be released for deposit in the Acquisition Account only if certain conditions to the release, as set forth in the Fiscal Agent Agreement, are satisfied (see “THE BONDS - Improvement Fund - Escrow Account” herein).

BONDOWNERS' RISKS

General

BEFORE PURCHASING ANY OF THE BONDS, ALL PROSPECTIVE INVESTORS AND THEIR PROFESSIONAL ADVISORS SHOULD CAREFULLY CONSIDER, AMONG OTHER THINGS, THE FOLLOWING RISK FACTORS, WHICH ARE NOT MEANT TO BE AN EXHAUSTIVE LISTING OF ALL RISKS ASSOCIATED WITH THE PURCHASE OF THE BONDS. MOREOVER, THE ORDER OF PRESENTATION OF THE RISK FACTORS DOES NOT NECESSARILY REFLECT THE ORDER OF THEIR IMPORTANCE.

The purchase of the Bonds involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and/or interest on the Bonds. Such risk factors include, but are not limited to, the following matters.

The Bonds

The ability of the City to pay the principal and interest on the Bonds depends upon the receipt by the Fiscal Agent of sufficient Special Taxes, amounts on deposit in the Reserve Account and interest earnings on amounts in the funds and accounts for the Bonds established by the Fiscal Agent Agreement. A number of risks that could prevent the District from repaying the Bonds are outlined below.

Limited Obligation. Neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof other than the District is pledged to the payment of the Bonds. Except for the Special Taxes derived from the District, no other taxes are pledged to the payment of a Series of the Bonds. Each Series of Bonds are not general or special obligations of the City, the State or any political subdivision thereof nor general obligations of the District, but are special obligations of the District, payable solely from net Special Tax Revenues and the other assets pledged therefor under the Fiscal Agent Agreement.

Early Bond Redemption. The Bonds are subject to optional, special mandatory and mandatory redemption prior to their respective stated maturities. Special mandatory redemption from prepayment of Special Taxes may occur on any date (see "THE BONDS - Redemption" herein).

Loss of Tax Exemption. As discussed under the caption "LEGAL MATTERS - Tax Exemption" herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the City or the District in violation of their covenants contained in the Fiscal Agent Agreement. Should such an event of taxability occur, the Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Fiscal Agent Agreement.

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. Occasionally, because of general market conditions 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.

Insufficiency of Special Tax Revenues As discussed herein, the amount of Special Taxes that are collected could be insufficient to pay principal of, interest and premium, if any, on the applicable series of Bonds due to nonpayment of the Special Taxes levied and insufficient or no proceeds received from a foreclosure sale of land within the District

The City has covenanted in the Fiscal Agent Agreement to institute foreclosure proceedings upon delinquencies in the payments of the Special Taxes as described herein and to sell any real property with a lien of delinquent Special Taxes to obtain funds to pay debt service on the Bonds. If foreclosure proceedings are ever instituted, any holder of a mortgage or deed of trust could, but would not be required to, advance the amount of delinquent Special Taxes to protect its security interest. See "SOURCES OF PAYMENT FOR THE BONDS - Covenant for Superior Court Foreclosure" herein for provisions which apply in the event foreclosure is required and which the District is required to follow in the event of delinquency in the payment of Special Taxes

Section 53317 3 of the Act provides that, if any real property within the District 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 be enforceable against the public entity that acquires the property. Additionally, Section 53317 5 provides that, if any 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. However, the constitutionality and operation of these provisions of the Act have not been tested. If for any reason, property subject to the Special Tax becomes exempt from taxation by reason of ownership by a non-taxable entity, such as the federal government or another public agency, and the District is unable to collect the Special Taxes or obtain compensation through the condemnation procedure, the Special Tax will be reallocated to the remaining taxable properties up to the Maximum Annual Special Tax. This reallocation would result in the owners of taxable properties subject to the Special Tax paying a greater amount of the Special Tax and could have an adverse impact upon the timely payment of the Special Tax by such owners and therefore the ability to pay debt service on the Bonds

Concentration of Ownership Currently there is a single Property Owner that owns all of the land within the District (see "THE DISTRICT" herein). The only asset of the Property Owner which constitutes security for the Bonds is its property holdings assessed within the District. There are expected to be subsequent transfers of ownership of the property within the District to merchant residential builders, to individual owners of single family homes and commercial builders during the development of the land within the District. The fact that individual property owners own a significant percent of land within the District presents substantial risk to the Bondowners

No Personal Liability for Special Taxes No Property Owner, or any merchant builder or any officer, partner, member, or affiliate thereof will be personally liable for the payment of the Special Taxes to be applied to pay the principal of and interest on the Bonds. In addition, there is no assurance that any Property Owner or any merchant builder will be able to pay the Special Taxes or that any Property Owner or any merchant builder will pay such Special Taxes even if it is financially able to do so. No representation is made that a Property Owner will have moneys available (or that it will advance such moneys, if available) to complete the development of the land in the manner described herein. Accordingly, the Property Owner's financial statements are not included in this Official Statement. No property owner is obligated in any manner to continue to own any of the land it presently owns within the District

Foreclosure and Sale Proceedings Payment of the Special Taxes is secured by the parcels assessed. In the event an annual installment of the Special Taxes included in the County tax bill of an assessed parcel is not paid when due, the District can institute foreclosure proceedings in court to cause the parcel to be sold in order to recover the delinquent amount from the sale of proceeds (see "SOURCES OF

REPAYMENT FOR THE BONDS" herein). Foreclosure and sale may not always result in the recovery of any or the full amount of delinquent Special Taxes.

Sufficiency of the foreclosure sales proceeds to cover the delinquent amount depends in part upon the market for and the value of the parcel at the time of the foreclosure sale (see "**Land Values**" below). The current appraised value is some evidence of such future value. However, future events may result in significant changes from the current appraised value. Such events could include changes in land ownership, development plans and other factors affecting the progress of land development, legal requirements affecting the development of parcels, a downturn in the economy, as well as a number of additional factors. Any of these factors may result in a significant erosion in value, with consequent reduced security of the Bonds.

Sufficiency of foreclosure sale proceeds to cover a delinquency may also depend upon the value of prior or parity liens and similar claims. A variety of governmental liens may presently exist or may arise in the future with respect to a parcel which, unless subordinate to the lien securing the Special Taxes, may effectively reduce the value of such parcel. Further, other governmental claims, such as hazardous substance claims, may affect the realizable value even though such claims may not rise to the status of liens.

Timely foreclosure and sale proceedings with respect to a parcel may be forestalled or delayed by a stay in the event the owner of the parcel becomes the subject of bankruptcy proceedings. Further, should the stay not be lifted, payment of Special Taxes may be subordinated to bankruptcy law priorities.

Land Values. If a Property Owner defaults in the payment of the Special Tax, the District's only remedy is to commence foreclosure proceedings against the defaulting Property Owner's real property within the District for which the Special Tax has not been paid, in an attempt to obtain funds to pay the delinquent Special Tax. Therefore, the value of the land and improvements is a critical factor in determining the investment quality of the Bonds. Reductions in property values within the District due to a downturn in the economy or the real estate market, events such as earthquakes, droughts, or floods, stricter land use regulations, or other events may adversely impact the security underlying the Special Tax.

The District had the following two studies prepared in order to estimate the current aggregate market value of land in the District.

1. Market Absorption Study, City of Perris and Community Facilities District No. 2001-2 (Villages of Avalon) prepared by Empire Economics LLC, Capistrano Beach, California, dated September, 2001.
2. Presentation of Appraisal of Community Facilities District No. 2001-2, Perris, California prepared by Len Purdue, A.S.A., Riverside, California (the "Appraisal"), dated December 12, 2001.

Collectively, the studies are referred to herein as the "Appraisal Documents".

The purpose of the Appraisal was to determine the discounted "bulk sale" value of all parcels in the District. In the opinion of Len Purdue, the aggregate value of all such parcels is \$21,970,000.

Pursuant to the current City Goals and Policies for Community Facilities Districts and Assessment Districts (the "Goals and Policies"), the value-to-lien ratio is required to be at least 3 to 1 (the "Value-to-Lien Requirement"). Upon the issuance of the Bonds, the value-to-lien ratio will be 3 to 1, excluding approximately \$8,952,868 principal amount of the Bonds relating to Bond proceeds deposited into the Escrow Account as of the Closing Date (see "**ESTIMATED SOURCES AND USES OF FUNDS - Escrow Account**" herein).

Prospective purchasers of the Bonds should not assume that the land and improvements could be sold for the appraised amount at a foreclosure sale for delinquent Special Taxes. In particular, the values of individual properties will vary in some cases significantly. The actual value of the land is subject to future events which might render invalid some or all of the basic assumptions of the Appraiser. The future value of the land can be expected to fluctuate due to many different, not fully predictable, real estate related investment risk factors, including, but not limited to: general tax law changes related to real estate, changes in competition, general area employment base changes, population changes, changes in real estate related interest rates affecting general purchasing power, advertising, changes in allowed zoning uses and density, natural disasters such as floods, earthquakes and landslides, and similar factors.

Appraisals in general are the result of an inexact process, and estimated market value is dependent, in part, upon assumptions which may or may not be realized and upon market conditions and perceptions of market value, which are likely to change over time. The appraisal valuations represent opinions only and are not intended to be absolutes or assurances of specific resale values. If more than one appraiser were employed, it is reasonable to assume that a reasonable range of value opinions on the land and improvement value within the District would be reflected depending upon personal professional interpretation of data, facts and circumstances reviewed and assumptions employed. Prospective purchasers should not assume that the land could be sold for the appraised amount at a foreclosure sale for delinquent Special Taxes.

A copy of the Appraisal Documents are included in the Appendices. The summary herein of some of the conclusions in the Appraisal Documents does not purport to be complete. Reference is made to the Appraisal Documents for further information. The District makes no representations as to the value of the real property within the District, and prospective purchasers of the Bonds are referred to the Appraisal Documents referred to above in evaluating the value of real property within the District.

The Progress of Land Development; Risks of Real Estate Secured Investments. Land development is an activity subject to substantial risk. Risk factors include, without limitation, general or local economic conditions; local real estate market conditions; supply of or demand for competitive properties; changes in the real estate tax rate; governmental regulation and approval requirements, particularly environmental quality, endangered species, land use, zoning and building requirements; development, financing and marketing capabilities of the various landowners; natural disasters, including without limitation earthquakes, flood and fire which may result in uninsured losses; and accomplishment of development plans on a timely basis, including but not limited to the provision of infrastructure improvements in addition to the District's improvements.

Since these are largely business risks of the type that landowners customarily evaluate individually, and inasmuch as changes in land ownership may well mean changes in the evaluation with respect to any particular parcel, the District has undertaken the financing without regard to any such evaluation. Thus, the undertaking of the financing by the District in no way implies that the District has evaluated these risks or the reasonableness of these risks.

Further, the risk to the owners of the Bonds of development delays may be heightened when land ownership is concentrated in only a few landowners or developers. If ownership is concentrated, timely payment of the Special Taxes may be dependent upon the financing available to such owners or developers. Further, the continued progress of land development may be one of the present facts and circumstances forming the basis for the appraiser's opinion of value. Diminished values may lessen the effectiveness of foreclosure proceedings as a remedy.

The Special Taxes are to be collected from the owners of property located within the District, and levy of the Special Taxes is not dependent on the completion of the development of the properties within the District (see "FINANCIAL INFORMATION - Rate and Method of Special Tax Apportionment" herein.) Nevertheless, the extent of completion of the development of the property within the District may affect

the ability and willingness of Property Owners to pay the Special Taxes and may affect the market value of any property foreclosed upon for nonpayment of installments of the Special Taxes.

Geologic, Topographic and Climatic Conditions. Land and improvement value can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and private improvements of the parcels assessed and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes and overdraft of groundwater basins; topographic conditions such as earth movements and floods; and climatic conditions such as droughts.

Some of these factors have been taken into account, to a limited extent, in the design of the District's improvements and have or will be taken into account to a limited extent, in the design of other infrastructure and public improvements. Further, building codes require that some of these factors be taken into account, to a limited extent, in the design of private improvements of the parcels in the District. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of establishment between the present costs of protection and the future costs of lack of protections, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should the condition occur.

Endangered and Threatened Species. During the past several years, there has been an increase in activity at the State and federal level related to the listing and possible listing of certain plant and animal species found in the State as endangered species and in programs designed to set aside additional geographical areas for habitat conservation. Recently, a technical memorandum summarizing recommendations regarding areas being considered for conservation under the Western Riverside County Multi-Species Habitat Conservation Plan (MSHCP) was released. Although none of the areas within the District has been included in the MSHCP study area, there is no assurance that such areas will remain excluded from the MSHCP study area or future study areas. An increase in the number of endangered species and/or the designation of additional habitat areas to be subjected to conservation planning similar to areas subject to the Western Riverside County MSHCP is expected to curtail development in a number of areas in the State. The District is not known to contain any plant or animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has listed as endangered or to the knowledge of the City proposed for addition to the endangered species list. Notwithstanding the above, approvals of the California Department of Fish and Game and the U.S. Army Corps of Engineers may be required to complete a portion of the development within the District which has yet to be graded or cleared. Further approval may be required for any planned clearing of land or construction across or impacting waterways, creeks or other drainages. If required, there is no assurance that such approvals will be obtained and that development will be permitted to proceed as projected.

On a regular basis, new species are proposed to be added to the State and federal protected species lists. Regardless of the stage of entitlements and actual development of a particular development, any action by the State or federal governments to protect species located on or adjacent to the property within the District could negatively affect any of the Developers' ability to complete the development of the properties within the District as planned. This, in turn, could reduce the ability or the willingness of the property owners to pay the Special Taxes when due and would likely reduce the value of the land and the potential revenues available at a foreclosure sale for delinquent Special Taxes.

Earthquakes. Southern California is among the most seismically active regions in the United States. The occurrence of seismic activity in the District could result in substantial damage to properties in the District which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes. Any major damage to structures as a result of seismic activity could result in a greater reliance on undeveloped property in the

payment of Special Taxes. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the District. 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 the District could be diminished in the aftermath of such an earthquake, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of Special Taxes.

Certain procedures and design standards are required to be followed during the construction of buildings within the District to ensure that each building is designed and constructed to meet, at a minimum, the highest seismic standards required by law.

Legal Requirements. Other events which may affect the value of a parcel include changes in the law or application of law. Such changes may include, without limitation, local growth control initiatives; local utility connection moratoriums; and local application of statewide tax and governmental spending limitation measures.

Other Possible Claims Upon the Values of an Assessed Parcel. In addition to existing property taxes, other governmental obligations, such as general obligation bonds, may be authorized in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels within the District and may be secured by a lien on a parity with the lien of the Special Taxes securing the Bonds.

In general, as long as the Special Taxes securing the Bonds are collected on the County tax roll, the Special Taxes and all other taxes, assessments and charges also collected on the tax roll are on a parity with each other. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. Otherwise, in the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges. The Special Taxes will have priority over non-governmental liens on a parcel, regardless of whether or not the non-governmental liens are in existence at the time of creation of any lien securing the Special Taxes.

While governmental taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value of a parcel is a claim with regard to a hazardous substance. 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. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition 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 parcels in the District 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 the owner, will become obligated to remedy the condition just as is the seller.

The values expressed herein, do not take into account the possible reduction in marketability and value of any of the parcels by reason of the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel. The District is not aware that the owner (or operator) of any of the parcels has such a current liability with respect to any of the parcels in the District. However, it is possible that such liabilities do currently exist.

Further, it is possible that liabilities may arise in the future with respect to one or more of the parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous or may arise in the future resulting from the existence, currently, on the parcel of a substance presently not 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 reduce the value of a parcel.

Bankruptcy Proceedings. Regardless of the priority of the Special Taxes securing the Bonds over non-governmental liens on parcels, the exercise by the District of the foreclosure and sale remedy may be forestalled or delayed by bankruptcy, reorganization, insolvency, or other similar proceedings of the owner of a parcel. The federal bankruptcy laws provide for an automatic stay of foreclosure and sale proceedings, thereby delaying such proceedings perhaps for an extended period. Delay in exercise of remedies, especially if the owners own parcels the Special Taxes of which are significant or if bankruptcy proceedings are instituted with respect to a number of owners owning parcels the Special Taxes of which is significant, may result in periodic Special Tax collections which may be insufficient to pay the debt service on the Bonds. Further, should remedies be exercised under the bankruptcy law against the parcels, payment of Special Taxes may be subordinated to other claims in the bankruptcy proceedings. Thus, certain claims may have priority over a claim for unpaid Special Taxes, even though, in the absence of the bankruptcy proceedings, no such priority would exist.

Bankruptcy and Foreclosure Delays. The payment of the Special Taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax, as discussed in the section herein entitled "SOURCES OF PAYMENT FOR THE BONDS" may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State of California relating to judicial foreclosure.

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 bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, bankruptcy of a property owner or of a partner or other owner of a property owner could result in a delay in prosecuting superior court foreclosure proceedings and could result in loss of priority of the lien securing any Special Taxes with respect to Special Taxes levied while bankruptcy proceedings are pending. In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could be treated as an unsecured claim by the court. Such delay or loss of priority or nonpayment, would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds and the possibility of delinquent Special Tax installments not being paid in full. To the extent a significant percentage of the property continues to be owned by a limited number of property owners, the payment of the Special Taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Taxes installment could be delayed by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

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. The court upheld the priority of unpaid taxes imposed after the filing of the bankruptcy petition as "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was to foreclose on the property and retain all of the proceeds of the sale except the amount of the pre-petition taxes.

According to the court's ruling, as administrative expenses, post-petition taxes would have to be paid, assuming that the debtor has 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 the Special Taxes levied after the filing of a petition in bankruptcy. *Glaspoly* is controlling precedent for bankruptcy courts in the State. If the *Glaspoly* precedent was applied to the levy of the Special Tax, the amount of Special Tax received from parcels whose owners declared bankruptcy could be reduced.

It should also be noted that on October 22, 1994, Congress enacted 11 U.S.C. Section 362(b)(18), which added a new exception to the automatic stay for *ad valorem* property taxes imposed by a political subdivision after the filing of a bankruptcy petition. Pursuant to this new provision of law, in the event of a bankruptcy petition filed on or after October 22, 1994, the lien for *ad valorem* taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. Bondowners should be aware that the potential effect of 11 U.S.C. Section 362(b)(18) on the Special Taxes depends upon whether a court were to determine that the Special Taxes should be treated like *ad valorem* taxes for this purpose.

Additional Taxation On June 3, 1986, California voters approved an amendment to Article XIII A of the California Constitution to allow local governments and school districts to raise their property tax rates above the constitutionally mandated 1% ceiling for the purpose of repaying certain new general obligation debt issued for the acquisition or improvement of real property and approved by at least two-thirds of the votes cast by the qualified electorate. If any such voter-approved debt is issued, it may be on a parity with the lien of the Special Taxes on the parcels within the District.

Parity Taxes and Special Assessments The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land within the District on which they will be annually imposed until they are paid in full. Such lien is on a parity with all special taxes and special assessments levied by other public entities, agencies and districts and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same real property. The Special Taxes have priority over all existing and future private liens imposed on the real property within the District. The District, however, has no control over the ability of other public entities, agencies and districts to issue indebtedness secured by special taxes or assessments payable from all or a portion of the real property within the District and other public entities may issue indebtedness payable from Special Taxes. Any such special taxes or assessments may have a lien on such real property on a parity with the Special Taxes (see "DEBT STRUCTURE - Direct and Overlapping Debt" herein).

Accordingly, the liens on the real property within the District could greatly increase, without any corresponding increase in the value of the property and thereby severely reduce the lien to value ratio of the land secured public debt existing at the time the Bonds are issued. The imposition of such additional indebtedness could also reduce the willingness and ability of the property owners to pay the Special Taxes when due.

Disclosure to Future Land Buyers A "Notice of Special Tax Lien" for the District was recorded pursuant to Section 53328.3 of the Act and Section 3114.5 of the Streets and Highways Code, with the County Recorder for the County (the "County Recorder"). Each Notice sets forth, among other things, the Rate and Method of Special Tax Apportionment, the Assessor's Parcel Numbers as of the date of recording the Notice, and the boundaries of the District by reference to the map(s) recorded with the County Recorder. While title insurance and search companies normally refer to such notices in title reports, and sellers of property within the District are required to give prospective buyers a notice of special tax in accordance with Sections 53360.2 or 53341.5 of the Act, there can be no assurances that such reference will be made or notice given, or if made or given, that prospective purchasers or lenders will consider such Special Tax obligation in the purchase of land or the lending of money thereon. Failure to disclose the existence of the Special Tax may affect the willingness and ability of future landowners to pay the Special Tax when due.

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

Under provisions of the Act, the Special Taxes are billed to the properties within the District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See "SOURCES OF PAYMENT FOR THE BONDS - Covenant for Superior Court Foreclosure" for a discussion of the provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

Collection of Special Tax. In order to pay debt service on the Bonds, it is necessary that the Special Tax levied against land within the District be paid in a timely manner. The District has covenanted in the Fiscal Agent Agreement under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. In the event such superior court foreclosure is necessary, there could be a delay in principal and interest payments pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the District with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See "SOURCES OF PAYMENT FOR THE BONDS -Covenant for Superior Court Foreclosure".

Maximum Rates. Within the limits of the Rate and Method of Special Tax Apportionment, the District may adjust the Special Tax levied on all property within the District to provide an amount required to pay debt service on the Bonds and other obligations of the District, and the amount, if any, necessary to pay all annual Administrative Expenses and make rebate payments to the United States government. However, the amount of the Special Tax that may be levied against particular categories of property is subject to the maximum rates provided in the applicable Rate and Method of Special Tax Apportionment. There is no assurance that the maximum rates will at all times be sufficient to pay the amounts required to be paid by the Fiscal Agent Agreement. See "FINANCIAL INFORMATION - Rate and Method of Special Tax Apportionment".

Exempt Properties. Certain properties are exempt from the Special Tax in accordance with the applicable Rate and Method of Special Tax Apportionment and applicable provisions of the Act. The Act provides that properties or entities of the State, federal or local government at the time of formation of the District are exempt from the Special Tax; provided, however, that property within the District acquired by a public entity through negotiated transactions, or by gift or devise, which is not otherwise exempt from the Special Tax will continue to be subject to the Special Tax. 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. If for any reason property subject to

the Special Tax becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, or another public agency, subject to the limitation of the maximum authorized rate of levy, the Special Tax may be reallocated to the remaining taxable properties within the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the timely payment of the Special Tax; however, the amount of Special Tax to be levied and collected from the property owner is subject to the Maximum Special Tax as set forth in the Rate and Method of Special Tax Apportionment and to the limitation in the Act that under no circumstances shall Maximum Special Taxes be increased on a parcel used for private residential purposes by more than two percent in any year, and under no circumstances may the Special Taxes levied on any residential parcel be increased by more than ten percent as a consequence of delinquency by the owner of any parcel. If a substantial portion of land became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Bonds when due and a default will occur with respect to the payment of such principal and interest.

The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax. The Act would prohibit the City Council, acting as the legislative body of the District, from adopting a resolution to reduce the rate of the Special Tax or terminate the levy of the Special Tax unless the City Council, acting as the legislative body of the District determined that the reduction or termination of the Special Tax "would not interfere with the timely retirement" of the Bonds. See "BONDOWNERS' RISKS - Right to Vote on Taxes Act" below.

Insufficient Special Taxes. Under the Rate and Method of Special Tax Apportionment, the annual amount of Special Tax to be levied on each taxable parcel will be based primarily on whether such parcel is developed or not and, for Developed Property, on the type of structure and square footage of buildings constructed. See "APPENDIX E". Accordingly, to the extent Undeveloped Property does not become Developed Property, the collection of the Special Taxes will be dependent on the willingness and ability of the owners of Undeveloped Property to pay such Special Taxes when due. Such event may result in an unwillingness of such owners of the Undeveloped Property to pay additional Special Taxes.

No Acceleration Provision. The Fiscal Agent Agreement does not contain a provision allowing for the acceleration of the principal of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Fiscal Agent Agreement.

Property Controlled by Federal Deposit Insurance Corporation and other Federal Agencies. The District's ability to collect interest and penalties specified by State law and to foreclose the lien of a delinquent Special Tax payment may be limited in certain respects with regard to properties in which the Internal Revenue Service, the Drug Enforcement Agency, the Federal Deposit Insurance Corporation (the "FDIC") or other similar federal agencies has or obtains an interest. Specifically, with respect to the FDIC, on June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Real Property Taxes. The 1991 Policy Statement was revised and superseded by a new Policy Statement effective January 9, 1997 (the "Policy Statement"). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its 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 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. With respect to property in California owned by the FDIC on January 9, 1997, and that was owned by the Resolution Trust Corporation (the "RTC") on December 31, 1995, or that became property of the FDIC through foreclosure of a security interest held by the RTC on that date, the FDIC will continue the RTC's prior practice of paying special taxes imposed pursuant to the Mello-Roos Act if the taxes were imposed prior to the RTC's acquisition of an interest in the property. All other special taxes, including the Special Taxes which secure the Bonds may be challenged by the FDIC.

The FDIC has filed claims against the County of Orange with respect to Mello-Roos community facilities district special taxes in the United States Bankruptcy Court and in Federal District Court in which the FDIC has taken a position similar to the position outlined in the Policy Statement. While all of such claims have not been resolved, the Bankruptcy Court has issued a tentative ruling in favor of the FDIC on certain of such claims. The County of Orange has appealed such ruling and the FDIC has cross-appealed.

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

Limitations on Remedies. Remedies available to the Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds. Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Fiscal Agent Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or others similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Fiscal Agent Agreement. 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.

Enforceability of the rights and remedies of the owners of the Bonds, and the obligations incurred by the District, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of

servicing a significant and legitimate public purpose and the limitations on remedies against joint powers authorities in the State. See “**BONDOWNERS’ RISKS - Bankruptcy and Foreclosure Delays**”, “**Billing of Special Taxes**” and “**Property Controlled by Federal Deposit Insurance Corporation and Other Federal Agencies**” herein.

Right to Vote on Taxes Act. An initiative measure commonly referred to as the “Right to Vote on Taxes Act” was approved by the voters of the State of California at the November 5, 1996 general election. Proposition 218 added Article XIII C (“Article XIII C”) and Article XIII D to the California Constitution. According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, the Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” The provisions of Proposition 218 have not yet been interpreted by the courts, although a number of lawsuits have been filed requesting the courts to interpret various aspects of Proposition 218.

Among other things, Section 3 of Article XIII C states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” Proposition 218 provides for a procedure, which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, Proposition 218 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 Proposition 218 unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. Although the matter is not free from doubt, it is likely that the exercise by the voters in the District of the initiative power referred to in Article XIII C to reduce or terminate the Special Tax is subject to the same restrictions as are applicable to the District, pursuant to the Act. Accordingly, although the matter is not free from doubt, it is likely that the Proposition 218 has not conferred on the voters in the District 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 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. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. 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.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and 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.

Ballot Initiatives and Legislative Measures. Proposition 218 was adopted pursuant to a measure qualified for the ballot pursuant to California’s constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the State Legislature. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations or on the ability of a property owner to complete the development of the property.

THE CITY

Government Organization

The City Council members, their occupations and term expiration dates are as follows:

<u>Board Member</u>	<u>Term Expires</u>
Daryl Busch, Mayor	November, 2003
Raul (Mark) Yarbrough, Mayor Pro Tem	November, 2005
Al Landers, Council Member	November, 2005
John Motte, Council Member	November, 2003
Rita Rogers, Council Member	November, 2003

The City performs certain general administrative functions for the District. The costs of such functions, as well as additional services performed by City staff are allocated annually to the District. The District reimburses the City for such allocated costs out of available Revenues. Current City Staff assigned to administer the District include:

William G. Vasquez, City Manager
Connie Rogers-Elmore, Finance Director
David Aleshire, City Attorney
Margaret Rey, City Clerk

The City has contracted with MuniFinancial, Temecula, California, to assist in the administration of the District and the annual levy of the Special Tax.

THE DISTRICT

The information set forth herein regarding ownership of real property in the District, the Property Owner and any proposed development of property in the District was provided by the Property Owner and has not been independently verified. The District makes no representation as to the accuracy or completeness of any such information. This information has been included because it is considered relevant to an informed evaluation of the District. The inclusion in this Official Statement of information related to the Property Owner should not be construed to suggest that the Bonds, or the Special Taxes that will be used to pay the Bonds, are recourse obligations of the Property Owner. A property owner may sell or otherwise dispose of land within the District or a development of any interest therein at any time.

No assurance can be given that the proposed development within the District will occur as described below. As the proposed land development progresses and parcels are sold, it is expected that ownership of the land within the District will become more diversified. No assurance can be given that development of the land within the District will occur, or that it will occur in a timely manner or in the configuration or intensity described herein, or that the Property Owner will obtain or retain ownership of any land within the District. The Bonds and the Special Taxes are not personal obligations of any property owner and, in the event that a property owner defaults in the payment of the Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of any property owners. As a result, other than as provided herein, no financial statements or information is, or will be, provided about the Property Owner. The Bonds are secured solely by the Special Taxes and other amounts pledged under the Bond Indenture (see "SOURCES OF PAYMENT FOR THE BONDS" and "BONDOWNERS' RISKS" herein).

Boundaries of the Community Facilities District

The boundaries of the District coincide with the development generally known as Villages of Avalon, formerly McCanna Ranch, and include all properties and parcels on which Special Taxes may be levied to pay for the costs and expenses of the District. The development is proposed to include a minimum of 1,154 residential units on approximately 263 acres.

The boundaries of the District are described on a reduced scale map entitled "Boundary Map of Proposed Community Facilities District No. 2001-2 (Villages of Avalon)" herein. A full scale map is on file with the Clerk of the City of Perris and was recorded with the County Recorder, County of Riverside in Book 50 pages 3 of Assessment Maps, Document Number 464762-2001.

The District is generally located three miles northeast of downtown Perris within the Perris Valley area. The District is located on the eastern edge of the flat Perris Valley. The Ramona Expressway forms the northern and eastern border of the District, Evans Place is generally the District's western most boundary and Rider Street is the District's southern most boundary. The Colorado River Aqueduct bisects the southern portion of the District. The Ramona Expressway, Rider Street and Bradley Road provide access to the District. Nearby freeways include Highway 60 and Interstate 215.

The Property Owner

Barratt American Incorporated is the U.S. subsidiary of Barratt Developments Plc, one of the largest homebuilders in the United Kingdom. Barratt has built over 250,000 homes in the U.K. and has built over 10,000 homes in California since 1980. Barratt was founded in 1958 by Sir Lawrie Barratt in Newcastle Upon Tyne, England.

Barratt has grown through internal expansion and acquisitions from its northeast base through Scotland, Northern and Central England and became a national builder in 1976.

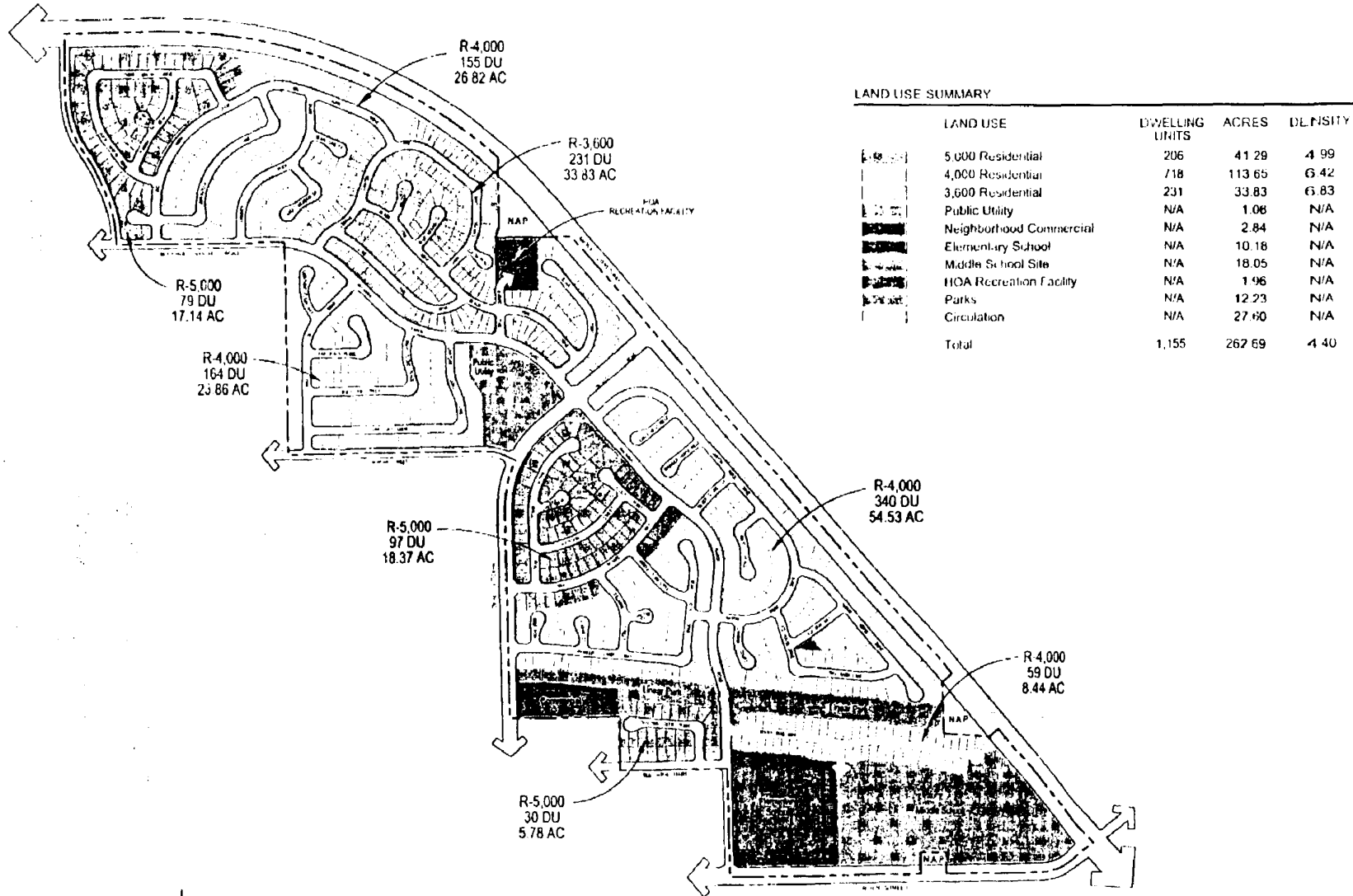
Barratt entered into the U S market in 1980 with the acquisition of American National Housing Corporation and in 1981 expanded its operations with the acquisition of McKeon Construction Barratt originally had operations throughout California, but since 1985 has concentrated on building projects in Ventura, Los Angeles, Orange, Kern, Riverside, San Bernardino and San Diego Counties

With the acquisition of American National Housing Corporation, Barratt inherited the master planned community known as Creekside in Ontario, California This project comprised 2,754 units wherein Barratt developed and built a number of projects while also selling tracts to merchant builders Barratt financed new schools at Creekside using the first Mello-Roos funding in the State of California

The provision of entry level housing has always been one of Barratt's primary goals and this was emphasized when Barratt entered the California market with its studio product

While maintaining its emphasis on low priced homes, Barratt widened its product range and built a number of successful and award winning products including Ventana (Mission Viejo), Royal St George (San Diego), Belle Maison (Laguna Niguel), Charlamont (Vista), Park View Heights (San Francisco), Windsor Country Estates (Olivenhain), South Peak (Laguna Niguel), Pacific Hills (Mission Viejo), Triple Crown (Del Mar), Quail Ridge (Encinitas), Knightsbridge (Olivenhain), Riviera (Chino Hills), Beachwood (Oceanside), and Victoria Ranch (San Marcos) Projects in the Barratt portfolio have provided homes ranging from \$40,000 to \$1 4 million and garnered numerous honors including SAM, MAME and Gold Nugget Awards The current average price of product sold by Barratt American stands at over \$400,000 with products ranging from \$125,000 to \$1 5 million

FIGURE 5-1



Specific Plan Amendment Land Use Plan / Option A



Villages of Avalon

Facilities to be Financed by the District

A community facilities district may, pursuant to State law, provide for the purchase, construction, expansion or rehabilitation of any real or tangible property with an estimated useful life of five (5) years or longer. The public facilities proposed to be financed need not be physically located within the proposed community facilities district.

A general description of the Facilities authorized to be financed by the District include the following:

Street Improvements

- Ramona Expressway
- Bradley Road
- McCanna Ranch Road
- Rider Road
- Morgan Road
- Evans Place

Storm Drain Improvements

- Ramona Expressway
- Bradley Road
- McCanna Ranch Road
- Rider Road

Sewer Improvements

- Bradley Road
- McCanna Ranch Road
- Morgan Road

Water Improvements

- Bradley Road
- McCanna Ranch Road
- Morgan Road

Traffic Signals

- Ramona Expressway at Bradley Road
- Ramona Expressway at Evans Place
- Bradley Road at McCanna Ranch Road
- Rider Road at Ramona Expressway

In addition, the incidental costs as defined in the Act and the Resolution of Intention may be financed.

Facilities Cost Estimate

The cost estimate for the Facilities authorized to be financed by the District is based upon current dollars with no provision for escalation.

The following table summarizes authorized District facilities which are to be designed, acquired or constructed through the financing.

**TABLE NO. 1
CITY OF PERRIS
COMMUNITY FACILITIES DISTRICT NO. 2001-2
(VILLAGES OF AVALON)
FACILITIES COSTS
(Estimated Costs)**

Facilities	Estimated Costs
Planning, engineering, other project consultants and associated governmental fees	\$ 12,929,136
Sewer, street, storm drains and water meters improvements	13,678,035
Common Area Landscaping and Building	3,724,444
Contingency	<u>1,516,581</u>
Total Public Improvements	\$ 31,848,196

Substitution of Facilities. The description of the Facilities, as set forth herein, is general in its nature. The final nature and location of the Facilities will be determined upon the preparation of final plans and specifications. The final plans may show substitutes in lieu of, or modification to, the proposed Facilities in order to provide the public facilities necessitated by development occurring in the District, and any such substitution shall not be a change or modification in the proceedings as long as such substitute facilities serve a function or provide a service substantially similar to that function served or the service provided by the Facilities.

Market Absorption Study

The City retained Empire Economics LLC, Capistrano Beach, California, to prepare the Market Absorption Study dated September, 2001. The City had the Market Absorption Study prepared to provide an independent estimate of the phasing and absorption of future development in the District. The Appraiser utilized the absorption schedules as part of the Discounted Cash Flow Analysis contained in the Appraisal. The discounted cash flow analysis provides an estimate of the present value of the property to be developed in the District. The absorption schedules represent a critical component of the Appraisal. The Discounted Value is lower in amount the longer the period of time required for absorption.

The Market Absorption Study estimates that District projects will absorb 1,154 dwelling units by the year 2009. See "APPENDIX C" for a summary of the market absorption study. The following table summarizes the projected District absorption schedule.

**TABLE NO. 2
CITY OF PERRIS
COMMUNITY FACILITIES DISTRICT NO. 2001-2
ESTIMATED ABSORPTION SCHEDULES**

Product Types	<u>Product #1</u>	<u>Product #2</u>	<u>Product #3</u>	Totals - Residential	
				<u>Annually</u>	<u>Cumul.</u>
Lot Sizes	3,600	4,000	5,000		
Development Status					
Total	231	721	206	1,158	
Escrows Closed	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	0.0%
Future	231	721	206	1,158	100.0%
	19.9%	62.3%	17.8%	100.0%	
Market Entry	Early 2002	Early 2002	Early 2002		
Prices - Estimated					
Lower	\$ 115,000	\$ 135,990	\$ 164,000		
Average	\$ 127,495	\$ 145,490	\$ 172,500		
Upper	\$ 139,990	\$ 154,990	\$ 181,000		
Living Area - Estimated					
Lower	1,250	1,690	2,300		
Average	1,420	1,945	2,550		
Upper	1,590	2,200	2,800		
Value Ratio	\$ 90	\$ 75	\$ 68		
<u>Annual Absorption: Homeowners & Final-Users</u>					
2001	0	0	0	0	0
2002	40	40	40	120	120
2003	40	40	40	120	240
2004	72	69	56	197	437
2005	50	100	40	190	627
2006	29	130	30	189	816
2007	0	127	0	127	943
2008	0	110	0	110	1,053
2009	0	105	0	105	1,158
2010+	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	1,158
Totals	231	721	206	1,158	
Averages	46	90	41	145	

The Appraisal

All estimates and projections included in the Appraisal are characterized as reasonably professional opinions based on known data and information available as of their date. The estimates are not intended to represent guarantees of future sales rates or resale value. Future value of the land within the District can be expected to fluctuate due to many different, not fully predictable, real estate related investment risk factors (see “**BONDOWNERS’ RISKS – Land Values**” herein).

Prospective purchasers of the Bonds should not assume that the property within the District could be sold for the appraised amount at a foreclosure sale for delinquent Special Taxes. The actual value of the property is subject to future events which might render invalid the basic assumptions contained in the Appraisal (see “**BONDOWNERS’ RISKS**” for a discussion of factors that could prevent or delay development within the District). See the Appraisal Report attached hereto as “**APPENDIX D**” for a complete description of the assumptions made and a brief description of the valuation methodology used by the Appraiser. See “**APPENDIX D – APPRAISAL REPORT**”. The Appraisal Report is based, in part, on the Market Absorption Study. See “**THE DISTRICT - Market Absorption Study**” and “**APPENDIX C – MARKET ABSORPTION STUDY**”.

The City authorized Len Perdue and Associates to prepare an appraisal for the land within the District (the “Appraisal”). The purpose of the appraisal was to establish the “fair market value” of land in the District. The Appraiser determined the fair market value of land in the District to be \$21,970,000, a fair market value of at least three (3) times the amount of the Bonds issued (3:1 Value to Lien Ratio), excluding the amounts initially deposited in the Escrow Account of the Improvement Fund.

The fair market value of land in the District equals or exceeds the value to lien ratio requirements established by the Act. Additionally, the City’s Special Tax Consultant, MuniFinancial, has determined that the estimated debt service payment including the City administration charges needed to finance the proposed level of bonded indebtedness is consistent with the City authorized Special Tax established pursuant to the Rate and Method of Special Tax Apportionment.

The Development

There can be no assurance that the development plan described herein will be completed or that it will not be modified in the future. In addition, there can be no assurance that sufficient funds will or can be made available to complete the development plan or pay special taxes as described herein.

Private Improvements

Development Program. Barratt American intends to construct and sell the first three tracts in Phase 1A (approximately 308 completed homes). The remainder of the tracts will be built by Barratt American or sold to merchant builders depending upon market conditions.

Table No. 4 shows the phasing and closing projections of Barratt American. The infrastructure will be provided by Barratt American and the in-tract improvements will be built by the in-tract builder.

A general description of the initial improvements is as follows:

Mass Grading	Mass grade the site and major streets. Tract #s 22836, 22838 and 22841 will be graded to blue top pads and rough-cut streets. All other tracts will be sheet graded to super pads for each tract. The pad graded lots will be generated after the product is designed along with the necessary street improvements for each tract.
--------------	--

Ramona Expressway	Widen street, install traffic signal at Bradley Road, underground electric utilities, landscape right-of-way, install storm drain and basins, build entry monument.
Bradley Road	Widen street, install traffic signal at Bradley Road, underground electric utilities, landscape right-of-way, install storm drain system, relocate DWR drain line, install sewer main, install water main, realign Bradley Road to new intersection alignment, build public park and facilities, install all dry utilities, build intersection monument.
McCanna Ranch Road	Build street including all water, sewer, storm drain dry utilities, landscape right-of-way. Build linear park along the MWD easement.
Rider Road	Widen road along Barratt American property, including storm drain, dry utilities, landscape right-of-way and underground electric utilities. Traffic signal at Ramona and Rider.
Morgan Road	Widen road along Barratt American property, including water, sewer, dry utilities, and landscape right-of-way.
Evans Place	Traffic signal at Ramona and Evans Place, widen road along Barratt American property, including dry utilities, landscape right-of-way.
Recreation Facilities	Build a community pool, tot lot, basketball courts, volleyball court, spa and wading pool.

Land Use Entitlements and Governmental Regulations

Villages of Avalon has various levels of land use entitlements ranging from general plan to zoning to approved specific plan with final tract maps including performance bonds for the entire development. Final Tract Maps have been recorded for all the area within the District. See Table No. 3 entitled "Tract Information and Use".

In addition to the responsible agencies which will own, maintain and operate District facilities, numerous other public agencies will be involved in the review and permitting of public facilities included in the District and future development within the District. The following is a partial listing of public agencies having jurisdiction at various levels of the permitting process for District facilities:

- U.S. Army Corps of Engineers
- U.S. Fish and Wildlife Service
- U.S. Environmental Protection Agency
- State Office of Research and Planning
- State Department of Fish and Game
- State Office of Historic Preservation
- State Regional Water Quality Control Board
- Riverside County Transportation Commission
- Eastern Municipal Water District

Land development within the District may be affected by changes in governmental regulation and approval requirements, particularly endangered species and environmental quality (see "BONDOWNERS' RISKS" herein).

**TABLE NO. 3
CITY OF PERRIS
COMMUNITY FACILITIES DISTRICT NO. 2001-2
(VILLAGES OF AVALON)
TRACT INFORMATION AND USE**

<u>Lot No.</u>	<u>Assessor Parcel No.</u>	<u>Tract No.</u>	<u>Product Land Use</u>	<u>No. Acres</u>	<u>No. Units</u>	<u>Lot Size</u>	<u>Tentative Map</u>	<u>Final Map</u>	<u>Final Map No.</u>
Master		Tr 22831		262.69	21		5/12/88	6/23/93	206026
1	308-220-004-3; and 308-220-008-7 Proposed w/ 2 schools	Tr 22833	Single Family	20.70	26	4,000 sf	9/12/88	9/14/00	2000-361837
2	308-220-003-2 Proposed w/ 2 schools	Tr 22832	Single Family	16.20	33	4,000 sf	9/12/88	9/14/00	2000-361836
3	308-220-017-3	Tr 22834	Single Family	5.80	30	5,000 sf	6/13/88	5/26/00	2000-200649
4	308-210-001-9	Tr 22835	Single Family	18.96	117	4,000 sf	6/13/88	5/26/00	2000-200650
5	Segregated-3 new lots	Tr 22836	Single Family	18.10	109	4,000 sf	6/13/88	6/23/93	239323
6	308-200-020-5	Tr 22837	Single Family	17.45	113	4,000 sf	6/13/88	5/26/00	2000-200651
7	308-200-021-6	Tr 22838	Single Family	18.49	97	5,000 sf	6/13/88	5/12/00	2000-180980
8	303-370-002-2	Tr 22839	Single Family	8.92	64	4,000 sf	5/31/88	5/12/00	2000-180981
9	303-370-001-9	Tr 22840	Single Family	14.94	100	4,000 sf	6/13/88	5/12/00	2000-180982
10	303-370-005-3 w/ model complex	Tr 22841	Single Family	16.16	102	3,600 sf	6/27/88	5/12/00	2000-180983
11	303-360-001-8	Tr 22842	Single Family	17.67	129	3,600 sf	6/13/88	5/18/00	2000-190055
12	303-360-002-9	Tr 22843	Single Family	14.60	88	4,000 sf	6/13/88	5/15/00	2000-183126
13	303-360-003-0	Tr 22844	Single Family	10.96	67	4,000 sf	5/31/88	5/15/00	2000-183127
14	303-360-004-1	Tr 22845	Single Family	17.40	79	5,000 sf	6/13/88	5/15/00	2000-183128
Total Proposed Units					1,154				

**TABLE NO. 4
VILLAGES OF AVALON
CLOSING & PHASING PROJECTIONS
DECEMBER 7, 2001**

	Models	Phase 1A	Phase 1B	Phase 2A	Phase 2B	Phase 3A	Phase 3B	Phase 4	Phase 5	Phase 6	Phase 7	Total Units
Lot Size												
3600	10	75	27	0	0	0	0	129	0	0	0	231
4000	7	71	38	117	113	32	27	164	88	67	0	717
5000	4	38	59	0	0	30	0	0	0	0	79	206
No. of Units	21	184	124	117	113	62	27	293	88	67	79	1154
Infrast. Const. Start	Feb '02	Feb '02	Jan '03	Sept '03	May '04	Feb '05	July '05	June '06	May '08	Nov '08	May '09	
Take Down Lots Infrast. Const. Complete	June '02	June '02	May '03	Jan '04	Oct '04	July '05	Dec '05	Nov '06	Aug '08	April '09	Oct '09	
Sales Release	July '02	Sept '02	May '03	Jan '04	Oct '04	July '05	Dec '05	Nov '06	Aug '08	April '09	Oct '09	
Sales Close	Mar '03	May '03	Jan '04	Oct '04	July '05	Dec '05	Nov '06	Aug '08	April '09	Oct '09	June '10	
Assumptions												
Average absorption @ 40 units sold per quarter. Est. 5 months infrastructure construction prior to take down of lots												
Number of Quarter per phase + -		3	3	3	3	2	3.5	7.3	2	1.5	2	
Number of Months per phase + -		9	9	9	9	6	11	21	8	6	8	

Private Improvement Costs and Financing

In order to complete its development plan, the Developer must continue to make substantial improvements to the property within the District. As of January 1, 2002, the cost to develop the 1,154 lots to the stage of finished lots ready to build homes with the foregoing backbone infrastructure was estimated as follows:

Description	Estimated Cost
Infrastructure	\$28.4 million
Local in-tract improvements	\$25.2 million
Fees*	<u>\$12.3 million</u>
Total	\$65.9 million

* Fees are paid by the Developer or merchant builder as building permits or as certificates of occupancy are issued.

The Developer has funded approximately \$7.9 million of the foregoing costs to date and approximately \$12,326,410 of such costs are expected to be paid with proceeds of the Bonds, provided, however, that initially, only approximately \$3,373,542 will be available in the Improvement Fund to pay project costs, with additional funds to become available only if moneys are released from the Improvement Fund if certain conditions are met. The Developer will be responsible for the costs of the improvements not initially funded at the Closing Date. If funds are not released from the Improvement Fund, then Barratt American, or its successors, will need to finance its remaining project costs (see "SOURCES OF PAYMENT FOR THE BONDS - Repayment of the Bonds - Improvement Fund" herein). The balance of the foregoing costs (approximately \$45,673,589) will be financed by Barratt American or merchant builders in accordance with purchase and sales agreements which may be entered into between Barratt American and each merchant builder.

Mass grading of all of the developable property within the District commenced in February 2002, construction of the regional and in-tract infrastructure is estimated to commence in April 2002, and is estimated to be completed in December 2002.

Barratt American has expended approximately \$17.8 million for acquisition and entitlement. Rough grading and infrastructure costs through completion of the first 308 finished lots is estimated to be \$21.8 million. Of this amount \$8.5 million is eligible for reimbursement from the District.

<u>Availability of Utilities</u>		
Electrical		Southern California Edison. Designs are in progress by SCE.
Gas		Southern California Gas Co. Design in progress.
Telephone		Verizon telephone or other service. Design in progress.
Cable TV		Adelphia Cable or other service. Design in progress.
Water		McCanna Ranch Water Co. Plans are approved.
Sewer		Eastern Municipal Water District. Plans are approved.

Lot Sizes: 3,600 - 5,000 square feet

Home Size: 1,250 - 2,900 square feet

Price Range of Homes: \$146,990 - \$220,000 to \$146,690 - \$220,740

Amenities: Park and open space area, recreation facility.

DEBT STRUCTURE

Outstanding Indebtedness

Other than the Bonds and Additional Bonds, the District will not have any other indebtedness secured on a parity basis by the Special Taxes. The District will incur certain Reimbursement Obligations from time to time for completed improvements that the District may not have sufficient funds available at that time to acquire. Such Reimbursement Obligations are secured by a pledge of Special Taxes subordinate to the pledge of Special Taxes to the Bonds.

Additional Obligations

Additional Bonds. The District may at any time after the issuance and delivery of the Bonds under the Fiscal Agent Agreement issue Additional Bonds payable from the Special Tax Revenues and secured by a lien and charge upon the Special Tax Revenues equal to the Outstanding Bonds and any other Additional Bonds theretofore issued under the Fiscal Agent Agreement or under any Supplemental Agreement, but only subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such Additional Bonds:

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

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

(1) The purpose for which such Additional Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Additional Bonds to be applied solely for (i) the purpose of aiding in financing the Facilities, including payment of all costs incidental to or connected with such financing, and/or (ii) the purpose of refunding any Outstanding Bonds and Additional Bonds, including payment of all costs incidental to or connected with such refunding;

(2) The authorized principal amount of such Additional Bonds;

(3) The date and the maturity date or dates of such Additional Bonds; provided that (i) maturity date shall fall on a September 1, (ii) all such Additional Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or sinking account payments, or any combination thereof, shall be established to provide for the retirement of all such Additional Bonds on or before their respective maturity dates;

(4) The description of the Additional Bonds;

(5) The redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(6) The amount and due date of each mandatory sinking account payment, if any, for such Additional Bonds;

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

(8) The form of such Additional Bonds; and

(9) Such other provisions as are necessary or appropriate and not inconsistent with the Fiscal Agent Agreement.

(c) The Fiscal Agent shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the Fiscal Agent (unless the Fiscal Agent shall accept any of such documents bearing a prior date):

(1) A certified copy of the Supplemental Agreement authorizing the issuance of such Additional Bonds;

(2) A written request of the District as to the delivery of such Additional Bonds;

(3) An opinion of Bond Counsel and/or City Attorney to the effect that (a) the District has the right and power under the Act to adopt the Fiscal Agent Agreement and the Supplemental Agreements relating to such Additional Bonds, and the Fiscal Agent Agreement and all such Supplemental Agreements have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Fiscal Agent Agreement creates the valid pledge which it purports to create of the Special Tax Revenues as provided in the Fiscal Agent Agreement, subject to the application thereof to the purposes and on the conditions permitted by the Fiscal Agent Agreement; and (c) such Additional Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Fiscal Agent Agreement and all Supplemental Agreements relating thereto and entitled to the benefits of the Fiscal Agent Agreement and all such Supplemental Agreements, and such Additional Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Fiscal Agent Agreement and all such Supplemental Agreements; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Additional Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Bonds and Additional Bonds theretofore issued or the exemption from State of California personal income taxation of interest on any Bonds and Additional Bonds theretofore issued;

(4) A certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Fiscal Agent Agreement;

(5) A certificate from one or more Independent Financial Consultants which when taken together certify that (i) on the basis of the parcels of land and improvements existing in the District as of the March 1 preceding the proposed issuance of the Additional Bonds, the maximum amount of Special Taxes that may be levied by the District pursuant to the Act and the applicable resolutions and ordinances of the District is at least 1.10 times the corresponding Annual Debt Service for each remaining Bond Year on all Outstanding Bonds theretofore issued and the Additional Bonds proposed to issue, and (ii) the fair market value of the land and then existing improvements in the District, as determined by an appraisal performed on a basis consistent with the issuance of the Bonds, is at least four times the sum of (A) the aggregate

principal amount of all Bonds then Outstanding, plus (B) the aggregate principal amount of the Additional Bonds proposed to be issued, plus (C) the aggregate principal amount of all assessment district bonds then outstanding and payable from assessments to be levied on parcels of land within the District, plus (D) a portion of the aggregate principal amount of other community facilities district or general obligation bonds then outstanding and payable at least partially from taxes to be levied on parcels of land within the District (the "Other Bonds") equal to the aggregate principal amount of the Other Bonds multiplied by a fraction, the numerator of which is the amount of taxes levied for the Other Bonds on parcels within the District, and the denominator of which is the total amount of taxes levied for the Other Bonds on all parcels of land, based upon information from the most recent available fiscal year. For purposes of making the certifications required by this paragraph (c), the Independent Financial Consultants may rely on reports or certificates of such other persons as may be acceptable to the District, the City, Bond Counsel and the initial purchasers of the proposed Additional Bonds; and

(6) Such further documents, money and securities as are required by the provisions of the Fiscal Agent Agreement and the Supplemental Agreement providing for the issuance of such Additional Bonds.

Prior to, or concurrent with, the issuance of any Additional Bonds or issuance of, or incurrence of, any other obligations secured by Special Tax Revenues on a basis subordinate to the pledge of Special Tax Revenues to the Bonds, the Reimbursement Obligations must be discharged in full.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc., as of February 1, 2002. The Debt Report is included for general information purposes only. The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations are not payable from District Special Taxes nor are they necessarily obligations secured by property within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

Presently, the property within the District is subject to \$13,389,743 of direct and overlapping tax and assessment debt and overlapping general fund obligation debt, a figure which excludes the Bonds (see table below). To repay the direct and overlapping tax and assessment debt and overlapping lease obligation debt, the property owners of the land within the District must pay the annual Special Tax and the general property tax levy.

In addition, other public agencies whose boundaries overlap those of the District could, without the consent of the District, and in certain cases without the consent of the owners of the land within the District, impose additional taxes or assessment liens on the real property within the District in order to finance public improvements or services to be located or furnished inside of or outside of the District. The lien created on the real property within the District through the levy of such additional taxes or assessments may be on a parity with the lien of the Special Taxes. The imposition of additional liens on a parity with the Special Taxes may reduce the ability or willingness of the landowners to pay the Special Tax and increases the possibility that foreclosure proceeds, if any, will not be adequate to pay delinquent Special Taxes.

**TABLE NO. 5
CITY OF PERRIS
COMMUNITY FACILITIES DISTRICT NO. 2001-2
(VILLAGES OF AVALON)**

2001-02 Assessed Valuation: \$3,966,751

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 2/1/02</u>
Metropolitan Water District	0.0004%	\$ 2,110
City of Perris Community Facilities District No. 88-2	100.	<u>13,290,000</u> (1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$13,292,110
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Riverside County General Fund Obligations	0.005%	\$32,708
Riverside County Board of Education Certificates of Participation	0.005	748
Riverside City Community College District Certificates of Participation	0.013	1,892
Val Verde Unified School District Certificates of Participation	0.288	<u>62,611</u>
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$97,959
Less: Riverside County Administrative Center Authority (100% self-supporting from tax increment revenues)		<u>326</u>
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$97,633
 GROSS COMBINED TOTAL DEBT		 \$13,390,069 (2)
NET COMBINED TOTAL DEBT		\$13,389,743

(1) Excludes refunding Mello-Roos Act bonds to be sold.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2001-02 Assessed Valuation:

Direct Debt (\$13,290,000)	335.03%
Total Direct and Overlapping Tax and Assessment Debt	335.09%
Gross Combined Total Debt	337.56%
Net Combined Total Debt	337.55%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: \$0

Source: California Municipal Statistics, Inc.

Scheduled Debt Service on the Bonds

The following is the scheduled Debt Service on the Bonds.

<u>Interest Payment Date</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Annual Debt Service</u>
September 1, 2002			\$ 512,291.04	\$ 512,291.04
March 1, 2003			529,956.25	
September 1, 2003			529,956.25	1,059,912.50
March 1, 2004			529,956.25	
September 1, 2004	\$ 25,000.00	5.625%	529,956.25	1,084,912.50
March 1, 2005			529,253.13	
September 1, 2005	50,000.00	5.625%	529,253.13	1,108,506.26
March 1, 2006			527,846.88	
September 1, 2006	75,000.00	5.625%	527,846.88	1,130,693.76
March 1, 2007			525,737.50	
September 1, 2007	100,000.00	5.625%	525,737.50	1,151,475.00
March 1, 2008			522,925.00	
September 1, 2008	130,000.00	5.625%	522,925.00	1,175,850.00
March 1, 2009			519,268.75	
September 1, 2009	160,000.00	5.625%	519,268.75	1,198,537.50
March 1, 2010			514,768.75	
September 1, 2010	195,000.00	5.625%	514,768.75	1,224,537.50
March 1, 2011			509,284.38	
September 1, 2011	230,000.00	5.625%	509,284.38	1,248,568.76
March 1, 2012			502,815.63	
September 1, 2012	270,000.00	5.625%	502,815.63	1,275,631.26
March 1, 2013			495,221.88	
September 1, 2013	310,000.00	6.250%	495,221.88	1,300,443.76
March 1, 2014			485,534.38	
September 1, 2014	355,000.00	6.250%	485,534.38	1,326,068.76
March 1, 2015			474,440.63	
September 1, 2015	405,000.00	6.250%	474,440.63	1,353,881.26
March 1, 2016			461,784.38	
September 1, 2016	455,000.00	6.250%	461,784.38	1,378,568.76
March 1, 2017			447,565.63	
September 1, 2017	510,000.00	6.250%	447,565.63	1,405,131.26
March 1, 2018			431,628.13	
September 1, 2018	570,000.00	6.250%	431,628.13	1,433,256.26
March 1, 2019			413,815.63	
September 1, 2019	610,000.00	6.250%	413,815.63	1,437,631.26
March 1, 2020			394,753.13	
September 1, 2020	645,000.00	6.250%	394,753.13	1,434,506.26
March 1, 2021			374,596.88	
September 1, 2021	685,000.00	6.250%	374,596.88	1,434,193.76
March 1, 2022			353,190.63	
September 1, 2022	730,000.00	6.250%	353,190.63	1,436,381.26
March 1, 2023			330,378.13	
September 1, 2023	775,000.00	6.250%	330,378.13	1,435,756.26
March 1, 2024			306,159.38	
September 1, 2024	825,000.00	6.375%	306,159.38	1,437,318.76
March 1, 2025			279,862.50	
September 1, 2025	875,000.00	6.375%	279,862.50	1,434,725.00
March 1, 2026			251,971.88	
September 1, 2026	930,000.00	6.375%	251,971.88	1,433,943.76
March 1, 2027			222,328.13	
September 1, 2027	990,000.00	6.375%	222,328.13	1,434,656.26
March 1, 2028			190,771.88	
September 1, 2028	1,055,000.00	6.375%	190,771.88	1,436,543.76
March 1, 2029			157,143.75	
September 1, 2029	1,120,000.00	6.375%	157,143.75	1,434,287.50
March 1, 2030			121,443.75	
September 1, 2030	1,190,000.00	6.375%	121,443.75	1,432,887.50
March 1, 2031			83,512.50	
September 1, 2031	1,270,000.00	6.375%	83,512.50	1,437,025.00
March 1, 2032			43,031.25	
September 1, 2032	1,350,000.00	6.375%	43,031.25	1,436,062.50

SUMMARY OF THE LEGAL DOCUMENTS

THE FISCAL AGENT AGREEMENT

The following is a summary of certain provisions of the Fiscal Agent Agreement applicable to the Bonds and does not purport to be a complete restatement thereof. Reference is hereby made to the Fiscal Agent Agreement for further information in this regard. Copies of the Fiscal Agent Agreement are available from the City upon request upon payment of a charge for copying, handling and mailing.

Funds and Accounts; Flow of Funds

Pledge of Special Tax Revenues. All of the Special Tax Revenues and all moneys deposited in the Bond Fund and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund are pledged to secure the repayment of the Bonds. Such pledge shall constitute a first lien on the Special Tax Revenues and said amounts. The Special Tax Revenues and all moneys deposited into said funds (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the Bonds as provided in the Fiscal Agent Agreement and in the Act until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose in accordance with the Fiscal Agent Agreement.

The Reimbursement Obligations are secured by a subordinate pledge (which pledge shall be effected in the manner and to the extent provided in the Fiscal Agent Agreement) of all Special Tax Revenues not used for payment of the Bonds and all moneys deposited in the Reimbursement Obligation Fund. The Special Tax Revenues and all moneys deposited into the Reimbursement Obligation Fund (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of and the interest on the Reimbursement Obligations as provided in the Fiscal Agent Agreement and in the Act until all of the Reimbursement Obligations have been paid and retired.

Amounts in the Administrative Expense Fund, Costs of Issuance Fund and the Acquisition Account of the Improvement Fund are not pledged to the repayment of the Bonds and the Reimbursement Obligations. The Facilities acquired with the proceeds of the Bonds are not in any way pledged to pay the Debt Service on the Bonds or the Reimbursement Obligations. Any proceeds of condemnation or destruction of any Facilities financed with the proceeds of the Bonds are not pledged to pay the Debt Service on the Bonds or the Reimbursement Obligations and are free and clear of any lien or obligation imposed under the Fiscal Agent Agreement.

Special Tax Fund.

Establishment of Special Tax Fund. There is established under the Fiscal Agent Agreement a separate fund to be held by the Fiscal Agent, designated as the "Special Tax Fund," to the credit of which the District or the City, on behalf of the District, shall deposit, immediately upon receipt, all Special Tax Revenue received by the District or the City on behalf of the District and any amounts required by the Fiscal Agent Agreement to be deposited therein. Moneys in the Special Tax Fund shall be held in trust by the Fiscal Agent for the benefit of the District and the Owners of the Bonds, and the holder of the Reimbursement Obligations, shall be disbursed in the following order as provided in the Fiscal Agent Agreement and shall be subject to a lien in favor of the Owners of the Bonds and a subordinate lien in favor of the holder of the Reimbursement Obligations.

Disbursements.

(1) The Fiscal Agent shall, (i) upon receipt of any prepayments of Special Taxes or delinquent payments of Special Taxes delineated as such in an Officer's Certificate, withdraw from the Special Tax Fund and transfer (i) to the Bond Fund (a) an amount equal to any such prepayments of Special Taxes (to be used to redeem Bonds on the next date for which notice of redemption can timely

be given), and (b) delinquent payments of Special Taxes (including the proceeds of any foreclosure action to enforce the lien of the Special Taxes) to the extent of any past due installments of principal, interest and premium on the Bonds (including any interest thereon pursuant to the Fiscal Agent Agreement; and (ii) no later than ten (10) Business Days prior to each Interest Payment Date as determined by the District, withdraw from the Special Tax Fund and transfer to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund (other than by reason of the preceding clause (i)) such that the amount in the Bond Fund equals the principal, premium, if any, and interest due on the Bonds on the next Interest Payment Date.

(2) On or after March 2 and September 2 of each year after making the transfer and deposits required under (1) above, the Fiscal Agent shall transfer the amount, if any, necessary to replenish the amount then on deposit in the Reserve Account of the Bond Fund to an amount equal to the Reserve Requirement.

(3) On or after September 2 of each year after making the deposits and transfers required under (1) and (2) above, upon receipt of a written request of an Authorized Officer, the Fiscal Agent shall transfer from the Special Tax Fund to the Administrative Expense Fund the amounts specified in such request to pay those Administrative Expenses which the District reasonably expects will become due and payable during such Fiscal Year or the cost of which Administrative Expenses have previously been incurred and paid by the District from funds other than the Administrative Expense Fund.

(4) On or after September 2 of each year after making the deposits and transfers required under (1) through (3) above, upon receipt of a written request of an Authorized Officer, the Fiscal Agent shall transfer from the Special Tax Fund to the Rebate Fund the amounts specified in such request.

(5) On or after September 2 of each year after making the deposits and transfers required under (1) through (4) above, and provided that the special taxes of the Public Safety CFD have not yet been commenced or terminated, then upon receipt of a written request of an Authorized Officer, the Fiscal Agent shall transfer from the Special Tax Fund to the Public Safety Fund an amount equal to \$250 per year per Single-Family Unit, \$50 per year per Multi-Family Unit and \$1,000 per year per acre for Non-Residential Parcels, plus an Annual Tax Escalation Factor.

(6) On or after September 2 of each year after making the deposits and transfers required under (1) through (5) above, upon receipt of a written request of an Authorized Officer, the Fiscal Agent shall transfer from the Special Tax Fund to the Landscape Expense Fund the amounts specified in such request which will not exceed the Landscape Maintenance Costs for such Fiscal Year.

(7) On or after September 2 of each year after making the deposits and transfers required under (1) through (6) above, the Fiscal Agent shall transfer from the Special Tax Fund to the Reimbursement Obligation Fund any amounts then remaining in the Special Tax Fund until all Reimbursement Obligations have been fully paid.

(8) If, on or after September 2 of each year, after making the deposits and transfers required under (1) through (7) above, moneys remain in the Special Tax Fund, such moneys shall be transferred to the Bond Fund for the purpose of calling and redeeming Bonds.

Notwithstanding the foregoing, amounts constituting prepayments of Special Taxes shall be transferred by the Treasurer to the Fiscal Agent, and placed by the Fiscal Agent in a segregated account within the Bond Fund designated as "Prepayment Account" and used to redeem Bonds pursuant to the Fiscal Agent Agreement.

Investment. Moneys in the Special Tax Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from such investment and deposit shall be retained in the Special Tax Fund to be used for the purposes thereof.

Administrative Expense Fund.

Establishment of the Administrative Expense Fund. There is established under the Fiscal Agent Agreement a separate fund to be held by the Fiscal Agent, designated as the "Administrative Expense Fund," to the credit of which the amount annually budgeted and levied for Administrative Expenses shall be made. Moneys in the Administrative Expense Fund shall be held in trust by the Fiscal Agent for the benefit of the District, and shall be disbursed as provided in the Fiscal Agent Agreement.

Disbursements. Amounts in the Administrative Expense Fund shall be withdrawn by the Fiscal Agent and paid to the District or 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, at least five (5) days prior to the last day of each Bond Year, the Fiscal Agent shall withdraw any amounts then remaining in the Administrative Expense Fund that have not been allocated to pay Administrative Expenses incurred but not yet paid, and which are not otherwise encumbered or expected to be needed for the purposes of such fund, and transfer such amounts, to the extent necessary, to the Reserve Account an amount necessary to replenish the Reserve Account to the Reserve Requirement, and thereafter to the Special Tax Fund provided there are inadequate amounts available in the Landscape Expense Fund or the Public Safety Fund for such purposes.

Investment. Moneys in the Administrative Expense Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from said investment shall be retained by the Treasurer in the Administrative Expense Fund to be used for the purposes of such fund.

Improvement Fund.

Establishment of Improvement Fund. There is established as a separate fund to be held by the Fiscal Agent, the "Improvement Fund."

Escrow Account. There is established a separate account within the Improvement Fund designated as the "Escrow Account," to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement. Moneys in the Escrow Account shall be held in trust by the Fiscal Agent and, pending disbursement as hereinafter provided, shall be subject to a lien in favor of the Owners, and shall be administered as hereafter provided. Moneys in the Escrow Account shall be held by the Fiscal Agent for the benefit of the City and the District and shall be transferred to the Acquisition Account only upon receipt from the Special Tax Consultant of a Notice of Release of Escrow Funds in the form set forth in the Fiscal Agent Agreement. The Fiscal Agent may conclusively rely on such Notice of Release of Escrow Funds received as complete authorization to transfer funds in accordance with the Fiscal Agent Agreement and shall not be responsible for the contents of such Notice of Release of Escrow Funds.

Acquisition Account. There is established a separate account within the Improvement Fund designated as the "Acquisition Account," to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement. Moneys in the Acquisition Account shall be held by the Fiscal Agent for the benefit of the City and the District and shall be disbursed, except as otherwise provided in the Fiscal Agent Agreement, for the payment or reimbursement of costs of Facilities. Disbursements from the Acquisition Account shall be made by the Fiscal Agent upon receipt of an Officer's Certificate, which shall:

(1) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made, the person to which the disbursement is to be paid and state that such disbursement is for a Facility or Discrete Component cost; and

(2) certify that no portion of the amount then being requested to be disbursed was set forth in any Officer's Certificate previously filed requesting disbursement; or

(3) direct the payment of moneys in the Acquisition Account to the holder of the Reimbursement Obligations.

The Fiscal Agent may conclusively rely on such Officer's Certificate received as complete authorization to disburse funds and shall not be responsible for the contents of such Officer's Certificate.

Investment. Moneys in the Improvement Fund shall be invested and deposited by the Fiscal Agent in accordance with the Fiscal Agent Agreement. Interest earnings and profits from such investment and deposit shall be transferred to the Bond Fund for deposit therein.

Closing of Fund. Upon the filing of an Officer's Certificate executed by the Treasurer stating that all costs of the Facilities and all Reimbursement Obligations have been paid or are not required to be paid from the Improvement Fund, the Fiscal Agent shall transfer the amount, if any, remaining in any of the accounts of the Improvement Fund to the Bond Fund for application to the payment of Bonds, and the Improvement Fund and the accounts therein shall be closed.

Costs of Issuance Fund. There is established under the Fiscal Agent Agreement a separate fund to be held by the Fiscal Agent designated as the "Costs of Issuance Fund" into which shall be deposited the amounts set forth in the Fiscal Agent Agreement. The moneys in the Costs of Issuance Fund shall be used to pay Costs of Issuance from time to time upon receipt of an Officer's Certificate. On the date which is one hundred eighty (180) days following the Closing Date, or upon the earlier receipt by the Fiscal Agent of a written request of the District stating that all Costs of Issuance have been paid, the Fiscal Agent shall transfer all remaining amounts in the Costs of Issuance Fund to be deposited in the Improvement Fund.

Public Safety Fund.

Establishment of the Public Safety Fund. There is established as a separate fund to be held by the Fiscal Agent, the "Public Safety Fund," to the credit of which the amount budgeted and levied for Public Safety shall be made. Moneys in the Public Safety Fund shall be held in trust by the Fiscal Agent for the benefit of the District, and shall be disbursed as provided below.

Disbursement. Upon the filing of an Officer's Certificate executed by the Treasurer stating that the City has adopted and implemented a Police and Fire Protection Program and the Public Safety CFD has commenced the levy of its special taxes, the amounts in the Public Safety Fund shall be withdrawn by the Fiscal Agent and paid to the District or the City to pay Police and Fire Protection Program expenses and the Fiscal Agent shall close the Public Safety Fund. If (i) on January 1, 2005, the Treasurer has not filed with the Fiscal Agent an Officer's Certificate, as described herein, or (ii) on such earlier date on which an Officer's Certificate reports that the special taxes of the Public Safety CFD have been terminated, then on such date the Fiscal Agent shall transfer all amounts in the Public Safety Fund to be deposited in the Acquisition Account of the Improvement Fund and the Public Safety Fund shall be closed.

Annually, at least five (5) days prior to the last day of each Bond Year, the Fiscal Agent shall transfer from the Public Safety Fund for deposit in the Reserve Account an amount necessary, to

replenish the Reserve Account to the Reserve Requirement provided there are inadequate amounts available in the Landscape Expense Fund for such purpose.

Landscape Expense Fund.

Establishment of the Landscape Expense Fund. There is established as a separate fund to be held by the Fiscal Agent, the "Landscape Expense Fund," to the credit of which the amount annually budgeted and levied for Landscape Maintenance Costs shall be made. Moneys in the Landscape Expense Fund shall be held in trust by the Fiscal Agent for the benefit of the District, and shall be disbursed as provided below.

Disbursement. Amounts in the Landscape Expense Fund shall be withdrawn by the Fiscal Agent and paid to the District or the City 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 a Landscape Maintenance Cost, and the nature of such Landscape Maintenance Cost.

Annually, at least five (5) days prior to the last day of each Bond Year, the Fiscal Agent shall withdraw any amounts then remaining in the Landscape Expense Fund that have not been allocated to pay Landscape Maintenance Costs incurred but not yet paid, and which are not otherwise encumbered or expected to be needed for the purposes of such fund, and transfer such amounts to the Acquisition Account of the Improvement Fund, or, to the extent necessary, to the Reserve Account an amount necessary to replenish the Reserve Account to the Reserve Requirement, and thereafter to the Special Tax Fund.

Reimbursement Obligation Fund.

Establishment of the Reimbursement Obligation Fund. There is established as a separate fund to be held by the Fiscal Agent, the "Reimbursement Obligation Fund." Moneys in the Reimbursement Obligation Fund shall be held in trust by the Fiscal Agent for the benefit of the holder of the Reimbursement Obligations, and shall be disbursed as provided below.

Disbursement. Amounts in the Reimbursement Obligation Fund shall be withdrawn by the Fiscal Agent and paid to the holder of the Reimbursement Obligations as directed by the District or the City upon receipt by the Fiscal Agent of an Officer's Certificate stating the amount to be withdrawn and paid and the payee, and that such amount is to be used to pay a Reimbursement Obligation, and the nature of such Reimbursement Obligation. Upon receipt by the Fiscal Agent of an Officer's Certificate certifying that all Reimbursement Obligations have been paid in full, the Fiscal Agent shall transfer all remaining amounts in the Reimbursement Obligation Fund shall be closed.

Bond Fund.

Establishment of the Bond Fund. There is established under the Fiscal Agent Agreement a separate fund to be held by the Fiscal Agent, designated as the "Bond Fund" to the credit of which deposits shall be made as required by the Fiscal Agent Agreement and any other amounts required to be deposited therein by the Act. Moneys in the Bond Fund shall be held in trust 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 described below, and, pending such disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

Disbursements. On each Interest Payment Date, the Fiscal Agent shall withdraw from the Bond Fund and pay to the Owners of the Bonds the principal of, and interest and any premium, then due and payable on the Bonds, including any amounts due under the Fiscal Agent Agreement; provided that available amounts in the Bond Fund shall first be used to pay any past due installments of interest, principal (including mandatory sinking fund payments) of and premium, if any, on the Bonds, in that

order. Notwithstanding the foregoing, amounts transferred to the Bond Fund from the Special Tax Fund constituting delinquent payments of Special Taxes pursuant to the Fiscal Agent Agreement shall immediately be paid to the Owners of the Bonds in respect of past due payments on the Bonds, and amounts transferred to the Bond Fund from the Special Tax Fund constituting prepayments of Special Taxes pursuant to the Fiscal Agent Agreement shall be deposited in a segregated account within the Bond Fund designated as the "Prepayment Account" and used to redeem Bonds pursuant to the Fiscal Agent Agreement.

If after the foregoing transfers, and any transfer required from the Reserve Account, there are insufficient funds in the Bond Fund to make payments of the principal of, and interest and any premium due and payable on the Bonds, the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal and any mandatory sinking fund payments due on the Bonds. Any installment of principal (including mandatory sinking fund payments), premium, if any, or interest on the Bonds which is not paid when due shall accrue interest at the rate of interest on the Bonds until paid, and shall be paid whenever funds in the Bond Fund are sufficient therefor.

If at any time the Fiscal Agent fails to pay principal and interest due on any scheduled payment date for the Bonds, the Fiscal Agent shall notify the District and the Treasurer in writing of such failure, and the Treasurer shall notify the California Debt and Investment Advisory Commission of such failure within 10 days of the failure to make such payment, as required by Section 53359(c)(1) of the Act.

Capitalized Interest Account. There is established under the Fiscal Agent Agreement a separate account within the Bond Fund, designated as the "Capitalized Interest Account," to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement. Moneys in the Capitalized Interest Account shall be held by the Fiscal Agent and used and withdrawn solely for the purpose of paying the interest on the Bonds as it shall become due and payable.

Reserve Account. There is established under the Fiscal Agent Agreement a separate account within the Bond Fund, designated as the "Reserve Account," to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement. The Reserve Account shall be funded and maintained at the Reserve Requirement. In the event that the Fiscal Agent has actual knowledge that the amount on deposit in the Reserve Account at any time becomes less than the Reserve Requirement, the Fiscal Agent shall promptly notify the District of such fact. Promptly upon receipt of any such notice, the District shall transfer to the Fiscal Agent an amount of available Tax Revenues sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. Amounts in the Reserve Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund, on any date which the principal of or interest on the Bonds becomes due and payable under the Fiscal Agent Agreement, in the event of any deficiency at any time in such fund, or at any time for the retirement of all the Bonds then Outstanding. So long as no Event of Default shall have occurred and be continuing under the Fiscal Agent Agreement, any amount in the Reserve Account in excess of the Reserve Requirement on the Business Day preceding each Interest Payment Date shall be withdrawn from the Reserve Account by the Fiscal Agent and deposited in the Bond Fund.

The Reserve Account may be maintained in the form of one or more separate sub-accounts which are established for the purpose of holding the proceeds of separate issues of the Bonds in conformity with applicable provisions of the Code.

Prepayment Account. There is established under the Fiscal Agent Agreement a separate account within the Bond Fund, designated as the "Prepayment Account", to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement. Moneys in the Prepayment Account shall be held by the Fiscal Agent and used and withdrawn solely for the purpose of redeeming Bonds pursuant to the Fiscal Agent Agreement.

Investment. Moneys in the Bond Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from the investment and deposit of amounts in the Bond Fund shall be retained in the Bond Fund.

Limited Obligation. All obligations of the District under the Fiscal Agent Agreement and the Bonds shall be special obligations of the District, payable solely from the Special Tax Revenues and the funds pledged therefore under the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Fiscal Agent Agreement) or the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Certain Covenants of the District

Punctual Payment. The District 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 Fiscal Agent Agreement and any Supplemental Agreement, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Fiscal Agent Agreement and all Supplemental Agreements and of the Bonds.

The District shall punctually pay or cause to be paid the principal of, and interest on, the Reimbursement Obligations from amounts in the Reimbursement Obligation Fund in strict conformity with the terms of the Fiscal Agent Agreement and the Acquisition Agreement, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Fiscal Agent Agreement with respect to the Reimbursement Obligations.

Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the District 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 District, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of the Fiscal Agent 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 so extended or funded.

Against Encumbrances. The District will 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 created under the Fiscal Agent Agreement for the benefit of the Bonds, except as permitted therein.

Books and Records. The District will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the expenditure of amounts disbursed from the Administrative Expense Fund, the Improvement Fund and the Special Tax Fund and relating to the Special Tax Revenues. Such books of record and accounts shall at all times during business hours and upon reasonable prior notice be subject to the inspection of the Fiscal Agent and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

The Fiscal Agent will 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 relating to the expenditure of amounts disbursed from the Bond Fund, the Improvement Fund, the Reserve Account and the Costs of Issuance Fund. Such books of record and accounts shall at all times during business hours and upon reasonable prior notice be subject to the inspection of the

City, the District and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

Protection of Security and Rights of Owners. The District 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 District, the Bonds shall be incontestable by the District.

Compliance with Law, Completion of Facilities. The District and the City will comply with all applicable provisions of the Act and law in completing the acquisition and construction of the Facilities.

Collection of Special Tax Revenues. The District shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes. On or within five (5) Business Days of each June 1, the Fiscal Agent shall provide the Treasurer with a notice stating the amount then on deposit in the Bond Fund within the Special Tax Fund, and informing the District that the Special Taxes may need to be levied pursuant to the Ordinance as necessary to provide for Annual Debt Service, replenishment of the Reserve Account as provided in the Fiscal Agent Agreement and Administrative Expenses. The receipt of such notice by the Treasurer shall in no way affect the obligations of the Treasurer under the following three paragraphs. In any event, on or about July 10 of each year, the Treasurer shall communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year.

The Treasurer shall effect the levy of the Special Taxes each Fiscal Year on the parcels within the District in accordance with the Ordinance, 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 the District for inclusion on the next secured tax roll. Upon the completion of the computation of the amounts of the levy, the Treasurer 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 next secured tax roll.

The Treasurer shall fix and levy the amount of Special Taxes within the District required for the payment of principal of and interest on any outstanding Bonds of the District becoming due and payable during the ensuing year, an amount necessary to replenish the Reserve Account to the Reserve Requirement and an amount estimated to be sufficient to pay the Administrative Expenses during such year, all in accordance with the RMA and the Ordinance. The Special Taxes so levied shall not exceed the authorized amounts as provided in the proceedings pursuant to the Resolution of Formation.

Tax Covenants. The District covenants that it shall not use, and shall not permit the use of, and shall not omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, could cause the interest on any Bond to fail to be excluded pursuant to section 103(a) of the Code from the gross income of the Owner thereof for federal income tax purposes.

Covenant to Foreclose. The District will review the public records of the County of Riverside, California, in connection with the collection of the Special Tax not later than July 1 of each year to determine the amount of Special Tax collected in the prior Fiscal Year; and with respect to individual delinquencies, if the District determines that any single property owner subject to the Special Tax is delinquent in the payment of Special Taxes in the aggregate of \$5,000 or more or that as to any single parcel the delinquent Special Taxes represent more than 5% of the aggregate Special Taxes within the District, then the District will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) the District will cause judicial foreclosure proceedings to be filed in the

Superior Court within 90 days of such determination against any property for which the Special Taxes remain delinquent

Notwithstanding any provision of the Act or other law of the State to the contrary, in connection with any foreclosure related to delinquent Special Taxes

(A) The City, or the Fiscal Agent, is expressly authorized under the Fiscal Agent Agreement to credit bid at any foreclosure sale, without any requirement that funds be placed in the Bond Fund or otherwise be set aside in the amount so credit bid, in the amount specified in Section 53356 5 of the Act or such less amount as determined under clause (B) below or otherwise under Section 53356 6 of the Act

(B) The City may permit, in its sole and absolute discretion, property with delinquent Special Tax payments to be sold for less than the amount specified in Section 53356 5 of the Act, if it determines that such sale is in the interest of the Bondowners The Bondowners, by their acceptance of the Bonds, consent to such sale for such lesser amounts (as such consent is described in Section 53356 6 of the Act), and release the District and the City, and their respective officers and its agents from any liability in connection therewith

(C) The District is expressly authorized under the Fiscal Agent Agreement to use amounts in the Special Tax Fund to pay costs of foreclosure of delinquent Special Taxes

(D) The District may forgive all or any portion of the Special Taxes levied or to be levied on any parcel in the District, so long as the District determines that such forgiveness is not expected to adversely affect its obligation to pay principal of and interest on the Bonds under the Fiscal Agent Agreement

Investments; Disposition of Investment Proceeds

Deposit and Investment of Moneys in Funds Moneys in any fund or account created or established by the Fiscal Agent 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

The Fiscal Agent or the Treasurer, as applicable, shall sell at the highest price reasonably obtainable, 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 neither the Fiscal Agent nor the Treasurer shall be liable or responsible for any loss resulting from the acquisition or disposition of such investment security in accordance with the Fiscal Agent Agreement

Events of Default and Remedies of Bond Owners

Events of Default The following events shall be Events of Default

1 Failure to pay any installment of principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise

2 Failure to pay any installment of interest on any Bonds when and as the same shall become due and payable

3 Failure by the District to observe and perform any of the other covenants, agreements or conditions on its part in the Fiscal Agent Agreement or in the Bonds contained, if such failure shall have continued for a period of 60 days after written notice thereof, specifying such failure and requiring

the same to be remedied, shall have been given to the District by the Fiscal Agent or the Owners of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding, *provided, however*, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such 60 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the District within such 60 day period and the District shall thereafter diligently and in good faith cure such failure in a reasonable period of time

4 Commencement by the District of a voluntary case under Title 11 of the United States Code or any substitute or successor statute

Remedies of Bond Owners Subject to the provisions of the Fiscal Agent Agreement, any Bond Owner shall have the right, for the equal benefit and protection of all Bond Owners similarly situated (1) by mandamus, suit, action or proceeding, to compel the District and its officers, agents or employees to perform each and every term, provision and covenant contained in the Fiscal Agent Agreement and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the District and the fulfillment of all duties imposed upon it by the Act, (2) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bond Owners' rights, or (3) upon the happening of any Event of Default, by suit, action or proceeding in any court of competent jurisdiction, to require the District and its officers and employees to account as if it and they were the Fiscal Agents of an express trust

Application of Special Taxes and Other Funds After Default If an Event of Default shall occur and be continuing, all Special Taxes, including any penalties, costs, fees and other charges accruing under the Act, and any other funds then held or thereafter received by the Fiscal Agent under any of the provisions of the Fiscal Agent Agreement shall be applied by the Fiscal Agent as follows and in the following order

To the payment of any expenses necessary in the opinion of the Fiscal Agent to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Fiscal Agent (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Fiscal Agent Agreement,

To the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Fiscal Agent Agreement, as follows

First To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference, and

Second To the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference

Any remaining funds shall be transferred by the Fiscal Agent to the Bond Fund

The Fiscal Agent

Removal of Fiscal Agent So long as there is no Event of Default under the Fiscal Agent Agreement, the District 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 or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank 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 Fiscal Agent 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.

If no appointment of a successor Fiscal Agent shall be made pursuant to the provisions of the Fiscal Agent Agreement within forty-five (45) days after the Fiscal Agent shall have given to the District 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 or any Bondowner 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.

Modification or Amendment of the Fiscal Agent Agreement

Amendments Permitted The Fiscal Agent Agreement and the rights and obligations of the District 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 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 Fiscal Agent Agreement. No such modification or amendment shall (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation 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 by the District of any pledge or lien upon the Special Taxes 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 Fiscal Agent Agreement), or reduce the percentage of Bonds required for the amendment hereof. Any such amendment may not modify any of the rights or obligations of the Fiscal Agent without its written consent.

The Fiscal Agent Agreement and the rights and obligations of the District and of 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:

(A) to add to the covenants and agreements of the District in the Fiscal Agent Agreement contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power in the Fiscal Agent Agreement reserved to or conferred upon the District,

(B) to make modifications not adversely affecting any outstanding series of Bonds of the District in any material respect,

(C) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Fiscal Agent Agreement, or in regard to questions arising under the Fiscal Agent Agreement, as the District and the Fiscal Agent may deem necessary or desirable and not inconsistent with the Fiscal Agent Agreement, and which shall not adversely affect the rights of the Owners of the Bonds,

(D) to make such additions, deletions or modifications as may be necessary or desirable to assure the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Procedure for Amendment with Written Consent of Owners. The District and the Fiscal Agent may at any time adopt a Supplemental Agreement amending the provisions of the Bonds or of the Fiscal Agent Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by the Fiscal Agent Agreement, to take effect when and as provided therein. A copy of such Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, by the Fiscal Agent to each Owner of Bonds Outstanding, but failure to mail copies of such Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as provided in the Fiscal Agent Agreement.

Such 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 Fiscal Agent Agreement) and a notice shall have been mailed as provided in the Fiscal Agent Agreement.

Miscellaneous

Discharge of Agreement. The District shall have the option to pay and discharge the entire indebtedness on all or any portion of the Bonds Outstanding 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 Outstanding, as and when the same become due and payable;

(B) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds and accounts provided for in the Fiscal Agent Agreement is fully sufficient to pay such Bonds Outstanding, including all principal, interest and redemption premiums; or

(C) by irrevocably depositing with the Fiscal Agent, in trust, cash and Federal Securities and/or investments described in clause (10) of the definition of Permitted Investments in such amount as the District shall determine as confirmed by Bond Counsel or an independent certified public accountant will, together with the interest to accrue thereon and moneys then on deposit in the fund and accounts provided for in the Fiscal Agent Agreement, 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.

If the District shall have taken any of the actions specified in (A), (B) or (C) above, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in the Fiscal Agent 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 District, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Special Taxes and other funds provided for in the Fiscal Agent Agreement and all other obligations of the District under the Fiscal Agent Agreement with respect to such Bonds Outstanding shall cease and terminate. Notice of such election shall be filed with the Fiscal Agent. Notwithstanding the foregoing, the obligation of the District to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon and all amounts owing to the Fiscal Agent pursuant to the Fiscal Agent Agreement, and otherwise to assure that no action is taken or failed to be taken if such action or failure adversely affects the exclusion of interest on the Bonds from gross income for federal income tax purposes, shall continue in any event.

Upon compliance by the District with the foregoing with respect to all Bonds Outstanding, any funds held by the Fiscal Agent after payment of all fees and expenses of the Fiscal Agent, which are not required for the purposes of the preceding paragraph, shall be paid over to the District and any Special

Taxes thereafter received by the District shall not be remitted to the Fiscal Agent but shall be retained by the District to be used for any purpose permitted under the Act.

Waiver of Personal Liability. No member, officer, agent or employee of the District or the City shall be individually or personally liable for the payment of the principal of, or the interest or premium on, the Bonds; but nothing contained in the Fiscal Agent Agreement shall relieve such member, officer, agent or employee from the performance of any official duty provided by law.

FINANCIAL INFORMATION

City Accounting Records and Financial Statements

The financial transactions of the District are included in the City's annual audit pursuant to the requirements prescribed by the State Controller for special districts.

Pursuant to the Fiscal Agent Agreement, the Fiscal Agent is required to keep proper books of record and accounts in which complete and correct entries are required to be made of all transactions relating to the proceeds of the Bonds, the Special Taxes received by the Fiscal Agent, all funds and accounts established pursuant to the Fiscal Agent Agreement, including the Improvement Fund, the Costs of Issuance Fund, the Administrative Expense Fund and the Bond Fund. The District is required to keep proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the expenditure of amounts disbursed from the Special Tax Fund.

Budgetary Process and Administration

The District is required each Fiscal Year to determine the amount of Special Taxes needed to pay debt service on each series of Bonds issued by the District and Administrative Expenses of the District. The District is expected to incur Administrative Expenses for the levy and collection of the Special Taxes, foreclosure proceedings, Fiscal Agent fees and arbitrage rebate calculations.

The District is required to communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current Fiscal Year. The District is required by resolution to provide for the levy of the Special Taxes within the District in the current Fiscal Year. A certified list of all parcels subject to the Special Tax, including the amount of the Special Tax to be levied on each such parcel, is filed by the District with the Auditor on or before the tenth (10th) day of August of that tax year. The Special Taxes so levied may not exceed the authorized amounts as provided in the Rate and Method of Special Tax Apportionment relating to the District (see "**Rate and Method of Special Tax Apportionment**" below).

The Special Taxes are payable and are collected in the same manner and at the same time and in the same installment 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.

Special Taxes are due in two equal installments. Special Taxes levied become delinquent on the following December 10th and April 10th. Currently a 10% penalty is added to delinquent taxes.

When received, the Special Taxes are required to be deposited in a separate Special Tax Fund for the District to be held by the City and transferred by the City to the Fiscal Agent as provided in the Fiscal Agent Agreement.

As of the delivery date of the Bonds, the District has retained MuniFinancial to assist in the preparation of the Special Tax roll and the determination of the amount of Special Taxes required in each Fiscal Year.

Rate and Method of Special Tax Apportionment

The City levies the Special Taxes in accordance with the Rate and Method of Special Tax Apportionment (see “APPENDIX E - RATE AND METHOD OF SPECIAL TAX APPORTIONMENT” herein). Because the Special Taxes have been authorized by a two-thirds (2/3) vote of the qualified electorate within the District, the Special Taxes are a tax imposed within the limitations of Section 4 of Article XIII A of the State Constitution. The City Council, as the legislative body of the District, has the power and is obligated, pursuant to the covenants contained in the Authorizing Documents, to cause the levy and collection of the Special Taxes annually.

The Rate and Method of Special Tax Apportionment may be modified pursuant to the provisions of the Mello-Roos Act provided that the District determines that such modification will not impair the timely payment of the Bonds.

The District has covenanted that no modification of the maximum authorized Special Tax shall be approved which would prohibit the District from levying the Special Tax in any Fiscal Year at such a rate as could generate Maximum Special Tax Revenues in each Fiscal Year at least equal to 110% of annual debt service in such Fiscal Year.

**TABLE NO. 6
CITY OF PERRIS
COMMUNITY FACILITIES DISTRICT NO. 2001-2
(VILLAGES OF AVALON)
PROJECTION OF COVERAGE OF SPECIAL TAX REVENUES**

Fiscal Year	Gross Debt Service ¹	Applied Developed Property Special Taxes ²	Undeveloped Property Maximum Special Taxes	Total Special Tax Revenues	Gross Coverage of Special Taxes
2002	\$ 622,488	\$ 0	\$ 1,721,026	\$ 1,721,026	276.5%
2003	1,062,065	136,698	1,542,024	1,678,722	158.1%
2004	1,087,065	278,864	1,363,023	1,641,886	151.0%
2005	1,106,128	514,497	1,069,162	1,583,658	143.2%
2006	1,129,283	752,839	785,742	1,538,581	136.2%
2007	1,151,133	1,002,252	503,815	1,506,067	130.8%
2008	1,176,478	1,183,424	314,372	1,497,795	127.3%
2009	1,200,103	1,349,442	150,287	1,499,728	125.0%
2010	1,226,810	1,509,747	0	1,509,747	123.1%
2011	1,251,360	1,539,942	0	1,539,942	123.1%
2012	1,273,760	1,570,741	0	1,570,741	123.3%
2013	1,297,120	1,602,156	0	1,602,156	123.5%
2014	1,327,920	1,634,199	0	1,634,199	123.1%
2015	1,350,520	1,666,883	0	1,666,883	123.4%
2016	1,380,240	1,700,221	0	1,700,221	123.2%
2017	1,406,440	1,734,225	0	1,734,225	123.3%
2018	1,434,120	1,768,910	0	1,768,910	123.3%
2019	1,437,960	1,804,288	0	1,804,288	125.5%
2020	1,434,240	1,840,374	0	1,840,374	128.3%
2021	1,433,280	1,877,181	0	1,877,181	131.0%
2022	1,434,760	1,914,725	0	1,914,725	133.5%
2023	1,433,360	1,953,019	0	1,953,019	136.3%
2024	1,434,080	1,992,079	0	1,992,079	138.9%
2025	1,436,600	2,031,921	0	2,031,921	141.4%
2026	1,435,600	2,072,559	0	2,072,559	144.4%
2027	1,436,080	2,114,011	0	2,114,011	147.2%
2028	1,432,720	2,156,291	0	2,156,291	150.5%
2029	1,435,520	2,199,417	0	2,199,417	153.2%
2030	1,433,840	2,243,405	0	2,243,405	156.5%
2031	1,437,680	2,288,273	0	2,288,273	159.2%
2032	1,436,400	2,334,039	0	2,334,039	162.5%
Totals	\$ 40,575,151	\$ 46,432,581	\$ 7,449,450	\$ 53,882,031	

Source: MuniFinancial.

Assumptions

(1) Based on preliminary debt service provided by Rod Gunn Associates.

(2) Special taxes levied at the Assigned Special Tax Rate.

Absorption of housing provided by Barratt American Incorporated.

**TABLE NO. 7
CITY OF PERRIS
COMMUNITY FACILITIES DISTRICT NO. 2001-2
(VILLAGES OF AVALON)
PROJECTION OF COVERAGE OF SPECIAL TAX REVENUES**

Fiscal Year Beginning <u>July</u>	Gross Debt Service ¹	Maximum Special Taxes ²	Gross Coverage of Special Taxes
2002	\$ 622,488	\$ 1,721,026	276.5%
2003	1,062,065	1,755,446	165.3%
2004	1,087,065	1,790,555	164.7%
2005	1,106,128	1,826,366	165.1%
2006	1,129,283	1,862,894	165.0%
2007	1,151,133	1,900,152	165.1%
2008	1,176,478	1,938,155	164.7%
2009	1,200,103	1,976,918	164.7%
2010	1,226,810	2,016,456	164.4%
2011	1,251,360	2,056,785	164.4%
2012	1,273,760	2,097,921	164.7%
2013	1,297,120	2,139,879	165.0%
2014	1,327,920	2,182,677	164.4%
2015	1,350,520	2,226,330	164.8%
2016	1,380,240	2,270,857	164.5%
2017	1,406,440	2,316,274	164.7%
2018	1,434,120	2,362,600	164.7%
2019	1,437,960	2,409,852	167.6%
2020	1,434,240	2,458,049	171.4%
2021	1,433,280	2,507,210	174.9%
2022	1,434,760	2,557,354	178.2%
2023	1,433,360	2,608,501	182.0%
2024	1,434,080	2,660,671	185.5%
2025	1,436,600	2,713,884	188.9%
2026	1,435,600	2,768,162	192.8%
2027	1,436,080	2,823,525	196.6%
2028	1,432,720	2,879,996	201.0%
2029	1,435,520	2,937,596	204.6%
2030	1,433,840	2,996,348	209.0%
2031	1,437,680	3,056,275	212.6%
2032	1,436,400	3,117,400	217.0%
Totals	<u>\$ 40,575,151</u>	<u>\$ 72,936,111</u>	

Source: MuniFinancial.

Assumptions

- (1) Based on preliminary debt service provided by Rod Gunn Associates.
- (2) Special taxes levied at the Maximum Back-up Special Tax Rate.

Delinquencies and Foreclosure Actions

The District and the Prior District have not experienced any delinquencies

The District has covenanted to initiate foreclosure action in the Superior Court against parcels with delinquent Special Taxes as provided in the Fiscal Agent Agreement

Foreclosure proceedings are directed by the District through a notification to foreclosure counsel as to the delinquent assessor parcel numbers for which foreclosure proceedings are to be initiated. The District first removes the delinquent Special Taxes from the County Tax Roll, as required by law. Foreclosure counsel then initiates a request for a title search to identify the current legal owner of a delinquent parcel. Foreclosure counsel also sends a written demand for payment to the owner shown on the Tax Roll, followed by the filing of a complaint with the Superior Court in Riverside County and recording a *lis pendens* against the property at the office of the County Recorder.

Each legal owner and all holders of any other interest in the land must file an answer to the complaint within 30 days following the completion of service of process on them. If no answer is filed with such 30 day period, foreclosure counsel files a request that a default judgment be entered by the Court. If any party files an answer, then the case must be litigated, and foreclosure counsel will typically file a motion for summary judgment.

Following the entry of a judgment, whether by default or otherwise, against all defendants, foreclosure counsel requests a writ of sale from the Court for delivery to the Sheriff. The writ of sale is delivered to the Sheriff with instructions to execute on the delinquent parcel. Levy by the Sheriff consists of posting notice on the delinquent property, followed by mailing of notice to the last known address of the legal owner and publication of the notice of levy.

Thereafter, the delinquent property owner is entitled to a redemption period of 120 days. Following such 120 day period, foreclosure proceedings can continue following the publication and mailing of a notice of sale of the delinquent parcel or parcels, which sale must be at least 20 days following such notice. The foreclosure process described above typically takes at least six months from the date on which a judgment is entered and can take substantially longer.

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Fiscal Agent and the Owners of the Bonds upon an event of default under the Fiscal Agent Agreement or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Fiscal Agent Agreement is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Approval of Legal Proceedings

Burke, Williams & Sorensen, LLP, Irvine, California, as Bond Counsel, will render an opinion which states that the Fiscal Agent Agreement and the Bonds are valid and binding contracts of the City and are enforceable in accordance with their terms. Burke, Williams & Sorensen, LLP will render an opinion which states that the Fiscal Agent Agreement and the Bonds are valid and binding contracts of the District and are enforceable in accordance with their terms. The legal opinions of Bond Counsel will be subject to the effect of bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights and to the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

The City has no knowledge of any fact or other information which would indicate that the Fiscal Agent Agreement is not so enforceable against the City, except to the extent such enforcement is limited by principles of equity and by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally.

Certain legal matters will be passed on for the City and the District by Burke, Williams & Sorensen, LLP, Irvine, California, as City Attorney. In addition, certain legal matters will be passed on for the Underwriter by Fulbright & Jaworski L L P , Los Angeles, California, Underwriter's Counsel.

Fees payable to Bond Counsel and Underwriter's Counsel are contingent upon the sale and delivery of the Bonds.

Tax Exemption

In the opinion of Burke, Williams & Sorensen, LLP, Bond Counsel, based on existing statutes, regulations, rulings and court decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. A copy of the proposed opinion of Bond Counsel is set forth in "APPENDIX E" hereto.

The Internal Revenue Code of 1986 (the "Code"), imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City has covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the value of, or the tax status of interest on the Bonds. Further, no assurance can be

given that pending or future legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Bond Counsel is further of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel observes, however, that interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income.

Prospective purchasers of the Bonds should be aware that (i) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest with respect to the Bonds, (ii) Bonds interest with respect to the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iii) passive investment income, including interest with respect to the Bonds, may be subject to federal income taxation under Section 1375 of the Code for subchapter S corporations having subchapter C earnings and profits at the close of the taxable year and gross receipts more than 25% of which constitute passive investment income, and (iv) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Fiscal Agent Agreements and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in those documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to any Bond or the interest payable with respect thereto if any change occurs or action is taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from federal gross income, and is exempt from State of California personal income taxes, the ownership or disposition of the Bonds, and the accrual or receipt of interest on the Bonds may otherwise affect an Owner's state or federal tax liability. The nature and extent of these other tax consequences will depend upon each Owner's particular tax status and the Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Absence of Litigation

The City will furnish a certificate dated as of the date of delivery of the Bonds that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Fiscal Agent Agreement or the sale or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Fiscal Agent Agreement is to be executed or delivered or the Bonds are to be delivered or affecting the validity thereof.

CONCLUDING INFORMATION

No Rating on the Bonds

The City has not made, and does not contemplate making, any application for a rating on the Bonds. No such rating should be assumed based upon any other City rating that may be obtained. Prospective purchasers of the Bonds are required to make independent determinations as to the credit quality of the Bonds and their appropriateness as an investment. Should a Bondowner elect to sell a Bond prior to maturity, no representations or assurances can be made that a market will have been established or maintained for the purchase and sale of the Bonds. The Underwriter assumes no obligation to establish or maintain such a market and is not obligated to repurchase any of the Bonds at the request of the owner thereof.

Underwriting

O'Connor SWS Securities, Newport Beach, California (the "Underwriter") is offering the Bonds at the prices set forth on the cover page hereof. The initial offering prices may be changed from time to time and concessions from the offering prices may be allowed to dealers, banks and others. The Underwriter has purchased the Bonds at a price equal to \$16,276,201.80 (96.365908%) of the aggregate principal amount of the Bonds, which amount represents the principal amount of the Bonds, less the Underwriter's discount of \$337,800.00 and an Original Issue Discount of \$275,998.20. The Underwriter will pay certain of its expenses relating to the offering.

Experts

The Market Absorption Study prepared by Empire Economics, Capistrano Beach, California, and the Appraisal prepared by Len Purdue, A.S.A., Real Estate Appraiser, Riverside, California, as well as the Tax Spread projections prepared by MuniFinancial, Temecula, California, have been included in this Official Statement in reliance on and upon the authority of said firms as experts in the matters covered therein.

The Financing Consultant

The material contained in this Official Statement was prepared by Rod Gunn Associates, Inc., Seal Beach, California, an independent financial consulting firm, who advised the City as to the financial structure and certain other financial matters relating to the Bonds. The information set forth herein has been obtained by Rod Gunn Associates, Inc. from sources which are believed to be reliable, but such information is not guaranteed by Rod Gunn Associates, Inc. as to accuracy or completeness, nor has it been independently verified. Fees paid to Rod Gunn Associates, Inc. are contingent upon the sale and delivery of the Bonds.

Additional Information

The summaries and references contained herein with respect to the Fiscal Agent Agreement, the Bonds, statutes and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute and references to the Bonds are qualified in their entirety by reference to the form hereof included in the Fiscal Agent Agreement. Definitions of certain terms used herein are set forth in "APPENDIX A". Copies of the Fiscal Agent Agreement are available for inspection during the period of initial offering on the Bonds at the offices of the Financing Consultant, Rod Gunn Associates, Inc., 3010 Old Ranch Parkway, Suite 330, Seal Beach, California 90740, telephone (562) 598-7677 or the Underwriter, O'Connor SWS Securities, 3 Civic Plaza, Suite 100, Newport Beach, California 92660, telephone (949) 717-2000. Copies of these documents may be obtained after delivery of the Bonds from the City through the City Manager, City of Perris, 101 North "D" Street, Perris, California 92570.

References

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or Owners of any of the Bonds.

Execution

The execution of this Official Statement by the City Manager has been duly authorized by the City of Perris.

CITY OF PERRIS

By: /s/ William G. Vasquez
City Manager

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

DEFINITIONS OF CERTAIN TERMS USED IN THE FISCAL AGENT AGREEMENT

Unless otherwise defined in this Official Statement, the following terms have the following meanings.

“Acquisition Agreement” means that certain Acquisition and Funding Agreement dated as of March 1, 2002, by and among the City, the District and Barratt American Incorporated, as it may be amended or supplemented from time to time.

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

“Additional Bonds” means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Special Tax Revenues and which, as provided in the Fiscal Agent Agreement or any Supplemental Agreement, rank on a parity with the Bonds.

“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 and the District in carrying out its duties hereunder (including, but not limited to, the levying and collection of the Special Taxes, complying with the disclosure provisions of the Act, the Continuing Disclosure Agreement and the Fiscal Agent Agreement, including those related to public inquiries regarding the Special Tax and disclosures to Bondowners and the Original Purchaser; the costs of the City and the District or their designees related to an appeal of the Special Tax; any costs of the City and the District (including fees and expenses of counsel) to defend the first lien on and pledge of the Special Taxes to the payment of the Bonds or otherwise in respect of litigation relating to the District or the Bonds or with respect to any other obligations of the District, any amounts required to be rebated to the federal government in order for the District to comply with the Fiscal Agent Agreement) 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, and all other costs and expenses of the City, the District or the Fiscal Agent incurred in connection with the discharge of their respective duties under the Fiscal Agent Agreement, and in the case of the City, in any way related to the administration of the District and all actual costs and expenses incurred in connection with the administration of the Bonds.

“Administrative Expense Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Agency” means the Redevelopment Agency of the City of Perris, a public body corporate and politic organized under the laws of the State, and any successor thereto.

“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 Fiscal Agent Agreement.

“Annual Debt Service” means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds due in such Bond Year.

“Annual Tax Escalation Factor” shall have the meaning assigned to such term in the Public Safety RMA.

“Auditor” means the auditor/tax collector of the County of Riverside.

“Authority” means the Perris Public Financing Authority, a joint powers authority duly organized and existing under the Joint Exercise of Powers Agreement, dated as of August 28, 1989, by and between the City and the Agency, together with any amendments thereof and supplements thereto and under the laws of the State.

“Authorized Officer” means the City Manager, Assistant City Manager or City Clerk of the City, or any other officer or employee authorized by the City Council of the City or by an Authorized Officer to undertake the action referenced in the Fiscal Agent Agreement as required to be undertaken by an Authorized Officer.

“Bond Counsel” means (i) Burke, Williams & Sorensen, LLP, or (ii) any attorney or firm of attorneys acceptable to the District 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 Fiscal Agent Agreement.

“Bond Year” means the one-year period beginning on the September 2 in each year and ending on September 1 in the following year except that the first Bond Year shall begin on the Closing Date and end on September 1, 2002.

“Bonds” means the Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris Special Tax Revenue Bonds, 2002 Series A, authorized by, and at any time Outstanding pursuant hereto.

“Business Day” means any day other than (i) a Saturday or a Sunday, (ii) a day on which the offices of the City are not open for business, or (iii) a day on which banking institutions in the state in which the Fiscal Agent has its principal corporate trust office is authorized or obligated by law or executive order to be closed.

“Capitalized Interest Account” means the account by that name within the Bond Fund established pursuant to the Fiscal Agent Agreement.

“CDIAC” means the California Debt and Investment Advisory Commission of the office of the State Treasurer of the State of California or any successor agency or bureau thereto.

“City” means the City of Perris, California.

“City Council” or “Governing Body” means the City Council of the City.

“Closing Date” means the date upon which there is a physical delivery of the Bonds in exchange for the amount representing the purchase price of the Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“Corporate Trust Office” means the corporate trust office of the Fiscal Agent at Los Angeles, California, provided, however, for transfer, registration, exchange, payment, and surrender of the Bonds means care of the Corporate Trust Office of the Fiscal Agent in Minneapolis, Minnesota, or such other office designated from time to time by the Fiscal Agent in writing to the District.

“Costs of Issuance Fund” means the fund by that name established under the Fiscal Agent Agreement.

“County” means the County of Riverside, California.

“Debt Service” means the scheduled amount of interest and amortization of principal payable on the Bonds during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

“Developer” means Barratt American Incorporated, as Delaware corporation, its successors and assigns.

“Developer Continuing Disclosure Agreement” shall mean that certain Continuing Disclosure Agreement relating to the Bonds, dated as of March 1, 2002, executed and delivered by and between the Developer and MuniFinancial, as Dissemination Agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Discrete Components” means the Discrete Components of the Facilities as identified in the Acquisition Agreement, as amended from time to time.

“District” means the Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris, formed pursuant to the Resolution of Formation.

“District Continuing Disclosure Agreement” shall mean that certain Continuing Disclosure Agreement relating to the Bonds, dated as of March 1, 2002, executed and delivered by the District and MuniFinancial, as Dissemination Agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“DTC” means the Depository Trust Company.

“Escrow Account” means the account by that name established by the Fiscal Agent Agreement.

“Facilities” means the facilities more particularly described in the Resolution of Intention, or any portion of the Facilities, including Discrete Components.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

“Federal Securities” means any of the following which are non-callable and which at the time of investment are legal investments under the laws of the State of California for funds held by the Fiscal Agent, as shall be certified by the District to the Fiscal Agent:

(1) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the United States Department of the Treasury) and obligations, the payment of principal of and interest on which are directly or indirectly guaranteed by the United States of America, including, without limitation, such of the foregoing which are commonly referred to as “stripped” obligations and coupons;

(2) any of the following obligations of the following agencies of the United States of America: (a) direct obligations of the Export-Import Bank, (b) certificates of beneficial ownership issued by the Farmers Home Administration, (c) participation certificates issued by the General Services Administration, (d) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, (e) project notes issued by the United States Department of Housing and Urban Development, and (f) public housing notes and bonds guaranteed by the United States of America; or refunded municipal obligations, the timely payment of principal of and interest on are fully guaranteed by the United States of America.

“Fiscal Agent” means the Fiscal Agent appointed by the District and acting as an independent fiscal agent with the duties and powers provided in the Fiscal Agent Agreement, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Fiscal Agent 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 Fund” means the fund by that name created and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.

“Independent Financial Consultant” means any consultant or firm of such consultants appointed by or acceptable to the District and who, or each of whom: (a) is judged by the District to have the experience in matters relating to the financing of community facilities districts; (b) is in fact independent and not under domination of the District or the City; and (c) is not connected with the District or the City as an officer or employee of the District or the City, but who may be regularly retained to make reports to the District or the City.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 55 Broad Street, 28th Floor, New York, New York 10004; Moody’s Investors Service “Municipal and Government”, 99 Church Street, New York, New York 10007, Attention: Municipal News Reports; Standard & Poor’s Corporation “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such services providing information with respect to called bonds as the District may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing September 1, 2002.

“Investment Earnings” means all interest earned and any gains and losses on the investment of moneys in any fund or account created by the Fiscal Agent Agreement.

“Joint Exercise of Powers Agreement” means that Joint Exercise of Powers Agreement, dated as of August 28, 1989, by and between the City and the Agency, together with any amendments thereof and supplements thereto and under the laws of the State.

“Landscape Expense Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Landscape Maintenance Costs” shall have the meaning ascribed to such term in the Rate and Method of Apportionment relating to the District.

“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.

“Multi-Family Unit” shall have the meaning assigned to such term in the Public Safety RMA.

“Non-Residential Parcel” shall have the meaning assigned to such term in the Public Safety RMA.

“Officer’s Certificate” means a written certificate of the District or the City signed by an Authorized Officer of the City.

“Ordinance” means any ordinance of the City levying the Special Taxes, including Ordinance No. 1094, adopted by the Governing Body on January 29, 2002.

“Original Purchaser” means O’Connor SWS Securities.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Fiscal Agent Agreement) all Bonds except: (i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation; (ii) Bonds paid or deemed to have been paid; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the District pursuant to the Fiscal Agent Agreement or any Supplemental Agreement.

“Owner” or “Bondowner” means any person who shall be the registered owner of any Outstanding Bond.

“Participating Underwriter” means any of the original underwriter(s) of any Series of Bonds required to comply with 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, in connection with the offering of such Series of Bonds.

“Permitted Investments” 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:

(1) direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided, that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee (“Direct Obligations”);

(2) direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation (“FHLMCs”); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association (“FNMA”); obligations of Resolution Funding Corp. (“REFCORP”); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association (“GNMAs”); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit bonds of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities;

(3) direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated “A” or better by Moody’s Investors Service and “A” or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured, uninsured and

unguaranteed general obligation debt is rated "A" or better by Moody's Investors Service and "A" or better by S&P,

(4) commercial paper (having original maturities of not more than 270 days) rated, "P-1" by Moody's Investors Service and "A-1" or better by S&P,

(5) Federal funds, unsecured certificates of deposit, time deposits or bankers acceptances (in each case having maturities of not more than 365 days) of any domestic bank including a branch office of a foreign bank which branch office is located in the United States, provided legal opinions are received to the effect that full and timely payment of such deposit or similar obligation is enforceable against the principal office or any branch of such bank, which, at the time of purchase, has a short-term "Bank Deposit" rating of "P-1" by Moody's and a "Short-Term CD" rating of "A-1" or better by S&P,

(6) deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation,

(7) investments in money-market funds rated "AAAm" or "AAAm-G" by S&P including such funds for which the Fiscal Agent or an affiliate acts as an investment adviser or performs other services,

(8) repurchase agreements collateralized by Direct Obligations, GNMA's, FNMA or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an unsecured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's Investors Service, and "A-1" or "A-" or better by S&P, provided

a a master repurchase agreement or specific written repurchase agreement governs the transaction, and

b the securities are held free and clear of any lien by the Fiscal Agent or an independent third party acting solely as agent ("Agent") for the Fiscal Agent, and such third party is (i) a Federal Reserve Bank, (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million or (iii) a bank approved in writing for such purpose by Financial Guaranty Insurance Company, and the Fiscal Agent shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Fiscal Agent, and

c a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C F R 306 1 et seq or 31 C F R 350 0 et seq in such securities is created for the benefit of the Fiscal Agent, and

d the repurchase agreement has a term of 180 days or less, and the Fiscal Agent or the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation, and

e the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%,

(9) With prior notice to any rating agency rating the Bonds, investment agreements, including guaranteed investment contracts, with a financial institution the long-term unsecured obligations or the claims paying ability of which, or, in the case of a guaranteed corporation the long-term debt of the guarantor are rated in one of the three highest rating categories by S&P or Moody's at the time of initial investment. If the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below the third highest rating categories of S&P or Moody's, the provider must at the direction of the Fiscal Agent, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Fiscal Agent;

(10) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's Investors Service meeting the following requirements:

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

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

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

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

a. No substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

b. The cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the Fiscal Agent or escrow agent; and

(11) Local Agency Investment Fund of the State of California (LAIF), created pursuant to Section 16429.1 of the California Government Code.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Police & Fire Protection Program" shall have the meaning assigned to such term in the Public Safety RMA.

"Public Safety CFD" means the Community Facilities District No. 2001-3 (North Perris Public Safety) of the City of Perris established pursuant to Resolution No. 2912, adopted by the City Council on January 29, 2002.

"Public Safety Fund" means the fund by that name established by the Fiscal Agent Agreement.

“Public Safety RMA” means the Rate and Method of Apportionment relating to the Public Safety CFD as adopted by Resolution No. 2912,.

“Rate and Method of Apportionment” or **“RMA”** means the Rate and Method of Apportionment relating to the District as adopted by the Resolution of Formation, as now in effect or as it may hereafter be amended from time to time.

“Rebate Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Record Date” means the fifteenth day of the month next preceding the month of the applicable Interest Payment Date.

“Reimbursement Obligation Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Reimbursement Obligations” shall have the meaning ascribed to such term in the Acquisition Agreement.

“Representation Letter” means, with respect to the Bonds, the Letter of Representations executed by the District and delivered to The Depository Trust Company, or any replacement thereof or substitute therefor, and means with respect to any other Series of Bonds, the documentation delivered to a depository in connection with such Series of Bonds.

“Reserve Account” means the account by that name established by the Fiscal Agent Agreement.

“Reserve Requirement” means, as of any date of calculation, the lesser of (a) Maximum Annual Debt Service for the Bonds and any Additional Bonds, or (b) ten percent (10%) of the original principal amount of the Bonds and any Additional Bonds.

“Resolution” means Resolution No. 2907, adopted by the Governing Body, acting as the legislative body of the District on January 8, 2002.

“Resolution of Formation” means Resolution No. 2904 adopted by the Governing Body on January 8, 2002, as now in effect or as it may hereafter be amended from time to time.

“Resolution of Intention” means Resolution No. 2896, adopted by the Governing Body on December 11, 2001.

“S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies.

“Securities Depositories” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190 and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the District may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Single Family Unit” shall have the meaning assigned to such term in the Public Safety RMA.

“Special Tax Consultant” means MuniFinancial or such other Special Tax Consultant as may be appointed by the City.

“Special Tax Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the District including any scheduled payments and any prepayments thereof, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes and the amount of said

lien and interest and penalties thereon, to the extent such interest and penalties are collected by the District

“Special Taxes” means the special taxes levied within the District pursuant to the Act, the Ordinance and the Fiscal Agent Agreement

“State” means the State of California

“Supplemental Agreement” means an agreement the execution of which is authorized by a resolution which has been duly adopted by the Governing Body of the District under the Act and which agreement is amendatory of or supplemental to the Fiscal Agent Agreement, but only if and to the extent that such agreement is specifically authorized hereunder

“Tax and Nonarbitrage Certificate” means, with respect to any series of Bonds, the Tax and Nonarbitrage Certificate (if any), dated the date of issuance of such series of Bonds, as originally executed and as it may from time to time be amended or supplemented pursuant to its terms

“Treasurer” means the person who is acting in the capacity as treasurer or finance director to the City

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

CITY OF PERRIS INFORMATION STATEMENT

The following information concerning the City of Perris is presented as general background data. The Bonds are payable solely from Special Taxes as described in the Official Statement. The Bonds are not an obligation of the City, and the taxing power of the City is not pledged to the payment of the Bonds.

General Information

The City of Perris encompasses 33 square miles and is located at the western end of Riverside County 15 miles south of the City of Riverside. It is 70 miles east of downtown Los Angeles and 75 miles north of downtown San Diego. Neighboring communities include Lake Elsinore, Moreno Valley and Hemet. March Air Force Base and the Riverside National Cemetery are located in the vicinity of the City.

In recent years, the Perris area has benefited from the continuing development of Lake Perris State Park as a major Southern California recreational attraction and the upgrading of Interstate 215 as an important north-south transportation corridor.

Governmental Services

The City of Perris was incorporated as a general law city on May 26, 1911. The City has a Council/Manager form of municipal government. The City Council appoints the City Manager who is responsible for the day-to-day administration of City business and the coordination of all departments of the City. The City Council is composed of five members elected bi-annually at large to four-year alternating terms. The mayor is selected by the City Council from among its members. Perris employs a staff of 45 full-time employees and 4 part-time employees under the direction of the City Manager.

The City provides trash collection, street sweeping, park maintenance, tree trimming and building inspection. Forty-two full-time sworn officers, six patrol cars, two detective units and six dispatchers are provided by the City's police department. Support services are made available by the Riverside County Sheriff's Department. Fire protection and emergency paramedics are contracted with the Riverside County Fire Department. The City has a six to nine Fire Insurance Rating by Robinson's Rating Service. The City of Perris provides sewer maintenance and water services in cooperation with the Eastern Municipal Water District. Flood control is a cooperative provision between the City and County of Riverside.

Transportation

Interstate 215, linking the San Bernardino/Riverside area to the San Diego area, crosses centrally through the City. Interstate 215 provides access to Riverside, San Bernardino and Los Angeles via Interstate 60 and to Orange County via Interstate 91.

Air Cargo and passenger flight services are provided at the Ontario International Airport, 48 miles northwest. There are several general aviation airports close to and within the City of Perris, including the Riverside Municipal Airport, 20 miles west, the County owned Hemet-Ryan Airport, 14 miles east, and the privately owned Perris Valley Airport. Runway lengths are 5,400 feet, 4,300 feet, and 2,720 feet, respectively.

Commercial and passenger rail services are provided by a branch line of the Santa Fe Railway Co , with one local freight daily Truck freight services are provided through 11 regular daily direct carriers to Riverside

Community Information

Recreational facilities include Lake Perris State Park, Orange Empire Railway Museum and the Perris Raceway Also, the Perris Valley Airport offers flying, skydiving and hot-air ballooning The City operates 3 parks and 2 playgrounds Additional outdoor recreational facilities are available within a short drive to the San Jacinto mountain area and the Palm Springs area

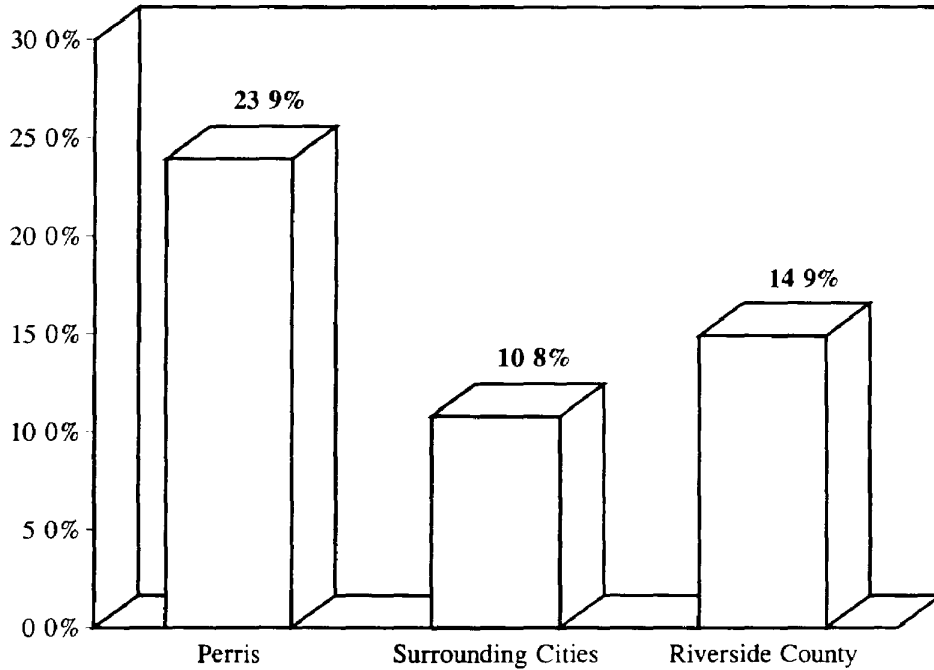
Educational services are provided by six elementary schools, two junior high schools, one high school and three parochial schools The University of California at Riverside, California Baptist College, the La Sierra campus of Loma Linda University and Riverside City College are located in Riverside and Mt San Jacinto Community College is located in San Jacinto, all within commuting distance

The Caesar E Chavez Library was recently constructed adjacent to the Civic Center and includes a community meeting facility

Population

The following charts provide a comparison of population growth for Perris, surrounding cities and Riverside County between 1997 and 2001

**TABLE B-1
CHANGE IN POPULATION
PERRIS, SURROUNDING CITIES AND RIVERSIDE COUNTY
1997 - 2001**



Year	PERRIS		SURROUNDING CITIES		RIVERSIDE COUNTY	
	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change
1997	30,300		214,350		1,400,400	
1998	31,050	2.5 %	222,650	3.9%	1,441,000	2.9%
1999	31,550	1.6 %	229,500	3.1%	1,473,300	2.2%
2000	36,700	16.3 %	232,950	1.5%	1,557,800	5.7%
2001	37,550	2.3 %	237,500	2.0%	1,609,400	3.3%
% Increase Between 1997 - 2001		23.9%	10.8%		14.9%	

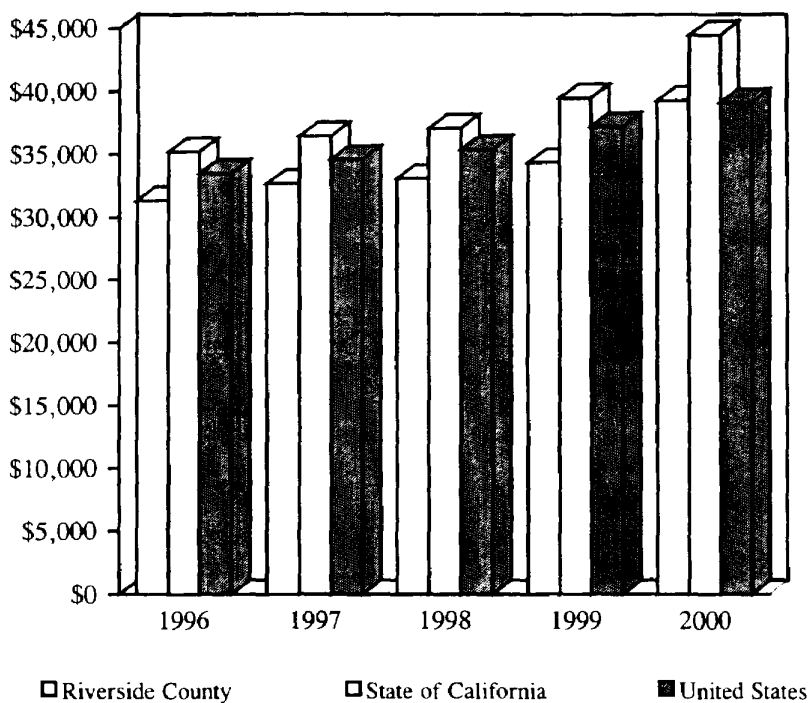
Surrounding cities include Lake Elsinore, Moreno Valley and Hemet

Source: State of California Department of Finance, Population Research Unit, "Population Estimates for California Cities and Counties", published annually in May for current year

Personal Income

Median personal income information for Riverside County, the State of California and the United States are summarized in the following charts. Personal income data is not available for smaller geographical areas such as the City of Perris.

TABLE B-2
EFFECTIVE BUYING INCOME
RIVERSIDE COUNTY, CALIFORNIA AND UNITED STATES
1996 - 2000



Year	Riverside County	State of California	United States
1996	\$ 31,337	\$ 35,216	\$ 33,482
1997	32,690	36,483	34,618
1998	33,089	37,091	35,377
1999	34,356	39,492	37,233
2000	39,293	44,464	39,129
% Increase Between 1996 - 2000 ⁽¹⁾	25%	26%	17%

⁽¹⁾ Personal income data not available for small geographical areas such as the City of Perris

Source: Sales and Marketing Management, "Survey of Buying Power", published annually in September for prior year

Employment and Industry

The City is located in the Perris Valley labor market area within the Riverside/San Bernardino Area MSA. Four major job categories constitute 82.1% of the work force. They are services (26.8%), wholesale and retail trade (24.1%), government (19.0%) and manufacturing (12.2%). The November, 2001 unemployment rate in the Riverside/San Bernardino area was 5.1%. The State of California November, 2001 unemployment rate (unadjusted) was 5.8%. The distribution of employment in the Riverside/San Bernardino area is as follows:

**TABLE NO B-3
RIVERSIDE/SAN BERNARDINO MSA
WAGE AND SALARY WORKERS BY INDUSTRY (1)
(in thousands)**

Industry	1997	1998	1999	2000	2001
Government	174.9	179.5	186.0	191.0	199.4
Services	224.0	237.8	247.6	269.0	283.5
Finance, Insurance & Real Estate	30.1	31.8	30.0	32.8	32.4
Wholesale & Retail Trade	222.6	233.7	234.6	246.6	258.9
Transportation & Public Utilities	44.6	46.8	48.8	52.8	51.8
Manufacturing:					
Nondurable goods	35.1	36.9	36.7	40.3	40.5
Durable goods	69.0	77.3	80.9	85.1	86.2
Construction and Mining	53.0	61.7	66.0	81.3	84.8
Total Nonagricultural	853.3	905.5	930.6	998.9	1,037.5
Agriculture, forestry & fisheries	19.8	18.7	18.2	16.8	16.5
Total (all industries)	873.1	924.2	948.8	1,015.7	1,054.0

% OF TOTAL WORKERS

Industry	1997	1998	1999	2000	2001
Government	20.0 %	19.4 %	19.6 %	18.8 %	18.9 %
Services	25.7 %	25.7 %	26.1 %	26.5 %	26.9 %
Finance, Insurance & Real Estate	3.4 %	3.4 %	3.2 %	3.2 %	3.1 %
Wholesale & Retail Trade	25.5 %	25.3 %	24.7 %	24.3 %	24.6 %
Transportation & Public Utilities	5.1 %	5.1 %	5.1 %	5.2 %	4.9 %
Manufacturing:					
Nondurable goods	4.0 %	4.0 %	3.9 %	4.0 %	3.8 %
Durable goods	7.9 %	8.4 %	8.5 %	8.4 %	8.2 %
Construction and Mining	6.1 %	6.7 %	7.0 %	8.0 %	8.0 %
Total Nonagricultural	97.7 %	98.0 %	98.1 %	98.3 %	98.4 %
Agriculture, forestry & fisheries	2.3 %	2.0 %	1.9 %	1.7 %	1.6 %
Total (all industries)	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

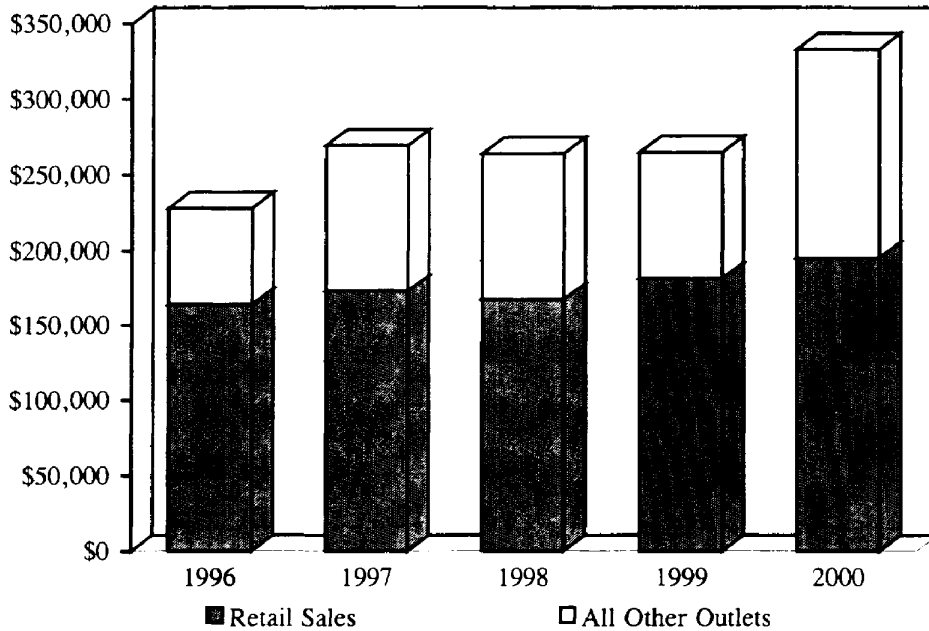
(1) Annually, as of November

Source: State of California Employment Development Department, "Annual Planning Information" and "California Labor Market Bulletin"

Commercial Activity

The following charts summarize the volume of retail sales and taxable transactions for the City of Perris for 1996 through 2000

TABLE B-5
CITY OF PERRIS
TOTAL TAXABLE TRANSACTIONS
 (in thousands)
 1996 - 2000



Year	Retail Sales		Retail Sales Permits	Total Taxable Transactions		Issued Sales Permits
	(\$000's)	% Change		(\$000's)	% Change	
1996	\$ 163,471		245	\$ 227,997		663
1997	172,599	5.6 %	259	269,318	18.1 %	632
1998	166,792	(3.4) %	246	263,976	(2.0) %	494
1999	181,190	8.6 %	289	264,810	0.3 %	563
2000	195,216	7.7 %	251	333,045	25.8 %	523

Source: State Board of Equalization, "Taxable Sales in California", published approximately 15 months after close of current year listed for the next sequential year

Taxable transactions by type of business for the City of Perris for 1996 through 2000 are summarized below

**TABLE NO B-6
CITY OF PERRIS
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
(in thousands)
1996 - 2000**

	1996	1997	1998	1999	2000
<i>Retail Stores</i>					
Apparel Stores	\$ 1,568	\$ 1,739	\$ 2,125	\$ 2,134	\$ 2,991
General Merchandise Stores	37,793	39,814	34,785	37,705	41,617
Drug Stores	#	*	*	*	*
Food Stores	20,868	21,185	20,570	22,519	24,358
Packaged Liquor Stores	#	*	*	*	*
Eating/Drinking Places	18,989	20,985	22,387	23,396	25,391
Home Furnishings and Appliances	#	750	720	766	696
Building Materials and Farm Implements	9,626	11,725	14,258	14,155	12,372
Auto Dealers/Suppliers	27,738	25,132	27,228	28,551	29,895
Service Stations	31,337	37,123	33,482	39,798	44,056
Other retail stores	15,552	14,146	11,237	12,166	13,840
Total Retail Stores	163,471	172,599	166,792	181,190	195,216
<i>All Other Outlets</i>	64,526	96,719	97,184	83,620	137,829
Total All Outlets	\$ 227,997	\$ 269,318	\$ 263,976	\$ 264,810	\$ 333,045

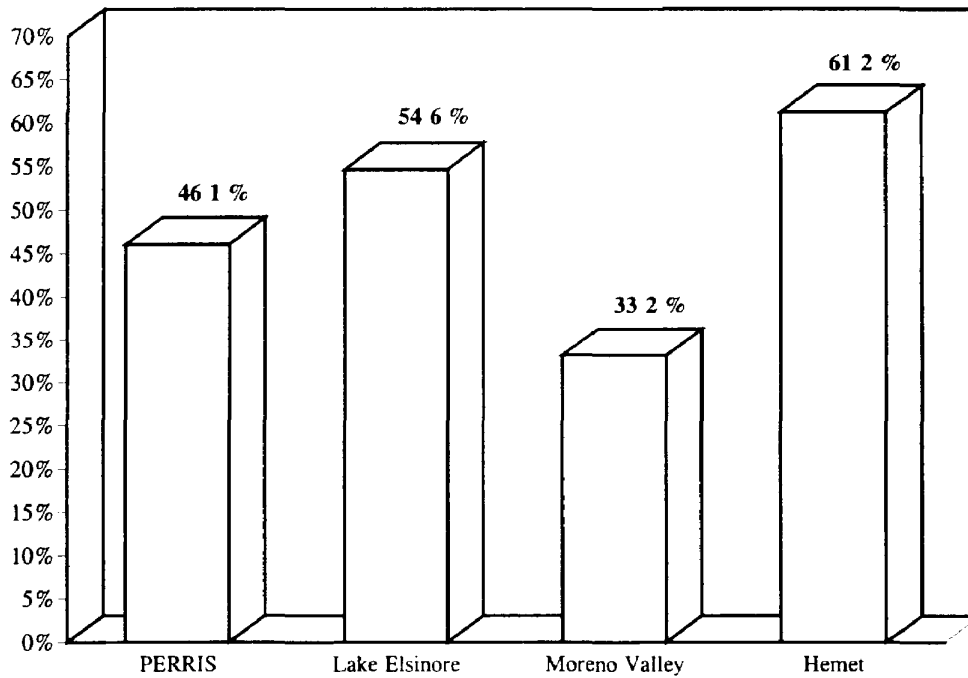
Sales omitted because their publication would result in the disclosure of confidential information They are included with Total All Outlets

* As of 1997, Drug Stores have been merged with General Merchandise Stores and Packaged Liquor Stores have been merged with Other Retail Stores

Source State Board of Equalization, "Taxable Sales in California", published approximately 15 months after close of current year listed for the next sequential year

The following charts summarize the change in taxable transactions for the City of Perris and surrounding cities

**TABLE NO B-7
CITY OF PERRIS AND SURROUNDING CITIES
CHANGE IN TOTAL TAXABLE TRANSACTIONS
(in thousands)
1996 - 2000**



City	1996	1997	1998	1999	2000	% Change from 1996-2000
PERRIS	\$ 227,997	\$ 269,318	\$ 263,976	\$ 264,810	\$ 333,045	46.1 %
Lake Elsinore	240,367	253,502	287,228	324,924	371,686	54.6 %
Moreno Valley	592,695	607,772	647,240	704,546	789,232	33.2 %
Hemet	416,908	455,610	502,107	599,281	672,174	61.2 %

Source: State Board of Equalization, "Taxable Sales in California", published approximately 15 months after close of current year listed for the next sequential year

APPENDIX C
MARKET ABSORPTION STUDY

[THIS PAGE INTENTIONALLY LEFT BLANK]

**MARKET ABSORPTION STUDY
COMMUNITY FACILITIES DISTRICT
NO. 2001-2 (VILLAGES OF AVALON)**

**CITY OF PERRIS
RIVERSIDE COUNTY, CALIFORNIA**

**Prepared
for
City of Perris**

**Prepared
by
Empire Economics, LLC**

**Joseph Thomas Janczyk, Ph.D.
35505 Camino Capistrano, Suite #200
Capistrano Beach, California 92624**

September 2001

MARKET ABSORPTION STUDY

SUMMARY AND CONCLUSIONS

**COMMUNITY FACILITIES DISTRICT NO. 2001-2
(VILLAGES OF AVALON)**

CITY OF PERRIS

RIVERSIDE COUNTY, CALIFORNIA



PROPERTY IN A PORTION OF CFD NO. 2001-2

EMPIRE ECONOMICS, LLC

*** SEPTEMBER 2001 ***

INTRODUCTION TO THE BOND FINANCING PROGRAM

The City of Perris has formed Community Facilities District No.2001-2 (CFD No.2001-2) as a means of funding a portion of the infrastructure that is required for the development of Villages of Avalon, a Planned Community that is being developed by Barratt American Homes. According to planning approvals, Villages of Avalon is expected to have some 1,158 single-family housing units upon build-out. These homes are expected to be on lots of some 3600-5000 sq.ft., and they are expected to be priced at approximately \$115,000-\$181,000 for about 1,250 to 2,800 sq.ft. of living area.

The City of Perris has retained Empire Economics LLC, an economic and real estate consulting firm, to perform a Market Absorption Study for the properties in CFD No.2001-2. The purpose of the Market Study for CFD No.2001-2 is to provide an estimate of the probable absorption schedules for the forthcoming residential projects.

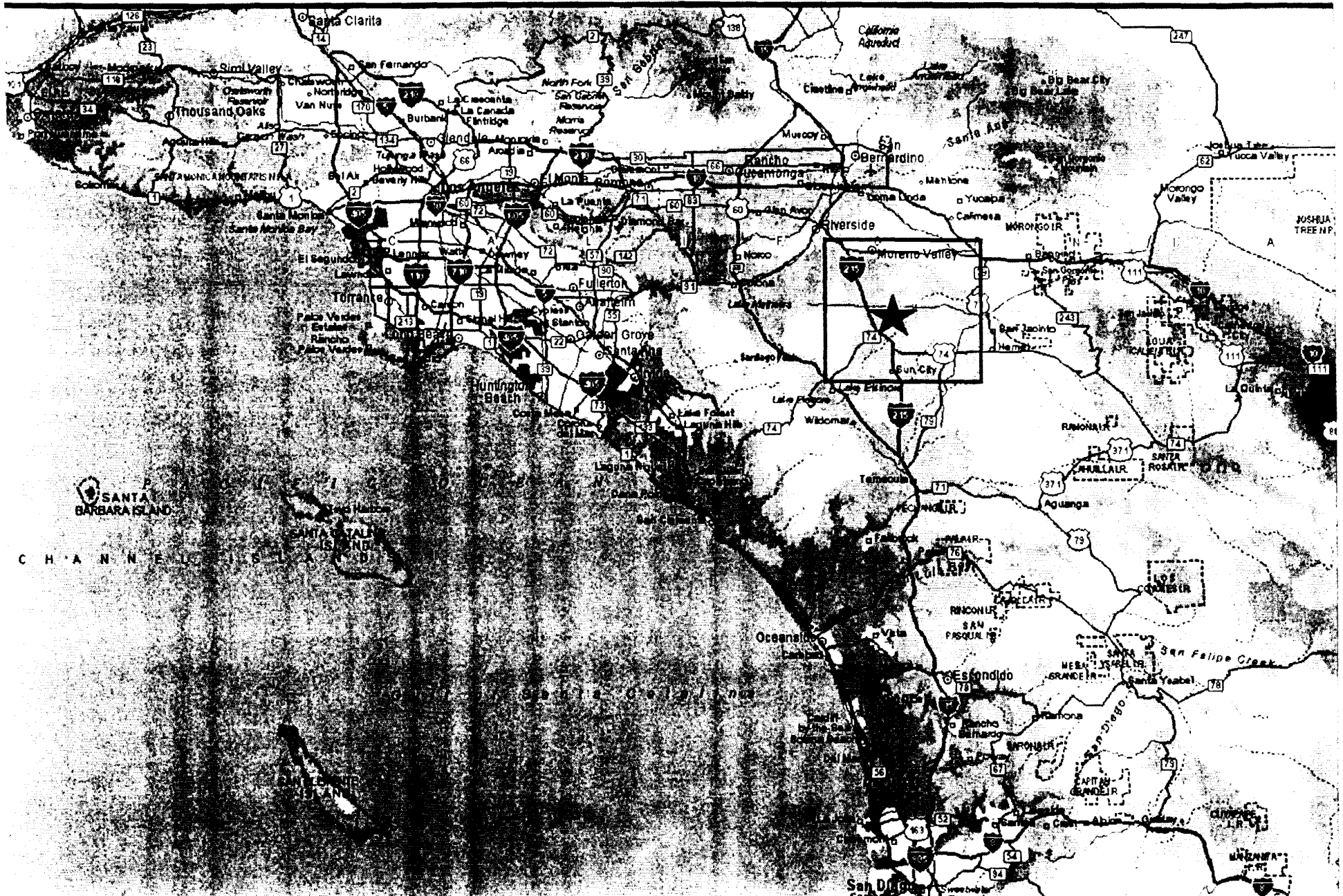
Specifically, from the viewpoint of prospective Bond Purchasers, the particular components of the infrastructure should be time-phased and location-phased in a manner that approximately coincides with the expected marketability/absorption of the projects in CFD No.2001-2. Otherwise, to the extent that the infrastructure is not appropriately phased, then the following types of market inefficiencies may occur:

On the one hand, if certain projects do not have the infrastructure that is required to support their development in a timely manner, then they would not be able to respond to the demand in the marketplace, resulting in a market shortage.

On the other hand, if too much infrastructure is built, then projects for which there is not presently a market demand would incur high carrying costs due to the market surplus, and this could adversely impact their financial feasibility.

Thus, the Market Absorption Study formulates guidelines on the appropriate or optimal time-phasing and location-phasing of the infrastructure for the properties located in CFD No.2001-2, as a means of providing the bond purchasers with a reasonable amount of security from a market absorption perspective.

SOUTHERN CALIFORNIA MARKET REGION AND THE MARKET AREA
CITY OF PERRIS - CFD NO. 2001-2 (VILLAGES OF AVALON)



CHARACTERISTICS OF THE EXPECTED PRODUCT MIX FOR CFD NO.2001-2

The properties in CFD No.2001-2 (Villages of Avalon) which is being developed by Barratt American Homes has received planning approvals/entitlements for a maximum of 1,359 housing units. However, since the site may accommodate one or two schools, the number of units developed may actually be less than the maximum. The most conservative scenario is that there are two school sites, and according to this scenario, the number of units expected to be developed amounts to 1,158 housing units; accordingly, the characteristics of the various product types are now discussed.

- Product Type # 1 consists of single-family homes on 3600 sq.ft. lots, and there are expected to be 231 such units (19.9%). The prices are anticipated to be \$115,000-\$139,990 for some 1,250-1,590 sq.ft. of living area, resulting in a value ratio (price/living area) of about \$90, on the average. These products are expected to commence construction in late 2001, with escrow closings starting by mid-2002.

- Product Type # 2 consists of single-family homes on 4000 sq.ft. lots, and there are expected to be 721 such units (62.3%). The prices are anticipated to be \$135,990-\$154,990 for some 1,690-2,200 sq.ft. of living area, resulting in a value ratio of about \$75, on the average. These products are also expected to commence construction in late 2001, with escrow closings starting by mid-2002.

- Product Type # 3 consists of single-family homes on 5000 sq.ft. lots, and there are expected to be 206 such units (17.8%). The prices are anticipated to be \$164,000-\$181,000 for some 2,300-2,800 sq.ft. of living area, resulting in a value ratio of about \$68, on the average. These products are expected to commence construction in late 2001, with escrow closings starting by mid-2002.

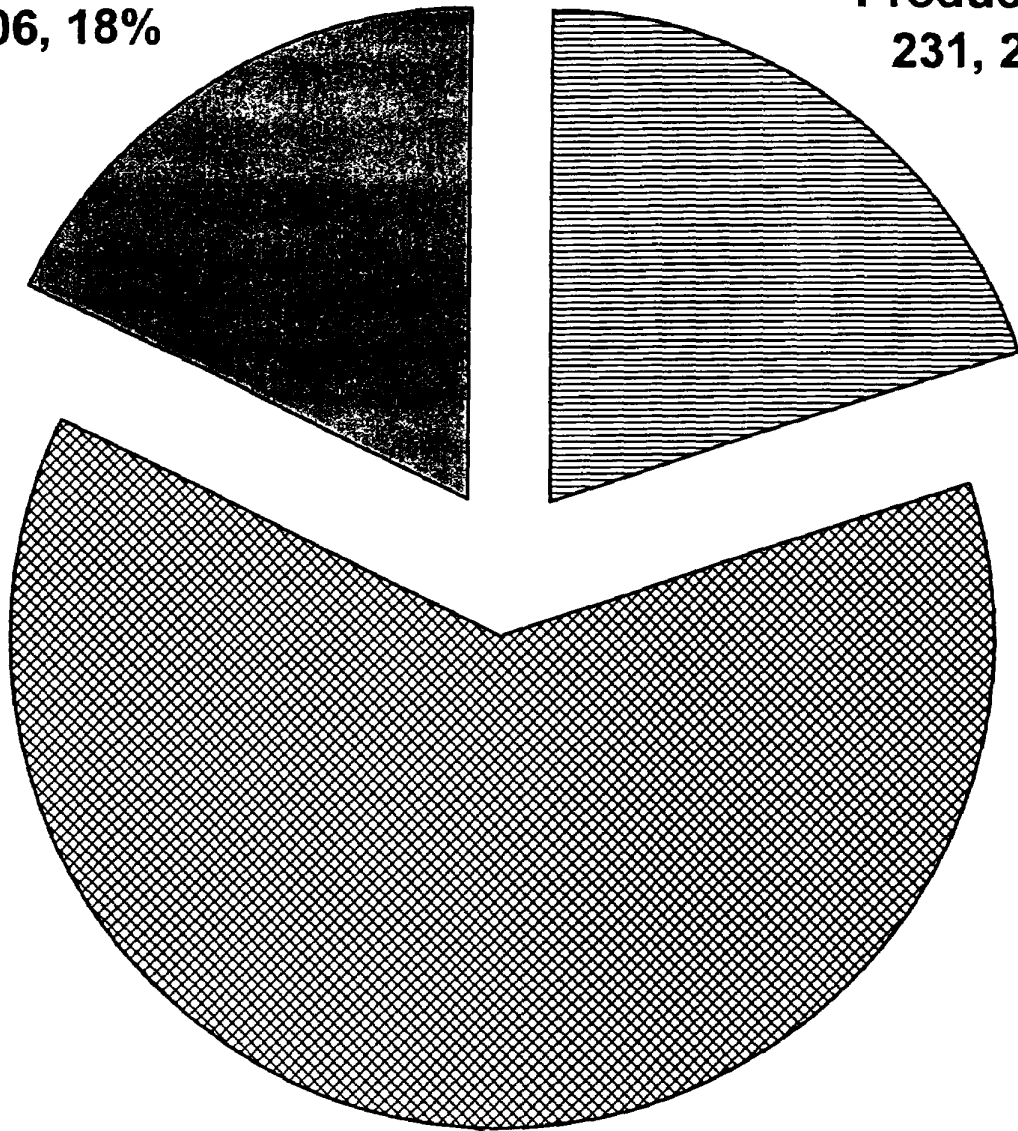
Therefore, CFD No.2001-2 has 1,158 single-family homes for future development, and these have been partitioned into a well diversified product mix, based upon their lot sizes, living areas, and prices. Furthermore, Barratt American Development plans to market the three product types simultaneously.

For additional information, please refer to the following graph.

**CFD NO.2001-2 (VILLAGES OF AVALON)
MOST PROBABLE DEVELOPMENT SCENARIO**

**Product # 3,
206, 18%**

**Product # 1,
231, 20%**



**Product # 2,
721, 62%**

**DEVELOPMENT TRENDS/PATTERNS
IN THE CFD NO. 2001-2 (VILLAGES OF AVALON)
NEIGHBORHOOD**

CFD No.2001-2 is situated in the north easterly portion of the City of Perris, in the County of Riverside, California. Specifically, CFD No. 2001-2 is situated some three miles to the east of Route 215, a major north-south Southern California freeway, and is connected via the Ramona Expressway.

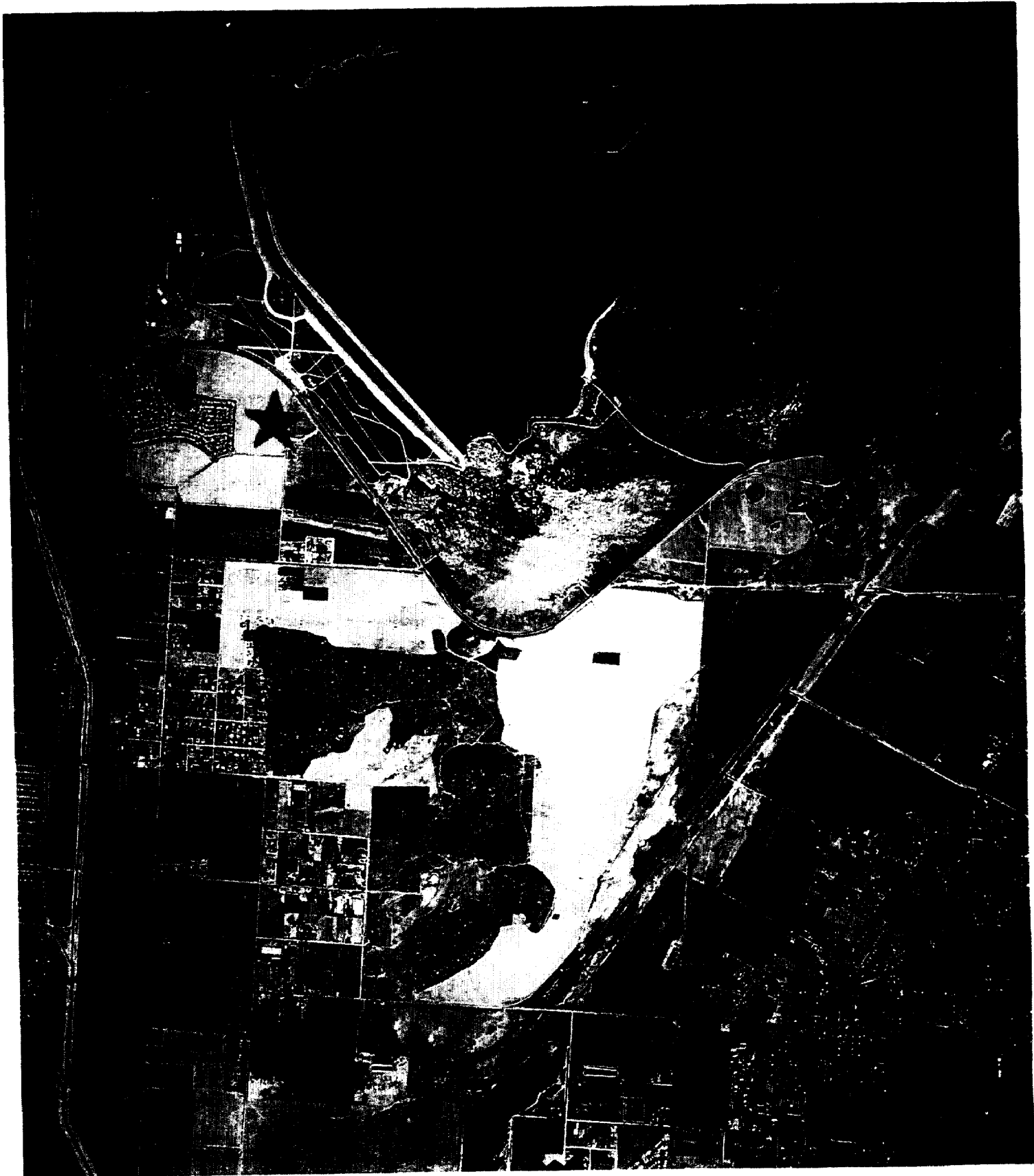
The development characteristics of the properties in the vicinity/neighborhood of CFD No.2001-2 are as follows:

- To north is the Farmer's Fairground and also the Lake Perris Recreation Area, a large lake that offers boating and picnicking.
- To the northwest is the March Air Force Base, a prior military airport that is currently in the process of being planned for future redevelopment.
- Immediately to the west of CFD No.2001-2 is the forthcoming planned Community of May Farms that is being developed by Kaufman & Broad.
- Further to the east is a substantial amount of vacant property which has future potential for residential development.
- To the south is also a significant amount of vacant property that has future potential for residential development.
- To the west are some residential neighborhoods, but most of the property is still vacant, although it has potential for future development.
- To the southwest is the developed portion of the City of Perris which includes a substantial amount of residential neighborhoods as well as commercial-retail centers.

Therefore, CFD No.2001-2 is considered to be in a newly developing area of the City of Perris.

For additional information, please refer to the aerial photo on the following page.

**CFD NO. 2001-2 (VILLAGES OF AVALON)
GENERAL LOCATION/NEIGHBORHOOD**



Permission to reproduce granted by Eagle Aerial Imaging, Aerial May 2001

METHODOLOGY UNDERLYING THE MARKET STUDY

To perform a comprehensive analysis of the macroeconomic and microeconomic factors that are expected to influence the absorption of the residential products in CFD No.2001-2, Empire Economics' Market Absorption Study conducts a systematic analysis of the following factors.

Based upon Empire Economics' experience in conducting 250+ Market Studies, these macroeconomic factors are regarded as being the most significant determinants of the actual performance of Planned Communities and Business Parks in the marketplace, and, as such, they represent a critical component of the Market Absorption Study.

Macroeconomic Components

The future employment growth for the United States and the Southern California Market Region economies are forecasted for the 2001-2010 time period, through an economic base analysis of their employment growth expectations, as a whole, as well as the composition of this growth by various economic sectors, in particular, utilizing the designated economic scenario.

The proportions of the Southern California Market Region's future employment, residential, commercial-retail, and industrial growth that are expected to be captured by the Market Area are estimated for the 2001-2010 time period. This is based upon a consideration of the recent trends/patterns in the Market Area, along with modifications regarding the area's future role for residential, commercial, and industrial development within the Market Region's economy.

Microeconomic Components

The competitiveness of each of the residential product types is evaluated based upon a consideration of their locations, prices, value ratios, Special Assessments/Taxes, features and amenities, relative to the other comparable projects in the Market Area. The results of this analysis are estimates of the competitiveness for each of CFD No.2001-2 products in the marketplace.

Estimated Absorption Schedules

The absorption for CFD No.2001-2 residential products is estimated by using the Market Area's expected demand for each of these product types during the 2001-2010 time period, along with the competitiveness/capture rates of the products in the marketplace.

Therefore, the Market Absorption Study systematically proceeds from the macroeconomic analysis of Market Region's future employment, housing, commercial and industrial growth to the microeconomic analysis of the estimated absorption schedules for the residential products in CFD No.2001-2.

**METHODOLOGY UNDERLYING THE
MARKET ABSORPTION STUDY FOR
CFD NO. 2001-2 (VILLAGES OF AVALON)**

MACROECONOMIC FACTORS

UNITED STATES ECONOMY
SOUTHERN CALIFORNIA ECONOMY
MARKET AREA
POTENTIAL DEMAND: 2001 - 2010+

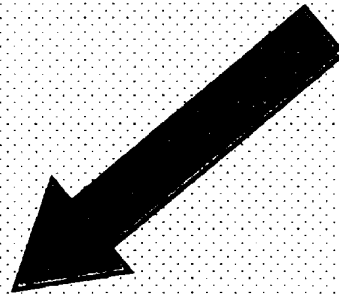
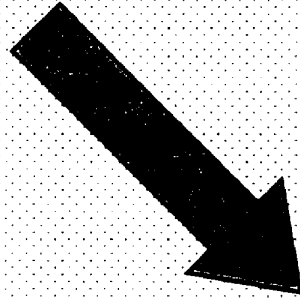
- * RESIDENTIAL PRODUCTS
- * COMMERCIAL-RETAIL
- * BUSINESS: OFFICE / INDUSTRIAL

MICROECONOMIC FACTORS

COMPETITIVE MARKET ANALYSIS

RESIDENTIAL
PROJECTS/PROPERTIES

- * LOCATIONS
- * PRODUCT TYPES
- * PRICES
- * ASSESSMENTS/SPECIAL TAXES
- * FEATURES/AMENITIES*



ABSORPTION SCHEDULES

*** EACH PRODUCT TYPE**

- * RESIDENTIAL PRODUCT TYPES
SINGLE-FAMILY HOMES
- * MARKET ENTRY
- * SALES UNITS/ACRES - ANNUALLY
- * BUILD - OUT

FUNDAMENTAL CONDITIONS UNDERLYING THE ECONOMIC FORECASTS

The macroeconomic section of the Market Absorption Study performs a comprehensive analysis of the factors underlying Empire Economics' economic forecasts for the United States (US) and California (CA) as well as the Southern California (SC) Market Region and the CFD No.2001-2 Market Area (MA).

Recent Economic Trends and Patterns

The US economy is currently in its longest post WW II expansion; during the past 38 quarters (9.5 years) the growth in real Gross Domestic Product (GDP) amounted to some 41%. By comparison, the other major Post WW II expansions were as follows: The Kennedy Johnson expansion had a span of 35 quarters during which real GDP grew by a total of 53%. The Reagan expansion had a span of 31 quarters over which real GDP grew by 37%. However, the current expansion may falter during 2001 due to the following factors: scarcity of available labor due to low unemployment rates, diminishing levels of corporate profits, and lower stock market values which adversely impact both business (difficulty of raising capital) and consumers (purchases of durable goods).

Most Probable Economic Scenario: US and CA and Southern California

The Most Probable Economic Scenario is based upon the Federal Reserve Board (FRB) controlling interest rates in such a manner to countervail the adverse factors mentioned, thereby reducing the risk of the economy falling into a recession.. The rate of employment growth for the US economy is expected to decline from 2.0% in 2000 to 0.3% in 2001 and then 0.2% in 2002.

California is expected to perform at a stronger level than the US economy, since it experienced a deeper recession in the early 1990s. Accordingly, CA's employment, which increased to 3.8% in 2000, is expected to decline to 2.4% in 2001 and 1.6% in 2002. However, California's rate of growth may be somewhat, though not significantly, diminished as a result of the potential energy crisis.

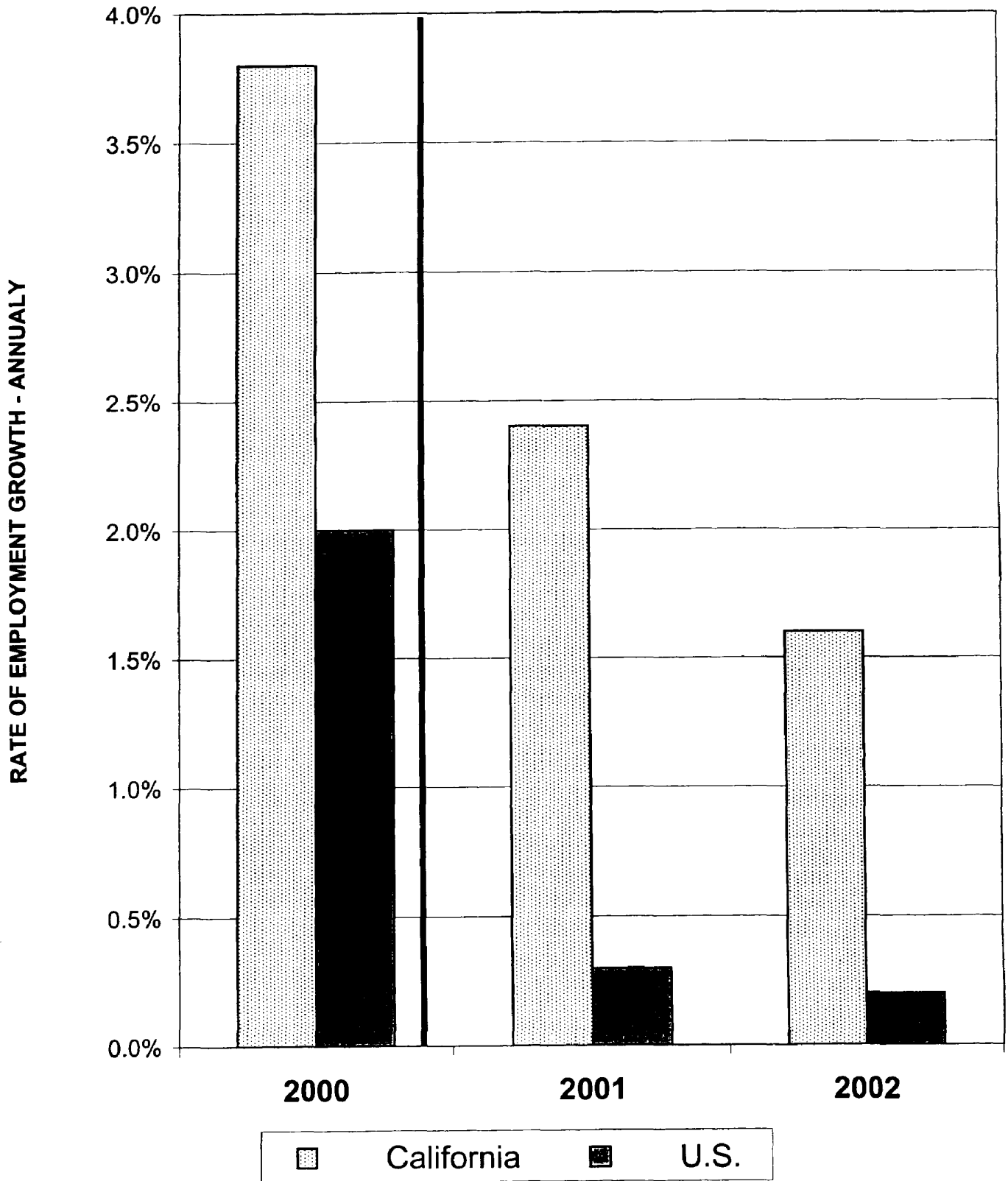
Therefore a comparison of the rates of employment growth reveals that CA is expected to outperform the US during 2001 and 2002. This represents a continuation of a pattern that began in 1996, when CA emerged from a major recession in the early 1990s.

The Most Probable Economic Scenario for Southern California is that it is expected to outperform California. This can be attributed to SC being less reliant on the "new economy" jobs than the San Francisco Area, and so the potential impacts of the recent stock market declines are not expected to have as much of an impact.

Implications of the Expected vs. Actual Economic Scenario

This Study is based upon the Most Probable Economic Scenario, since this has the highest probability of occurring, and so the estimated absorption schedules for the District have a usability span of some six months. If, over time, the actual economic conditions tend to outperform those of the Most Probable Scenario, then no revisions to the absorption schedules are deemed to be necessary, since the District's absorption prospects would actually become more favorable. However, **if, over time, the actual economic conditions tend to under perform the Most Probable Scenario, then revisions to the Study would be necessary, since the absorption schedules represented in the original Study would probably be overstated.**

RECENT/FUTURE RATES OF EMPLOYMENT GROWTH UNITED STATES AND CALIFORNIA



RECENT/EXPECTED DEVELOPMENT ACTIVITY IN THE CFD NO.2001-2 MARKET AREA

The levels of residential, commercial, and industrial construction activity in the CFD No. 2001-2 Market Area, in particular, are now forecasted, based upon its estimated capture rate of the amounts of such development activity for the Southern California economy, as a whole.

First, the Market Area's geographical boundaries are delineated, through a consideration of the cities/communities in the vicinity of CFD No.2001-2 that are "economically" similar, based upon the following:

- Topographical features, such as coastal, inland valleys, or high-desert; CFD No.2001-2 is situated in an inland valley area.
- Inter-connecting transportation corridors that provide accessibility through freeways and other primary roads, such as Routes 215 and 60, major Southern California freeways.
- Economic maturity of the area according to the composition of its development activity, such as urban, suburban or rural; the CFD No.2001-2 Market Area is currently considered to be a rural area that is advancing towards becoming a suburban area during the next several years.

Accordingly, based upon a consideration of these factors, the CFD No.2001-2 Market Area encompasses the cities and communities located within the central portion of the County of Riverside. Specifically, this includes the cities of Perris and Moreno Valley, along with their surrounding communities such as Nuevo.

Secondly, the Market Area's capture rates of Southern California's future construction activity are derived by utilizing a shift-share model which systematically analyzes the market shares for each of the various types of construction activity. These forecasts are based upon intermediate trends/patterns which are considered to be the most reliable indicators of the marketing potential for the CFD No.2001-2 Market Area's residential, commercial-retail/office and industrial/business products, since the development time horizon is several years for building-out the various product types.

Southern California's development has a well-defined pattern: the urban core is represented by Los Angeles/Orange County (LA/OC), and it has expanded outwards in various directions, including easterly into Riverside/San Bernardino (R/SB) counties. Specifically, these development patterns have followed the transportation system along with topography that is conducive to development, with the pace of expansion being driven by rate of employment growth. Within R/SB counties, development has proceeded from the far western portion of the counties, the portions in closest proximity to LA/OC, into the central portions of the counties.

During the prior economic cycle, 1984-91, most of the areas experienced strong level of activity for single-family housing as well as commercial-retail development; additionally SB-West and RC-West had strong levels of multiple-family development activity. However, with respect to the current economic cycle, which began in 1994, a somewhat different pattern is emerging: RC-West and SB-West are experiencing strong level of single-family activity; however, SB-Central and RC-Central have not yet entered their recoveries. Based upon the expectation of continued employment growth for Southern California and also R/SB counties, SB-Central and RC-Central are expected to establish their recoveries during 2001. Then, as the recoveries in RC-Central and SB-Central attain relatively higher levels of activity during 2002-2003, development activity is expected to continue its movement in an easterly direction.

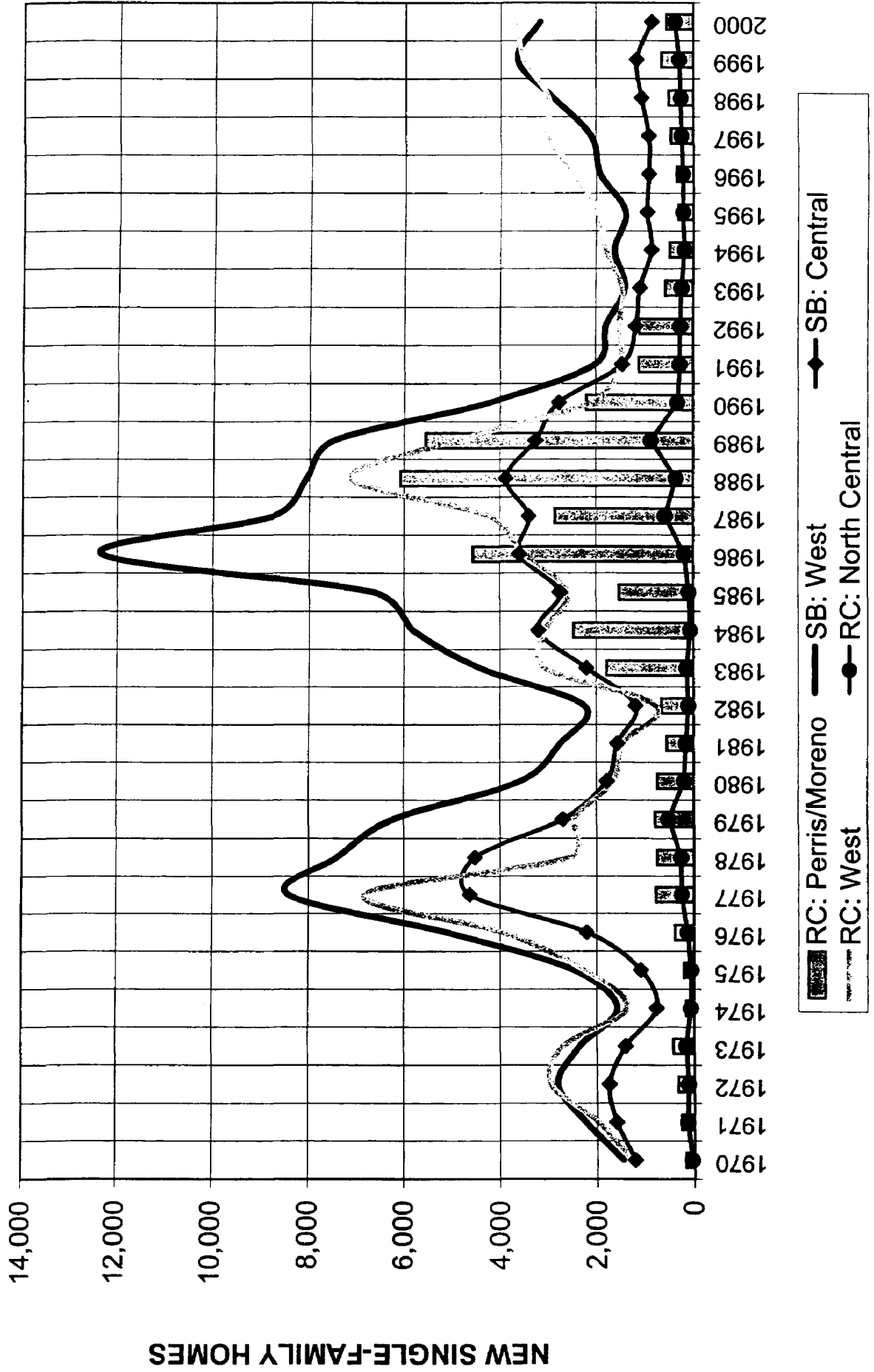
- The share of single-family residential construction activity, some 1.22% during 1996-2000, is expected to increase to 1.63% during 2001-2005, and then rise to 2.90% during 2006-2010. The increasing capture rates can be attributed to the continuation of the spillover of demand from Orange and Los Angeles counties into Riverside and San Bernardino counties.
- The share of multiple-family construction activity is expected to rise due to increasing economic maturity of the Market Area: from 0.33% during 1996-2000 to 0.43% during 2001-2005, and then to 0.65% for 2006-2010.
- The share of retail construction activity during 1996-2000 of 2.04% represents an increase from the 1991-95 of 1.73%, due to the substantial amounts of residential activity during the late 1980's and early 1990's. The shares are expected to amount to 1.00% during 2001-2005 and then to 1.70% during 2006-2010. This is based upon the amount of residential construction activity that is expected to occur within the Market Area, and the demand that these households will generate for retail shopping centers, along with the threshold levels for various types of centers to be developed.

Accordingly, the application of the Market Area's estimated capture rates to the expected development activity in Southern California results in the following levels of demand for residential, retail, office, and industrial products in the CFD No.2001-2 Market Area:

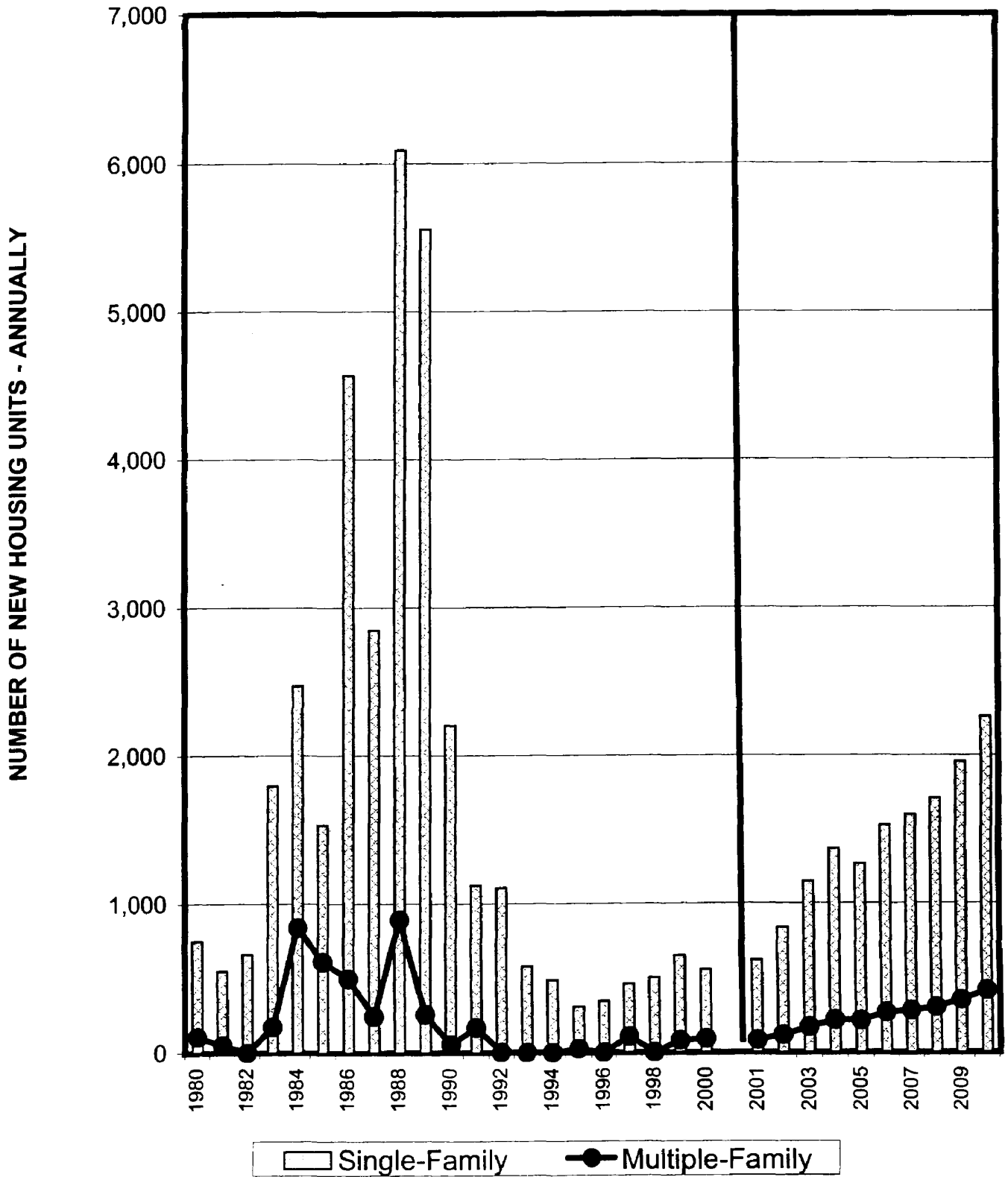
Time Periods	----- Residential / Year -----			----- Non Residential / Year -----			
	Single units	Multiple units	Total units	Office acres	Retail acres	Indust. acres	Total acres
1980-1985	1,293	297	1,590	2.3	1.2	3.5	7.0
1986-1990	4,254	389	4,643	13.1	10.8	9.2	33.1
1991-1995	722	39	760	3.2	9.0	2.9	15.2
1996-2000	504	56	560	1.2	16.4	14.8	32.4
2001-2005	1,049	160	1,209	3.7	7.3	17.4	28.4
2006-2010	1,810	325	2,135	10.0	11.3	11.2	32.5

So, residential activity is expected to increase from a level of 560 units per year during 1996-2000, to 1,209 units/year in 2001-2005, and then to 2,135 units/year for 2006-2010. While commercial-industrial activity is expected to increase to a level of 28.4 acres/year in 2001-2005 and then 32.5 acres/year for 2006-2010.

DEVELOPMENT PATTERNS FOR RIVERSIDE-SAN BERNARDINO COUNTIES: NEW SINGLE-FAMILY HOMES / SOUTHERN CALIFORNIA



**RECENT/EXPECTED RESIDENTIAL DEVELOPMENT ACTIVITY IN THE CFD
NO.2001-2 MARKET AREA**



RECENT ECONOMIC AND CONSTRUCTION ACTIVITY TRENDS/PATTERNS IN RIVERSIDE COUNTY

The recent employment and construction activity trends for Riverside County are now presented, in order to provide a background on the current economic and real estate conditions within the county, in particular.

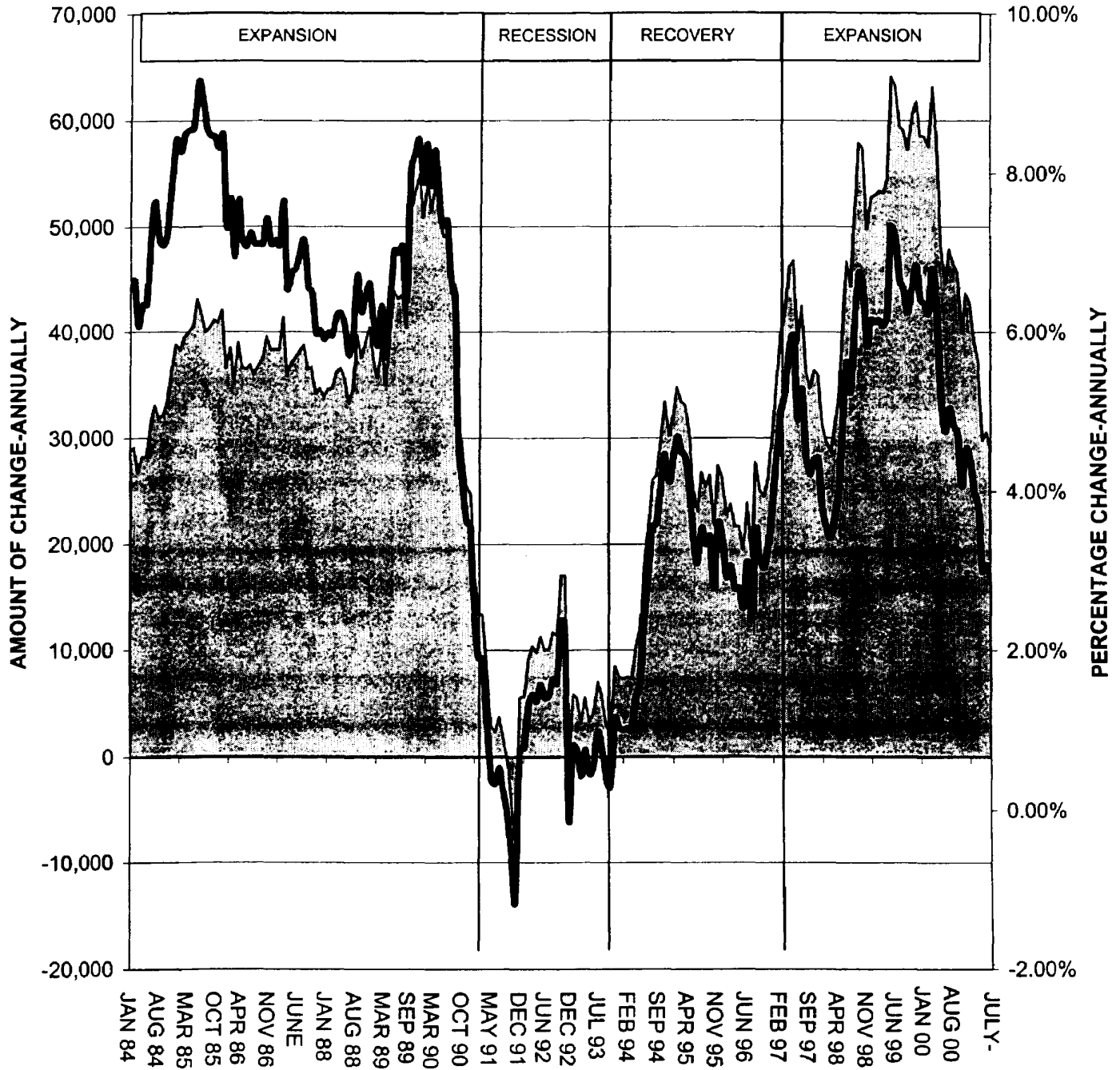
The primary determinant underlying construction activity is employment growth, since this generates a demand for additional industrial and office buildings as well as new housing units and also commercial-retail centers. Accordingly, this is now discussed in order to provide a background for understanding the recent construction activity trends in Riverside County.

- Riverside County's and San Bernardino County's employment growth was very strong during the 1984 to late 1990 time period, with annual increases of some 38,654 jobs per year for growth rates of some 7.04% per year, on the average. However, an economic slowdown from late 1990 to early 1993 resulted in lower employment growth, of some 8,015 new jobs per year. Although an economic recovery started in early 1993 and lasted until mid-1995, growth was moderate, with job increases of 2.49% per year. Then, during the mid-1996 to mid-2001 time period, employment growth increased by some 44,593 per year, a growth rate of some 5.08% per year, on the average.
- With respect to the construction of new housing units, Riverside County experienced very high levels of activity during 1987-1990, when new housing units attained levels of more than 5,211 single-family and 1,190 multiple-family units/qtr. However, the economic slowdown during 1991-1993 resulted in activity declining to some 1,807 single-family and 339 multiple-family units per quarter. Since 1997, and continuing through mid-2001, the levels of new single-family units have increased, to some 2,912 per quarter but have not approached the levels of the prior economic expansion. While multiple-family units have not recovered, attaining levels of only some 522 per quarter.
- With respect to the construction of industrial, office and retail buildings, Riverside County also experienced very high levels of activity during 1987-1990, when the valuations were typically some \$101.5 million per quarter. However, the economic slowdown during 1991-1993 resulted in the valuations declining to some \$68 million per quarter. Since 1997, and continuing through mid-2001, valuations have only partially recovered, attaining levels of some \$83 million per quarter.

Therefore, the recovery of Riverside County's economy has resulted in strong levels of employment growth since 1996, and this has enabled the industrial and retail sectors to establish their recoveries. But the lingering effects of high vacancy rates in the various real estate sectors, resulting from the very high levels of construction activity in the latter 1980s in conjunction with the decrease in demand in the early 1990s as a result of the economic slowdown, have resulted in a sluggish recovery for the multiple-family, single family and office sectors. However, continued employment growth, along with recent declines in vacancy rates, should generate higher levels of construction activity in these real estate markets during the foreseeable future.

RECENT EMPLOYMENT TRENDS IN RIVERSIDE/SAN BERNARDINO COUNTIES

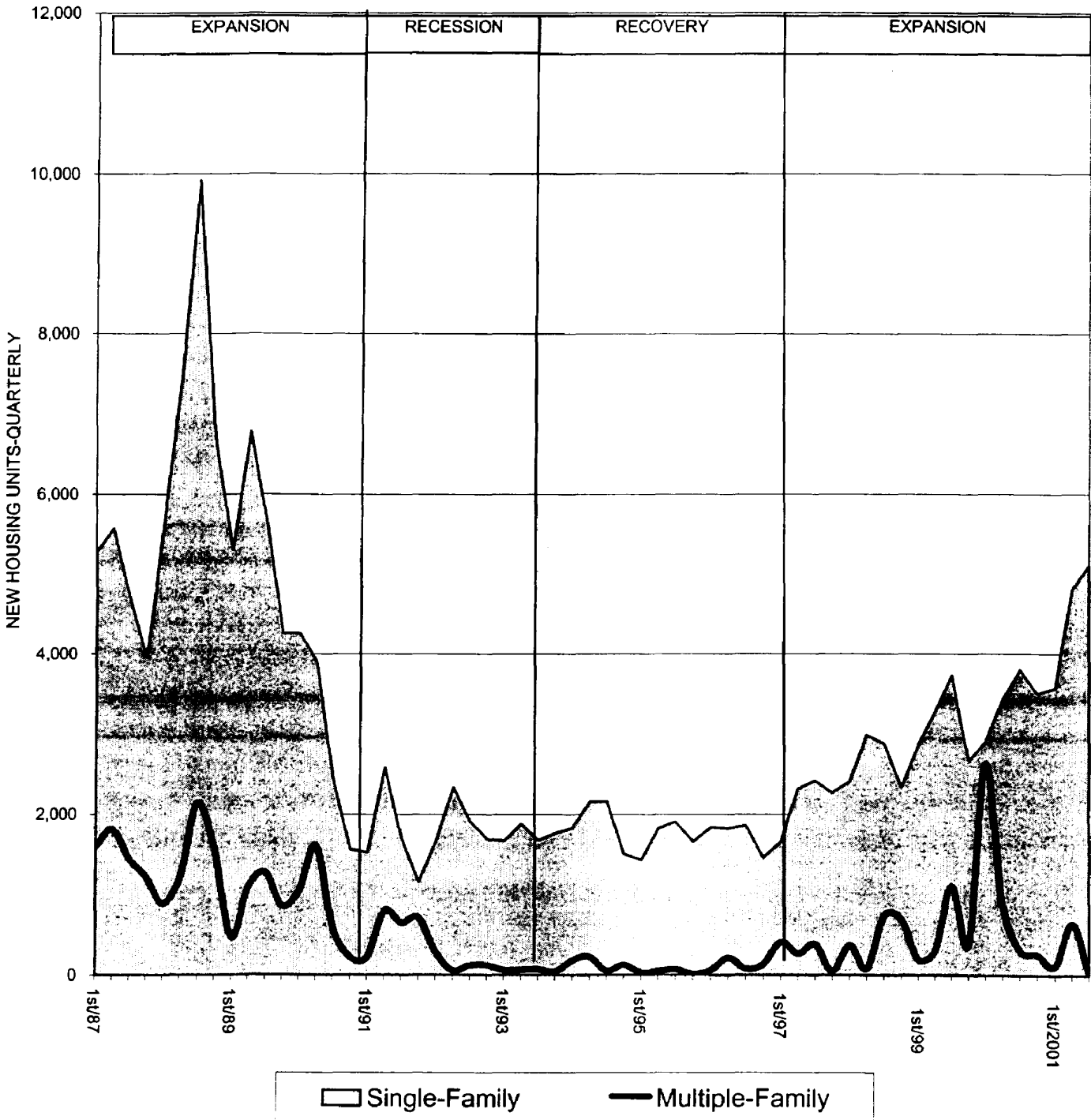
Economy:	Expansion	Recession	Recovery	Expansion
Time	Jan. 1984	Dec. 1990	Feb. 1993	Sep. 1996
Periods	Nov. 1990	Jan. 1993	Aug. 1996	July. 2001
Amount/Avg.	38,654	8,015	18,705	44,593
Rate/Avg.	7.04%	1.13%	2.49%	5.08%



Left Axis-Change in Amount
 Right Axis-Percentage change

RECENT CONSTRUCTION ACTIVITY TRENDS FOR RESIDENTIAL DEVELOPMENT IN RIVERSIDE COUNTY

Economy	Expansion	Recession	Recovery	Expansion
Time Period	Jan. 1987–Nov. 1990	Dec. 1990–Jan. 1993	Feb. 1993–Aug. 1996	Sep. 1996–June 2001
Single-Family	5,211	1,807	1,812	3,025
Multiple-Family	1,190	339	94	497
Total	6,401	2,145	1,906	3,522



COMPETITIVE ANALYSIS OF THE PROJECTS IN THE CFD NO.2001-2 HOUSING MARKET AREA

The competitiveness of the forthcoming projects in CFD No.2001-2 are now evaluated by performing an analysis of the currently active competitive projects located within the Housing Market Area (MA) and its vicinity. Specifically, there are presently a total of 15 active comparable projects in the MA and its vicinity; accordingly, their characteristics are now discussed.

With respect to the geographical locations of these projects, they are as follows:

- * City of Perris: 2 projects.
- * Northerly of Perris: 7 projects.
- * Westerly of Perris: 3 projects.
- * Southerly of Perris: 3 projects.

So, the CFD No.2001-2 Housing MA has 15 projects that are located in the City of Perris or its vicinity.

With regards to the number of units in these projects, and the number of these that have closed escrow thus far, the aggregate number of homes amounts to 1,981, and, of these, 956 have closed escrow; accordingly, their distribution is as follows:

- * City of Perris: 394 units with 336 closed.
- * Northerly of Perris: 798 units with 402 closed.
- * Westerly of Perris: 248 units with 119 closed.
- * Southerly of Perris: 541 units with 99 closed.

The prices and sizes of living area for all of these projects amount to some \$194,154 and 2,199 sq.ft., respectively, and this results in a value ratio of \$88, on the average; however, there are some substantial variations amongst the various areas, and these are as follows:

- * City of Perris: \$134,490 for 1,690 sq.ft.; \$80/sq.ft.
- * Northerly of Perris: \$199,776 for 2,405 sq.ft.; \$84/sq.ft.
- * Westerly of Perris: \$237,142 for 2,459 sq.ft.; \$92/sq.ft.
- * Southerly of Perris: \$177,823 for 1,797 sq.ft.; \$99/sq.ft.

So, the projects in the City of Perris have value ratios which are lower than the projects located northerly, westerly and southerly of the City .

Finally, for Special Taxes/Assessments, 10 of the 15 projects have these, and they amount to some \$975/yr. on the average, 0.54% of the housing price; additionally, for the various areas, they amount to the following:

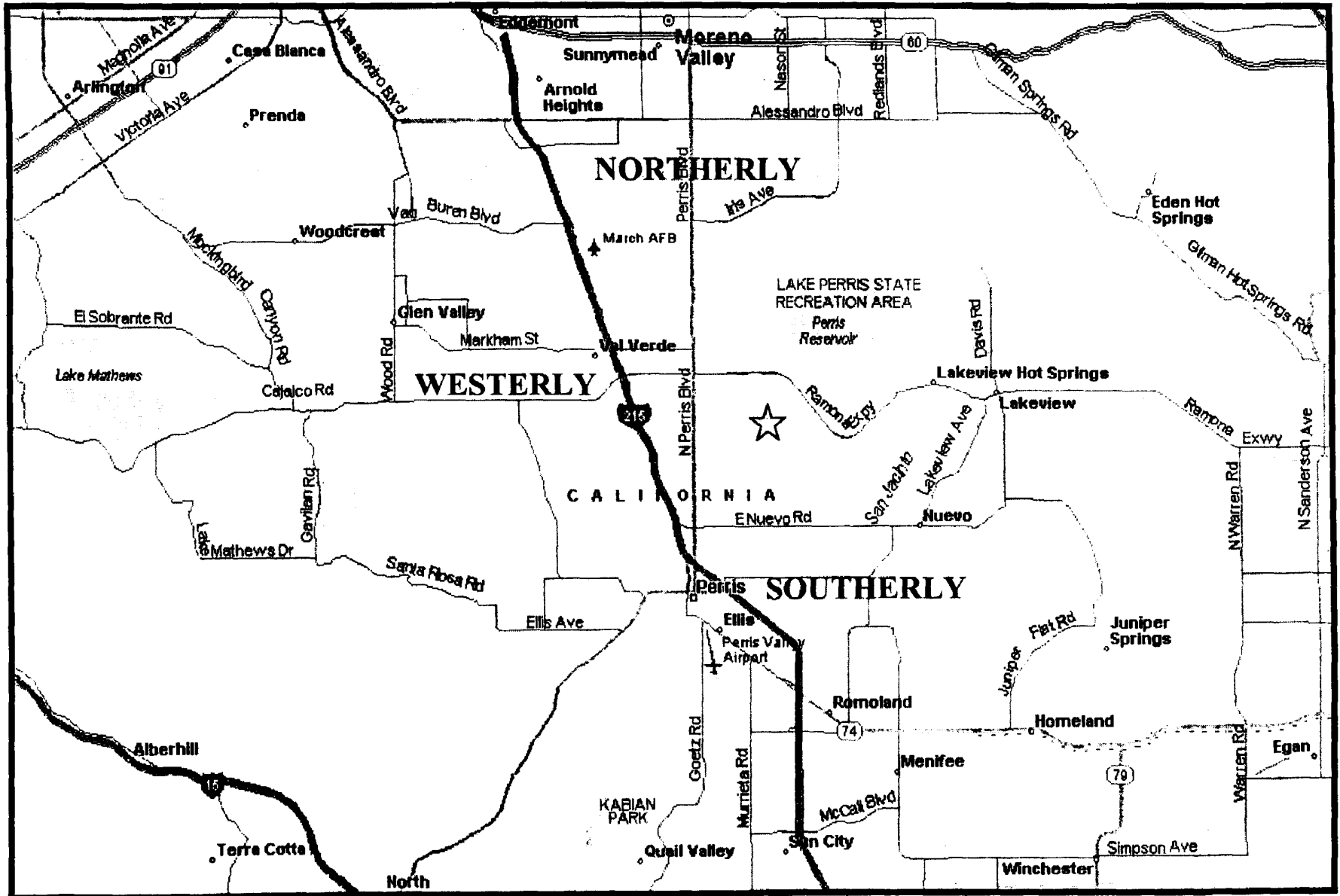
- * City of Perris: 1 of 2 projects, \$1,008/yr., 0.89% of prices.
- * Northerly of Perris: 5 of 7 projects, \$979/yr., 0.49% of prices.
- * Westerly of Perris: 1 of 3 projects, \$1,500/yr., 0.79% of prices.
- * Southerly of Perris: 3 of 3 projects, \$782/yr., 0.44% of prices.

So, the projects in the City of Perris have Special Taxes/Assessments that are higher as a percentage of their housing prices than the projects elsewhere in the Housing Market Area.

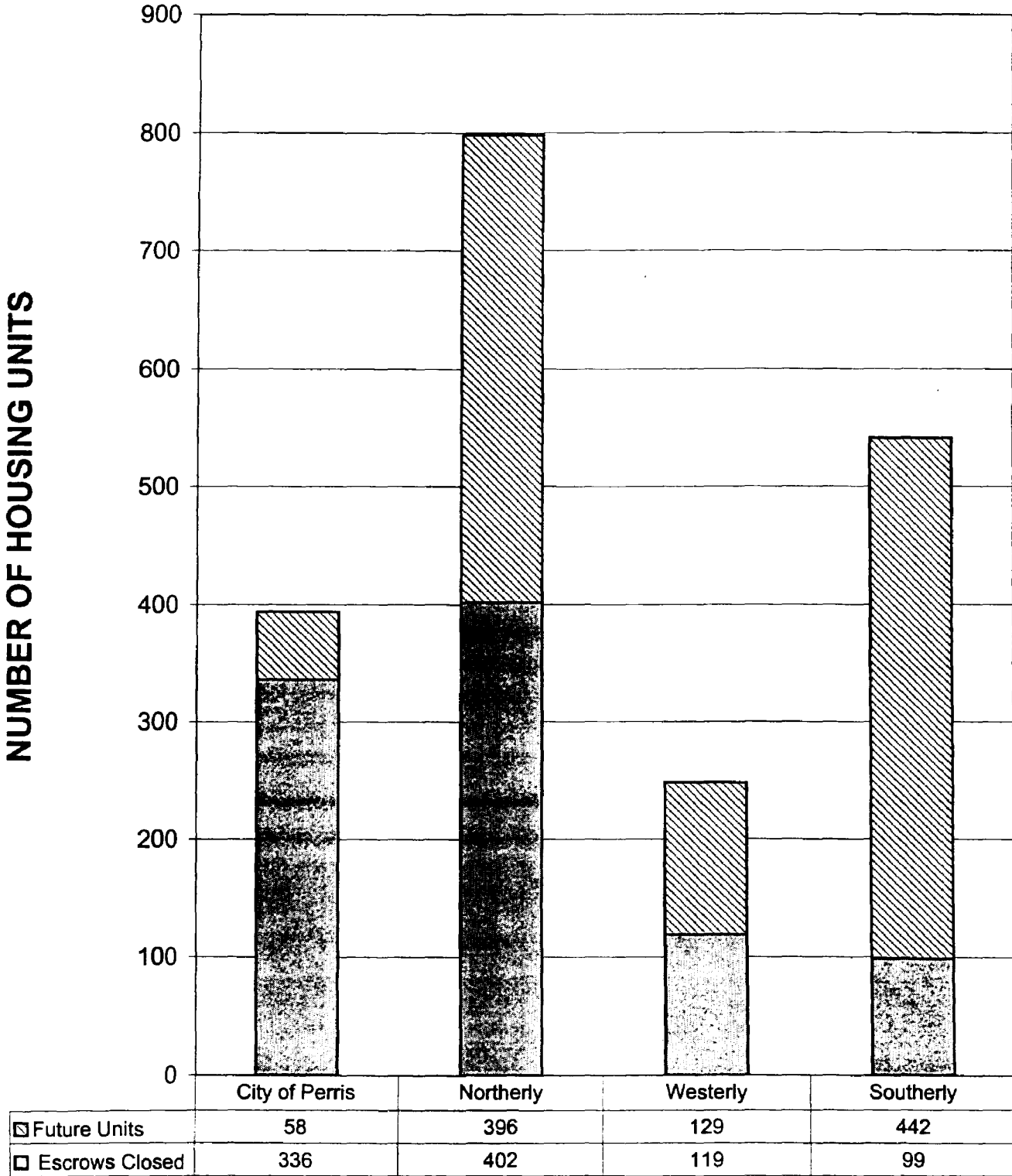
CHARACTERISTICS OF THE *COMPARABLE* ACTIVE PROJECTS IN THE HOUSING MARKET AREA BY GEOGRAPHICAL LOCATIONS

Project Locations	Project Map Code	Planned Community	Project	Builder	Lot Size	Project Size and Sales		Housing Prices			Size of Living Area			Value Ratio	Special Assessments/Taxes	
						Total	Escrows Closed	Lower	Average	Upper	Lower	Average	Upper		Amount/Year	Ratio/Price
Perris	Perris	May Ranch	May Ranch	KB Home	5,000	320	320	\$68,990	\$113,490	\$159,990	952	1,385	1,818	\$82	\$1,008	0.89%
Perris	Perris	No	Pacific Landing	Pacific Communities	4,500	74	16	\$142,990	\$155,490	\$167,990	1,625	1,995	2,365	\$78		
Moreno Valley	Northerly	Moreno Valley Ranch	Mandaley	Lewis Homes	5,500	178	60	\$153,990	\$165,490	\$176,990	1,443	1,780	2,077	\$94	\$900	0.54%
Moreno Valley	Northerly	No	Fiesta Collection	Fiesta Development	10,000	67	28	\$159,990	\$179,990	\$199,990	1,585	2,072	2,558	\$87		
Moreno Valley	Westerly	Moreno Valley Ranch	Via Del Rey	Pacific Century Homes	5,200	146	1	\$188,990	\$185,990	\$202,990	1,761	2,216	2,671	\$84	\$1,209	0.65%
Moreno Valley	Northerly	No	Silver Crest	Beazer Homes	7,200	111	88	\$178,990	\$196,490	\$213,990	1,802	2,157	2,512	\$91		
Moreno Valley	Northerly	Moreno Valley Ranch	Spyglass Pointe	Lewis Homes	5,500	19	16	\$193,990	\$205,990	\$217,990	2,284	2,596	2,908	\$79	\$900	0.44%
Moreno Valley	Northerly	Moreno Valley Ranch	Via Del Lago	Pacific Century Homes	6,500	175	110	\$155,990	\$226,990	\$297,990	1,740	3,278	4,816	\$89	\$912	0.40%
Moreno Valley	Northerly	Moreno Valley Ranch	Mirada II	Berratt American	5,500	102	99	\$214,990	\$237,490	\$259,990	2,246	2,755	3,262	\$86	\$972	0.41%
Riverside	Westerly	No	Stonewood Estates	Stonewood Housing	7,200	140	44	\$98,990	\$110,990	\$122,990	1,030	1,365	1,700	\$81		
Riverside	Westerly	Orangetree Heights	Keystone Ridge	Van Daele Development	7,015	67	66	\$179,990	\$188,990	\$197,990	1,811	2,076	2,340	\$91	\$1,500	0.79%
Riverside	Westerly	No	Tamarind Estates	Pacific Crest Communities	44,000	41	9	\$365,000	\$411,445	\$457,890	3,466	3,936	4,405	\$105		
Menifee	Southerly	No	Menifee Heights	Fairway Homes, Inc.	8,500	189	26	\$154,990	\$176,990	\$202,990	1,354	1,736	2,118	\$103	\$360	0.20%
Menifee	Southerly	No	Citation Homes	Citation Homes	8,000	214	72	\$161,990	\$172,490	\$182,990	1,550	1,752	1,954	\$96	\$949	0.55%
Sun City	Southerly	No	Stonegate	Fiesta Development	7,200	138	1	\$159,990	\$181,990	\$203,990	1,371	1,902	2,432	\$96	\$1,037	0.57%
Statistical Summary																
City of Perris					2	394	338	\$104,990	\$134,490	\$163,990	1,289	1,690	2,092	\$80	\$1,008	0.89%
Northerly					7	798	402	\$175,278	\$199,778	\$224,278	1,838	2,405	2,972	\$84	\$979	0.49%
Westerly					3	246	119	\$214,660	\$237,142	\$259,623	2,102	2,459	2,815	\$92	\$1,500	0.79%
Southerly					3	541	99	\$158,990	\$177,823	\$196,657	1,425	1,797	2,168	\$99	\$782	0.44%
Grand Total					16	1,861	856	\$170,524	\$194,154	\$217,783	1,735	2,199	2,662	\$88	\$975	0.54%

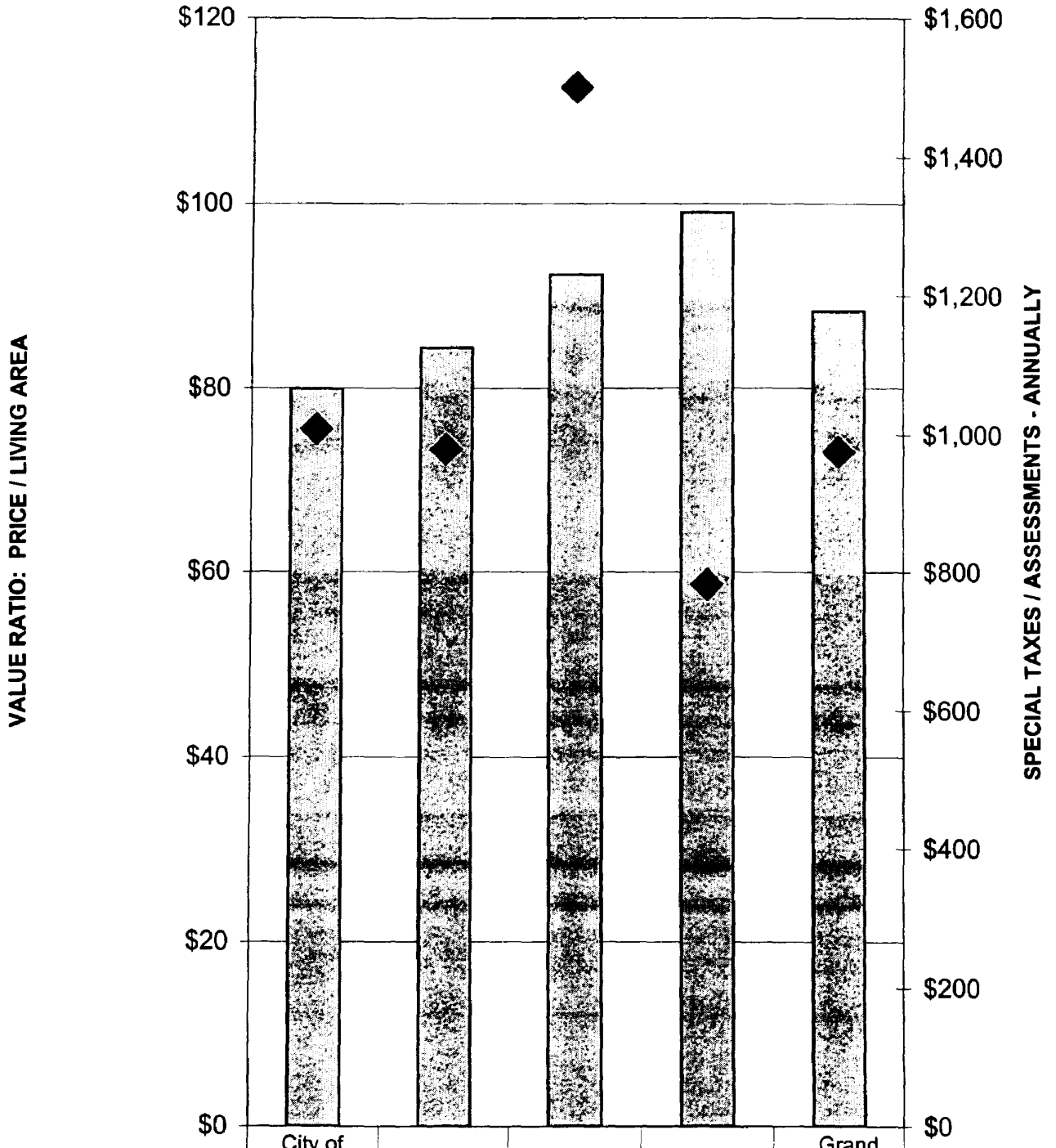
LOCATIONS OF RESIDENTIAL PROJECTS IN THE CFD HOUSING MARKET AREA



**CFD NO.2001-2
HOUSING MARKET AREA
HOUSING UNITS ANDS ESCROW CLOSINGS**



**CFD NO.2001-2
HOUSING MARKET AREA
VALUE RATIOS AND SPECIAL TAXES**



□ LEFT: Value Ratio	\$80	\$84	\$92	\$99	\$88
◆ RIGHT: Special Assmt/Tax	\$1,008	\$979	\$1,500	\$782	\$975

**ESTIMATED ABSORPTION SCHEDULES FOR THE
FORTHCOMING PROJECTS IN THE
CITY OF PERRIS CFD NO.2001-2**

The purpose of this section is to estimate the absorption schedules for the forthcoming residential projects in City of Perris CFD No.2001-2; accordingly, this is based upon a consideration of the following:

- First, the POTENTIAL DEMAND schedules for the residential products for CFD No. 2001-2 were derived, based upon a consideration of the following:
 - * The growth prospects for the Southern California Market Region, in general.
 - * How much of the Southern California growth the CFD No.2001-2 Market Area is expected to capture, in particular.
 - * The proportion of the Market Area demand that is expected to be captured by the projects/products in CFD No.2001-2, based upon an evaluation of the competitiveness in the marketplace.

Thus, the result of this analysis is the potential demand for the forthcoming residential projects in CFD No.2001-2.

- Next, MARKET ENTRY DEVELOPMENT SCHEDULE or the ability of the properties in CFD No.2001-2 to respond to this demand is estimated. Accordingly, this is based upon a consideration of the time required for the properties to complete the infrastructure and planning approvals required for them to enter the marketplace. Furthermore, the time required for the builders to construct and deliver the residential products to the homeowners is also considered.
- Then, based upon a consideration of the POTENTIAL DEMAND and the MARKET ENTRY DEVELOPMENT SCHEDULE, the absorption rate for products in each of the market segments is calculated, from the year in which the projects are expected to enter the marketplace, and continuing thereafter on an annualized basis, until all of the units/acres are occupied/utilized.

The application of this algorithm results in Empire Economics absorption schedules for the projects in CFD No.2001-2.

Accordingly, based upon an analysis of the economic and real estate conditions along with the characteristics of the forthcoming residential projects in CFD No.2001-2, the estimated absorption schedules are as follows:

- Product Type #1, with 231 homes, is expected to commence escrow closings in mid-2002, and to have all of its homes occupied by homeowners by 2006; this amounts to an absorption rate of some 46 homes per year, on the average.
- Product Type #2, with 721 homes, is also expected to commence escrow closings in mid-2002, and to have all of its homes occupied by homeowners by 2009; this amounts to an absorption rate of some 90 homes per year, on the average.
- Product Type #3, with 206 homes, is likewise expected to commence escrow closings in mid-2002, and to have all of its homes occupied by homeowners by 2006; this amounts to an absorption rate of some 41 homes per year, on the average.

However, the estimated absorption schedule for the forthcoming residential products in CFD No. 2001-2 is subject to change due to potential shifts in economic/real estate market conditions and/or the development strategy by Barratt American Homes.

Therefore, the 1,158 units in CFD No.2001-2 are expected to be absorbed during the 2002-2009 time period, at a rate of some 145 units per year, on the average. Specifically, the rate of absorption is expected to amount to 120 units per year in 2002-2003, increases to peak levels of 189-197 units per year during 2004-2006, and then declines thereafter, as build-out is approached in 2009.

Finally, these absorption schedules take into consideration the expected competition from May Farms, a Planned Community of some 3,000+ homes that is being developed by Kaufman & Broad which is located just to the west of CFD No.2001-2. Also, it is worthwhile to note that the forthcoming projects in CFD No.2001-2 offers homes only on smaller sized lots of 3600-5000 sq.ft. while the next project in May Farms Phase II offers 186 homes on lots of some 20,000 sq.ft. (followed by smaller sized lots in later phases).

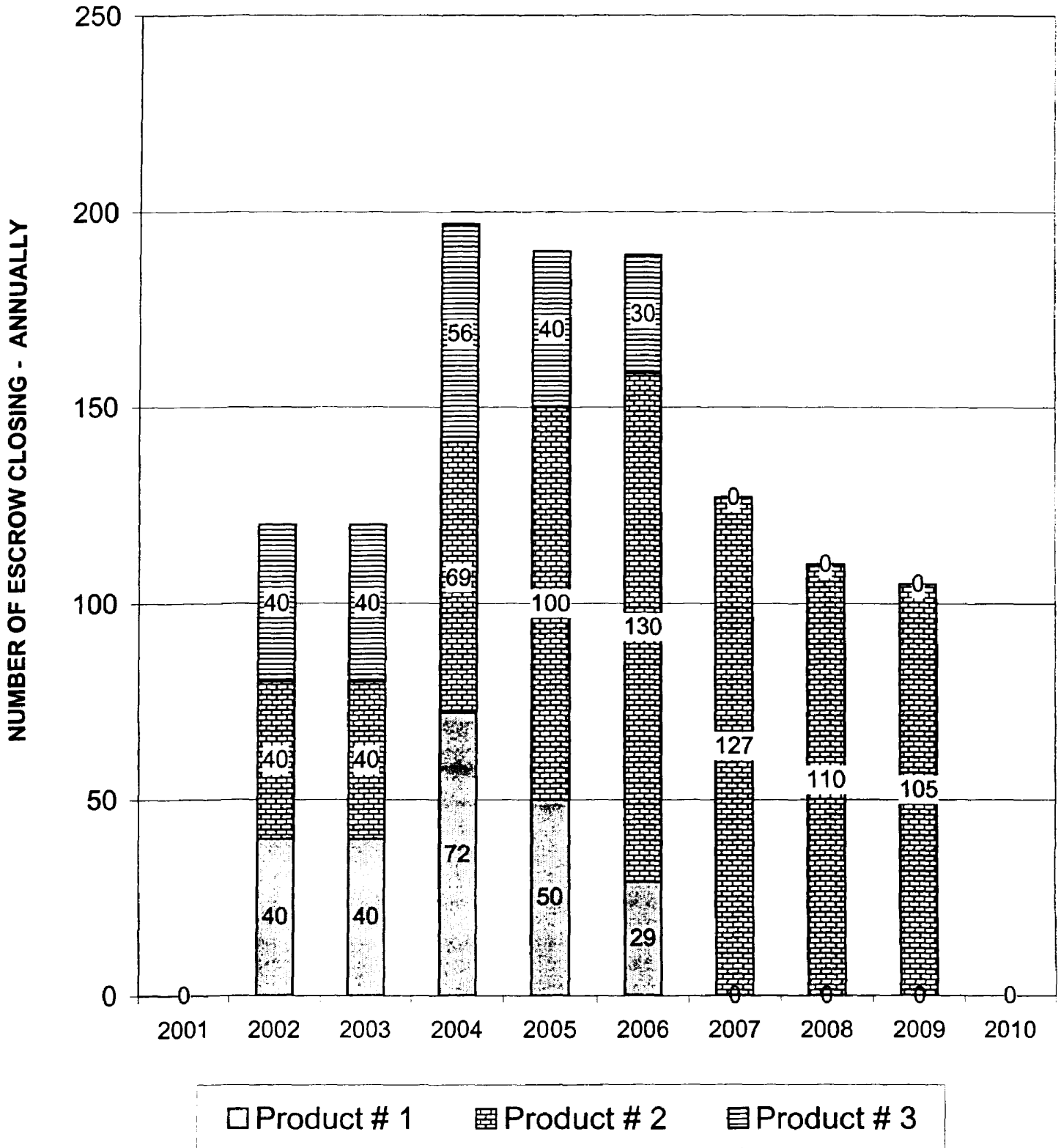
For additional information on the estimated absorption schedules for the residential projects/products in City of Perris CFD No.2001-2, please refer to the following table and graph.

ESTIMATED ABSORPTION SCHEDULES FOR THE CITY OF PERRIS CFD NO 2001-2 (VILLAGES OF AVALON)

September 2001, Subject to Revision

Product Types >>>	Product	Product	Product	Totals Residential	
	# 1	# 2	# 3	Annually	Cumul.
Lot Sizes >>>	3,600	4,000	5,000		
Development Status					
Total	231	721	206	1,158	
Escrows Closed	0	0	0	0	0.0%
Future	231	721	206	1,158	100.0%
	19.9%	62.3%	17.8%	100.0%	
Market Entry Estimated	Early-2002	Early-2002	Early-2002		
Prices Estimated					
Lower	\$115,000	\$135,990	\$164,000		
Average	\$127,495	\$145,490	\$172,500		
Upper	\$139,990	\$154,990	\$181,000		
Living Area - Estimated					
Lower	1,250	1,690	2,300		
Average	1,420	1,945	2,550		
Upper	1,590	2,200	2,800		
Value Ratio	\$90	\$75	\$68		
Annual Absorption: Homeowners & Final Users					
2001	0	0	0	0	0
2002	40	40	40	120	120
2003	40	40	40	120	240
2004	72	69	56	197	437
2005	50	100	40	190	627
2006	29	130	30	189	816
2007	0	127	0	127	943
2008	0	110	0	110	1,053
2009	0	105	0	105	1,158
2010	0	0	0	0	1,158
Totals	231	721	206	1,158	
Averages	46	90	41	145	

CFD NO 2001-2 (VILLAGES AT AVALON)
 ESTIMATED RESIDENTIAL
 ABSORPTION SCHEDULES



SPECIAL ECONOMIC RISK FACTORS FOR CFD NO.2001-2 (VILLAGES OF AVALON)

Since CFD No.2001-2 is located in a newly developing area of Southern California, it is appropriate to discuss how an economic slowdown may impact its absorption prospects.

Presently, Orange County (OC) and San Diego County (SDC) continue to experience healthy employment growth in the range of 2.5% to 2.8% per year. Riverside County (RC) is benefiting from this, due to its proximity to OC and SDC along with its ability to provide lower and moderate-priced housing. By comparison, the United States and Northern California economies are experiencing significant economic slowdowns, with employment growth rates below 1%. The comparatively stronger performance of OC and SDC can be attributed to the composition of their economies, with an orientation towards the service sector.

Although OC and SDC are expected to continue to experience a healthy rate of employment growth during the foreseeable future, there is a possibility that their rates of employment growth could decline. In such a case, the demand for housing in RC could diminish, and this would elongate the time required for the absorption of the residential products in CFD No. 2001-2.

However, the reduction in demand for housing would not be as severe as it was during the prior recession of the early-mid-1990's due to the recent geographical development patterns and housing price appreciation; accordingly, these are now discussed.

Geographical Development Patterns

During the prior economic expansion of the late 1980's, there was a significant amount of housing demand from OC that came into western RC along Route 91. However, since various cities near the portal, such as Corona, Norco and Riverside, had growth management plans, this demand moved further easterly, to such cities as Moreno Valley. Consequently, when the economy went into a recession, and the spillover from OC ceased, the projects at the development fringe suffered significant financial difficulties.

By comparison, the current expansion has a significantly different geographical development pattern. The spillover from OC into western Riverside County is now being accommodated by Planned Communities that received approvals from the cities that previously had growth management plans. As these cities are approaching their build-out, demand is moving easterly in a systematic sequential manner.

The current development patterns represent a sequential geographical pattern, as compared to the leapfrogging that occurring in the prior economic cycle.

Housing Price Appreciation

During the prior economic expansion, homes in OC, SDC, and RC experienced rates of price appreciation that amounted to 18%, 16%, and 10% per year during 1987-89. As a result of this high rate of price appreciation, existing/new homes as well as land for future homes were viewed by various homeowners and developers/builders as having an "investment" component. This resulted in developers/builders holding onto "land" since it was appreciating at such a strong rate. However, once the economic recession took hold, the rate of housing price appreciation diminished. This price decline was then further exacerbated by developers/builders putting their property on the market for-sale, resulting in declining values for home and land.

By comparison, the current economic expansion has resulted in housing price appreciation in OC, SDC, and RC of some 12%, 13% and 7% per year during 1988 to mid-2001. This can be attributed to a variety of factors, with perhaps the most significant being the strong performance of the stock market during 1995-1999. So, households tended to allocate more of their "investment" capital into stocks, rather than housing. This is reflected by the tens of billions that flowed into stocks during this time period. However, since 1999, the value of stock has declined significantly, as the market has adjusted to the loss of the "investment" premium.

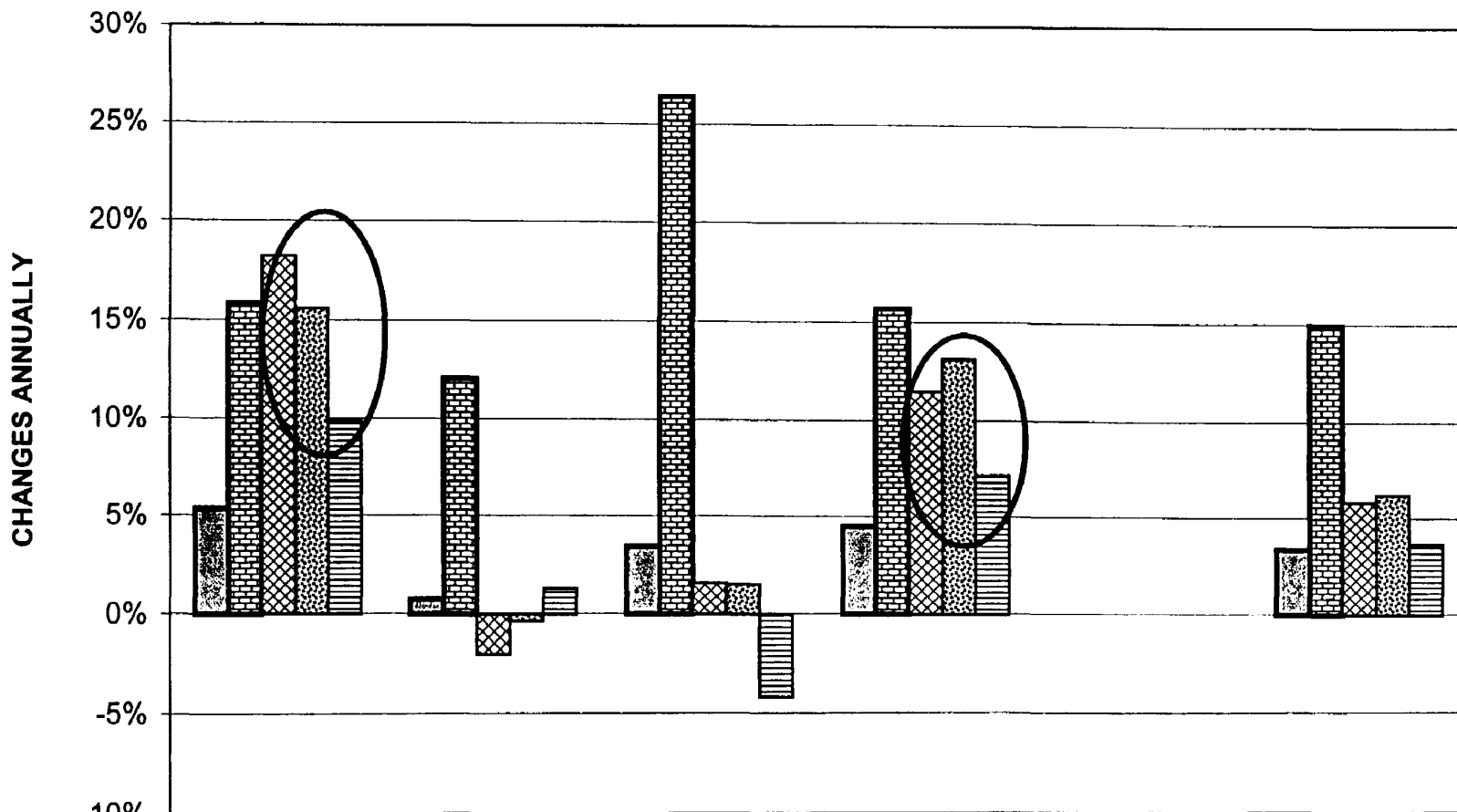
The rate of housing price appreciated in recent years has only been moderate, as compared to the late 1980's.

Conclusions

Therefore, should the rate of employment growth in OC and SDC diminish, the projects in CFD No.2001-2 would required a somewhat longer time to be absorbed. However, the impacts would not be as severe as the prior economic recession, since the current expansion has a sequential geographical development pattern as well as moderate rates of housing price appreciation.

Please refer to the following graph for additional information on the relationships of employment growth, housing price appreciation and changes in stock market values.

ORANGE, SAN DIEGO AND RIVERSIDE COUNTIES THE RELATIONSHIPS BETWEEN TRENDS IN EMPLOYMENT, HOUSING PRICES AND STOCK MARKET RETURNS



	1987-1989	1990-1994	1995-1997	1998-2001	OVERALL
■ EMPLOYMENT: SD/OC/RC	5.34%	0.72%	3.46%	4.50%	3.38%
■ STOCK MARKET	15.87%	12.06%	26.41%	15.72%	14.95%
■ PRICES: OC	18.23%	-2.04%	1.58%	11.47%	5.83%
■ PRICES-SDC	15.61%	-0.36%	1.52%	13.14%	6.21%
■ PRICES: RC	9.86%	1.30%	-4.18%	7.15%	3.67%

ASSUMPTIONS AND LIMITING CONDITIONS

The Market Absorption Study for CFD No.2001-2 is based upon various assumptions and limiting conditions; accordingly, these are as follows:

Title to Property
Property Boundaries
Accuracy of Information from Others
Date of Study
Hidden or Unapparent Conditions
Opinions of a Legal/Specialized Nature
Right of Publication of Report
Soil and Geological Studies
Earthquakes and Seismic Hazards
Testimony or Court Attendance
Maps and Exhibits
Environmental and Other Regulations
Land-Use Regulations and Restrictions
Required Permits and Other Governmental Authority
Liability of Market Analyst
Presence and Impact of Hazardous Material
Structural Deficiencies of Improvements
Presence of Asbestos
Acreage of Property
Designated Economic Scenario
Provision of the Infrastructure; Role of Coordinator
Developer/Builders Responsiveness to Market Conditions
Financial Strength of the Project Developer/Builders
Market Absorption Study Timeliness of Results

For additional information on the various assumptions and limiting conditions, please refer to the comprehensive Market Study.

APPENDIX D
APPRAISAL REPORT

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPRAISAL OF

**Community Facilities District No. 2002-2
(Villages of Avalon)
Perris, California**

PREPARED FOR

City of Perris

PREPARED BY

**Len Perdue, A.S.A.
Real Estate Appraiser**

**Shannon Holsinger, II
Associate Appraiser**

Len Perdue, & Associates
Real Estate Appraiser

January 17, 2002

File No. 01-082

City of Perris
101 North "D" Street
Perris, California 92570

ATTENTION Terry Shea, Finance Director

REFERENCE Community Facilities District No. 2002-2
(Villages of Avalon)
Perris, California

Dear Mr. Shea:

Pursuant to your authorization, I have prepared an appraisal of specific properties located within the above captioned Community Facilities District (CFD). The purpose of the appraisal is to provide the aggregate retail and as-is, "bulk-sale" values for each of the subject ownerships.

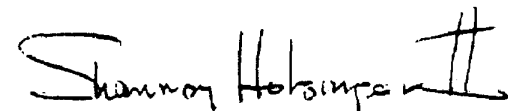
The date of value for this appraisal is **December 1, 2001**. Opinions expressed in the appraisal report rely upon an inspection of the subject properties and an investigation of the environing factors that influence value.

Your attention is directed to the Summary of Values on the following page, as well as the certification and contents of the report that follows.

Sincerely,



Len Perdue, R.S.A.
CA General Certification #AG003101



Shannon Holsinger, ID
Associate Appraiser

2061 3rd St. Suite G
Riverside, CA 92507
(909) 686-6470
Fax (909) 686-9271

VACANT PROPERTIES			
OWNERSHIP	CHARACTER	AGGREGATE RETAIL VALUE "As-Proposed"	DISCOUNTED "BULK- SALE" VALUE
Barratt American, Inc.	1,158 Future residential units	\$63,615,000	\$21,970,000
TOTAL PROJECT :		\$63,615,000	\$21,970,000

CFD No. 2002-2 (VILLAGES OF AVALON)

SUMMARY OF VALUES

TABLE OF CONTENTS

Letter of Transmittal

Summary of Values

Certification.....	1
Limiting Conditions.....	3
Qualifications of Len Perdue.....	5

Introduction

Subject Properties.....	8
Date of Value.....	8
Purpose of the Report.....	8
Property Rights Appraised.....	8
Scope of the Appraisal.....	8
Market Value Defined.....	9
Highest and Best Use Defined.....	9

General Data

Regional Data.....	10
Location Maps.....	11

Valuation

Highest and Best Use.....	12
Approach to Value.....	14
Residential Land Value.....	17
Discounted Value.....	23

Subject Properties

Barratt American.....	27
-----------------------	----

Addenda

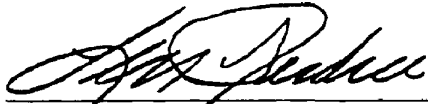
Absorption Study (Dr. Joseph Janczyk)	
---------------------------------------	--

CERTIFICATION

Re: CFD No. 2002-2 (Villages of Avalon)
Perris, California

1. I certify that the appraisal conforms to the Uniform Standards of Professional Appraisal Practice (USPAP) promulgated by the Appraisal Standards Board of Appraisal Foundation.
2. The appraisal assignment was not based on a requested minimum or specific valuation, or on loan approval. I have no financial interest in the loan transaction and do not stand to benefit in any way from the value placed on the property.
3. I have not included a separate assessment of personal property, fixtures, or intangible items that are attached to or located on the real property.
4. Any creative financial or sales concessions that I was made aware of have been adjusted in the comparables of this appraisal.
5. In performing this appraisal, I reviewed all items necessary to obtain a value conclusion. To the best of my knowledge the subject property was not listed for sale at the time of the appraisal inspection.
6. This appraisal was done with an "as is" market value. This is the value of the property in its current physical condition and subject to the zoning in effect as of the current date of value. Additionally, an estimate of "bulk-sale" value has been provided.
7. I certify to have the appropriate knowledge and experience that was necessary to complete this assignment.
8. Sales histories covering a three year period for each ownership are set forth and considered in the body of the report.
9. I have no present or contemplated future interest in the real estate that is the subject of this appraisal report.
10. I have no personal interest or bias with respect to the subject matter of this appraisal report or the parties involved.
11. Neither my compensation nor my employment is contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

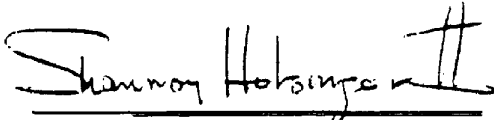
12. To the best of my knowledge and belief, the statements of fact contained in this appraisal report, upon which the analysis, opinions, and conclusions expressed herein are based, are true and correct.
13. This appraisal report sets forth all of the limiting conditions (imposed by the terms of my assignment or by the undersigned) affecting the analyses, opinions, and conclusions contained in this report.
14. This appraisal report has been made in conformity with and is subject to the requirements of the **Code of Professional Ethics and Standards of Professional Conduct** of the American Society of Appraisers, of which I am a senior member. I am certified under the continuing education program of the American Society of Appraisers through 2005.
15. I have successfully completed all requirements by the State of California and designated as a "Certified General Real Estate Appraiser" (Certificate No. AG003101, valid until October 25, 2004).
16. I have made a personal inspection of the property that is the subject of this report.
17. Unless specified otherwise, the person(s) signing this report received no significant professional assistance in its preparation.



Len Ferdue, A.S.A.
Real Estate Appraiser
General Certification #AG003101

January 17, 2002

Dated



Shannon Holsinger, II
Associate Appraiser

January 17, 2002

Dated

LIMITING CONDITIONS

This report is made expressly subject to the following conditions and stipulations:

1. The term "Highest and Best Use" as used herein, is defined as "The reasonable and probable use that supports the highest present value, as defined, as of the date of appraisal. The use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in highest land value."
2. The term "Market Value" as used herein, is defined as: "The most probable price in terms of money which a property should bring in 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."
3. Possession of this report, or a copy thereof, does not carry with it the right of publication, nor may it be used for any purpose by any but the applicant without the previous written consent of the appraiser or the applicant, and in any event only with proper qualifications.
4. The Date of Value to which the conclusions and opinions expressed in this report apply is set forth in the Letter of Transmittal. Further, the dollar amount of any value opinion herein rendered is based on the purchasing power of the United States dollar existing on that date.
5. This report assumes no responsibility for matters which are legal in nature.
6. No opinion of title is rendered, and the property is appraised as though free of all encumbrances and the title marketable.
7. No survey of property boundaries has been made. All areas and dimensions used were taken from sources considered reliable, and no encroachment of real property improvements is considered to exist.
8. The appraiser assumes no responsibility for economic or physical factors which may affect the opinions herein stated occurring at some date after the date of the Letter of Transmittal.
9. Information, estimates and opinions furnished to the appraiser and referred to in this report were obtained from sources considered reliable and believed to be true and correct. Verification was made when feasible.
10. The appraiser reserves the right to make such adjustments to the valuation herein reported as may be required by consideration of additional data or more reliable data that may become available.
11. Maps, plats, and exhibits included herein are for illustration only as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from this report.
12. By reason of preparing this appraisal, the appraiser is not required to give testimony, or to be in attendance in court or at any governmental

or other hearing with reference to the property, without prior arrangements having been made for such additional employment.

13. No soil report for the subject property was available for review. Therefore, values expressed herein are based upon the land being usable with no extensive adverse soil conditions.
14. No evaluation has been made of mineral rights.
15. **Environmental Disclaimer:** The value estimated in this report is based on the assumption that the property is not negatively affected by the existence of hazardous substances or detrimental environmental conditions. The appraiser is not an expert in the identification of hazardous substances or detrimental environmental conditions. The appraiser's routine inspection of and inquiries about the subject property did not develop any information that indicated any apparent significant hazardous substances or detrimental environmental conditions which would affect the property negatively. It is possible that tests and inspections made by a qualified hazardous substance and environmental expert would reveal the existence of hazardous materials and/or environmental conditions on or around the property that would negatively affect its value.

PROFESSIONAL QUALIFICATIONS
LEN PERDUE, A.S.A.
REAL ESTATE APPRAISER
CALIFORNIA GENERAL CERTIFICATION #AG003101

PROFESSIONAL:

February 1984 to Present	Self Employed, Fee Appraiser 2061 3 rd Street, Unit G, Riverside, CA 92507
March 1980 to February 1984	Private Consultation & Fee Appraiser while employed with San Bernardino Co.
October 1973 to January 1984	Chief, Appraisal and Acquisition Sections, Real Property Division, San Bernardino County
October 1964 to October 1973	Supervising Appraiser, Assessor's Office - Riverside County

EDUCATION:

Real estate oriented courses involving appraisal and economics at the following institutions:

Riverside City College, Riverside; University of California, Riverside

SPECIAL EDUCATION:

Residential Cost Estimating (SBE)	Income Approach to Value (5A)
Advanced Income Valuation (55) (SBE)	Residential Design
Appraisal of Rural Land (SBE)	Advanced Rural Appraisal (SBE)
Economics of R/of Way Val. (IRWA)	Open Space Lands (SBE)
Discounted Cash Flow Analysis (AIRE)	Relocation Assistance (IRWA)
Business & Intangibles Val.	

DESIGNATIONS:

General Certification, State of California #AG003101
Senior Member, American Society of Appraisers, A.S.A.

EXPERIENCE:

Extensive work in appraisals for condemnations and land-based financings. I have associated in appraisals for financial organizations, corporations, attorneys-at-law, private parties, and various public agencies. My appraisal experience includes determinations of fee simple, leased fee, leasehold, and sandwich leasehold interests in various type of real property, including:

RESIDENTIAL

Residential lot, acreage, subdivision (existing and proposed), single family residence, planned unit development unit, condominium unit, small residential income (2-4 units), apartment complex, planned unit development project, condominium project.

Professional Qualifications

Len Perdue, A.S.A.

Page Two

EXPERIENCE (CONTINUED):

COMMERCIAL

Vacant commercial land, acreage, subdivision, stand-alone office/retail, strip center, shopping center (neighborhood and regional), multi-tenant/mid-rise office, hotel, motel, assisted living/convalescent care facility, new/used car sales lot, coin-operated car wash, automatic car wash, mini-lube, auto repair, golf course, bank branch, dairy farm, movie theater, promenade, fast-food drive-thru, walk-up, and dine-in restaurant, convenience store, mini-mart, service station

INDUSTRIAL

Vacant industrial land, acreage, subdivision, industrial building, industrial park, industrial condominium unit, open storage, mini-storage, concrete batch plant, warehouse building, manufacturing building,

INSTITUTIONAL

Open space, wildlife preserve, recreation area, airport, school site, Head Start program matching funds, Mello-Roos land-based financing, assessment districts, eminent domain, historical landmark, Quimby fee determination, landfill, fire station, sheriff training facility

NOTABLE PROPERTIES

Holiday Inn Hotel, Riverside California. Gateway of The Americas (NAFTA designated border crossing), Calexico, California. Virginia Dare Winery (historical property), Rancho Cucamonga, California. Assessment District 159 (largest in state), Temecula, California. Desert Hills Factory Outlets, Cabazon, California. Birch Street Promenade, Brea, California.

Analysis of these types of property have been performed for various purposes, including lending/purchasing decisions, eminent domain actions, land-based financing, equity-based financing, property tax appeal, charitable contribution, partnership formation/dissolution, divorce, self-insurance, negotiation, and estate planning.

GEOGRAPHICAL SCOPE:

CURRENT

Counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Imperial, California

HISTORICAL

Real estate consultive and appraisal services performed in California, Arizona, Florida, Ohio, and Michigan

QUALIFIED: Expert witness on Valuation in:

Superior Court of Riverside, Superior Court of San Bernardino, Federal Bankruptcy Court, San Bernardino, Federal Bankruptcy Court, Los Angeles, Municipal Court, Riverside County

**LEN PERDUE AND ASSOCIATES
REAL ESTATE APPRAISERS
LIST OF CLIENTELE**

Financial Institutions

O'Connor & Company Securities, Vineyard National Bank, De Anza National Bank, Upland Bank, Valley Independent Bank, Pacific Federal Savings & Loan, Commonwealth Mortgage, First Trust Bank, Mason McDuffie, Medallion Mortgage, Provident Savings & Loan, Inland Empire National Bank, Funders Mortgage, Security Pacific National Bank, Imperial Savings & Loan, Wells Fargo Bank, Weyerhaeuser Mortgage, Crocker Citizens National Bank, Merabank Corporation, Investors Mortgage, Drexell Burnam, Fidelity Federal Savings, East/West Bank, Riverside National Bank, First Interstate Bank, Queen City Bank

Attorneys

Best, Best & Krieger
Latham & Watkins
Reid & Hellyer
Gresham, Varner & Savage
Luce, Forward, Hamilton & Scripps
Cadwalader, Wickersham & Taft
Bowie Arneson Kadi Wiles & Giannone

Redwine & Sherrill
Ruttan & Tucker
Rutter, O'Sullivan, Green & Hobbs
Chase, Rotchford, Drukker & Bogust
Robert Waldron
Tuttle & Taylor

Public Agencies

FEDERAL

Federal Deposit Insurance Corporation (FDIC)

STATE

State of California Department of Justice, University of California

COUNTY

County of Riverside, County of San Bernardino, County of Imperial, Riverside County Flood Control and Water Conservation District, Riverside County Redevelopment Agency, San Bernardino Associated Governments, Riverside County Office of Education, Housing Authority of the County of Riverside

CITY

Cities of Riverside, Ontario, Rialto, Norco, Rancho Cucamonga, Big Bear Lake, Chino, Chino Hills, La Quinta, Lake Elsinore, San Bernardino, Temecula, Hesperia, Coachella, Palm Springs, Palm Desert, Banning, Montclair, Brea.

SCHOOLS

Riverside Unified School District, Perris Union High School District, Nuvview School District, Elsinore Union High School District, Jurupa Unified School District, Rim of the World School District, Moreno Valley School District, Menifee School District, Redlands Unified School District, Nuevo School District.

UTILITIES

Elsinore Valley Municipal Water District, Western Municipal Water District, Eastern Municipal Water District, Big Bear Municipal Water District, Riverside CSA 151.

INTRODUCTION

Subject Property: The properties included within the Villages of Avalon project area (CFD No. 2002-2) include 1,158 future residential units in a single ownership situated generally at the western edge of the Lake Perris Recreation Area in the City of Perris.

This appraisal analysis considers the areas of vacant land within the district as they were on the date of value, which is **December 1, 2001**.

Purpose of the Report: The purpose of this report is to estimate the aggregate retail value of the ownership in its "as-proposed" condition, as well as a discounted present value of each of the properties assuming a reasonable absorption period and bulk sale of finished lots, where applicable.

Property Rights Appraised: The property rights appraised in the subject valuation are fee simple and assume a marketable title for all the properties.

Scope of the Appraisal: In the course of this assignment, I have inspected the subject property, including a physical inspection of each of the sites to determine the number, type, and location of each of the properties within the ownerships. I have reviewed the zoning and general market of the district, determined comparable areas to research property transactions, investigated sales of residentially and commercially-zoned properties. I have also interviewed tract agents regarding current listings and the general state of the local market, analyzed the raw data obtained and confirmed the sales utilized in this report by interviewing principals or agents of the transactions where possible. The developers of active tracts in the area were solicited for specific information regarding development costs, anticipated profit, and historical sales data.

I have also investigated the market and development activities of the communities and neighborhoods which impact the subject properties.

Market Value Defined: "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 typically or well advised, and each acting in what he considers his 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.

Highest and Best Use Defined: The term "highest and best use" as used herein is defined as: "The reasonable and probable use that supports the highest present value, as defined, as of the date of the appraisal. The use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in highest present land value."

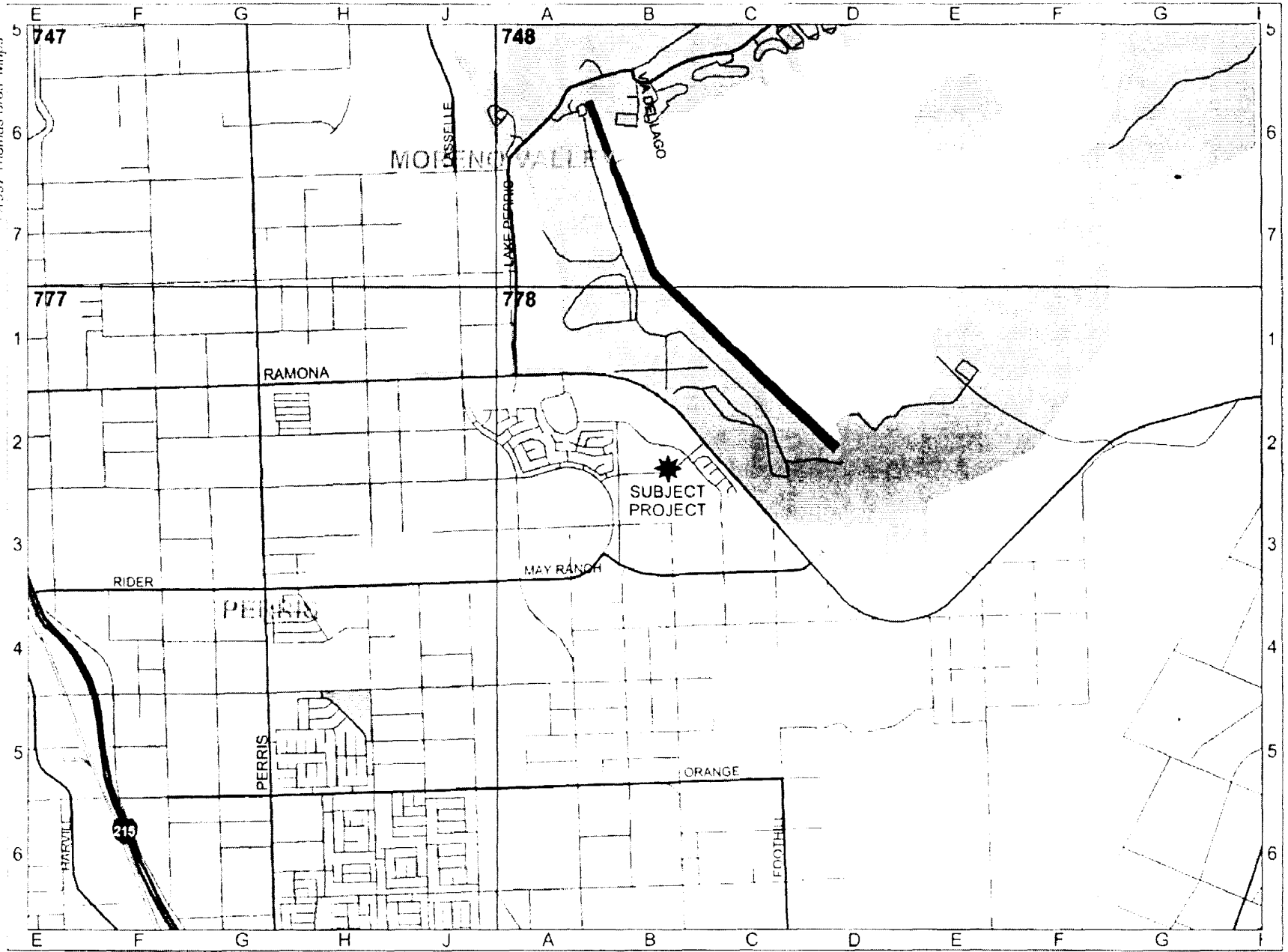
REGIONAL DATA

Information pertaining to the regional and local demographics and market conditions relevant to the subject district is provided in a study by Doctor Joseph Thomas Janczyk of Empire Economics, entitled "Market Absorption Study, CFD No. 2002-2 (Villages of Avalon)." A copy of Dr. Janczyk's study is incorporated in the addenda section of this report, and was relied upon in making conclusions regarding area market conditions, and anticipated absorption of undeveloped properties.

To synopsise Dr. Janczyk's study as it relates to the market within the subject background, the area is in a period of recovery after recessionary decline, and projects within CFD 2002-2 are anticipated to remain competitive with competing developments in surrounding districts and communities. Recent market activity and demand have increased dramatically in recent months after a period of recessionary ebb. Demand is anticipated to remain strong into the foreseeable future.

Conclusions: Dr. Janczyk's conclusions appear reasonable based upon his analyses and the data presented. Ongoing evidence of economic recovery is noticeable throughout the greater Inland Empire, lending further support to the conclusion that demand is anticipated to remain stable to increasing into the foreseeable future.

©1997 Thomas Bros. Maps



★ SUBJECT PROJECT: W/of Ramona Expressway, Perris, 92571, Page & Grid 778 B2

HIGHEST AND BEST USE

Highest and best use of a property is defined as:

"The reasonable and probable use that supports the highest present value of vacant land or improved property, as defined, as of the date of appraisal.

The reasonably probable and legal use of land or sites as though vacant, found to be physically possible, appropriately supported, financially feasible, and that results in highest present land value."

The above definition sets the standards an appraiser must follow in the estimation of highest and best use. One must consider all possible uses for the property and ascertain those uses which are legally permissible, physically possible, and financially feasible. The appraiser must then determine that use which appears to result in highest land value.

Highest and best use of the subject properties are analyzed in both as vacant and as improved conditions, where the discussion of as improved is appropriate. The discussion of highest and best use as though vacant considers the subject properties as vacant land, and the discussion of highest and best use as improved analyzes whether or not the existing facilities on the appropriate subject parcels constitute highest and best use. Comments regarding the categories of comparison follow.

HIGHEST AND BEST USE AS VACANT

Assumptions regarding the legal considerations are based on review of Approved tentative tract maps for the subject ownership and entitlements allowed by the City of Perris through their review process. Densities analyzed for the ownership are based upon those approved by the City. While it is considered feasible that ultimate densities could be altered during development of the respective ownerships, such alterations are typically not made unless there is both adequate financial incentive for

the developer and any proposed alteration is consistent with the development standards held by the city. As the specific future use of all properties within the project has already been legally defined by the City of Perris, and the economic analysis of the subject and surrounding districts provided by Dr. Janczyk indicates that demand is adequate to support development, it is my opinion that the highest and best use of the subject properties, as vacant, would be development to their designated use within the plan and in accordance with Dr. Janczyk's absorption schedule.

APPROACH TO VALUE

The uses valued in this report consist of vacant residential land slated for future subdivision and development as well as vacant commercial land. Each required a somewhat different type of analysis.

VALUATION METHODOLOGIES:

The methodology used in the valuation analysis included the Sales Comparison Approach and the Discounted Cash Flow Analysis, which is a variation of the Income Approach. The definitions of these approaches are as follows:

Sales Comparison Approach: In this Approach, the subject property is compared to similar properties which have recently sold. Differences between the subject and the comparable sales are analyzed and appropriate adjustments are made to the sales prices of the comparables based on the elements of comparison.

Income Capitalization Approach: In this Approach, the anticipated benefits to be received from the subject property are converted into an indication of property value. This is accomplished either by capitalizing the income expectancy from a single year or an average of several years utilizing an appropriate rate or by discounting annual cash flows over the holding period utilizing an appropriate yield rate.

The **Development Approach** is a variation of the Income Approach, whereby the costs of development and the probable proceeds from the sale of developed sites is discounted over the period of estimated sellout.

The Replacement Cost Approach was not considered applicable to the valuation of any of the subject properties as this method does not accurately relate to the discounting of revenues and expenses over the period of absorption.

NOTE: There are a number of properties scheduled for development in the subject ownership that will potentially accrue view or size premium amenities. The achievable premium for such amenities varies from property to property, and is largely dependent upon the character and price range of the base residential product being developed. There is as yet an inadequate historical sales record from which to determine market response to and tolerance of premium lot amenities. As such, no premiums are considered in this valuation, as it is considered impossible to accurately determine the degree of view or location that would be applicable to any specific property without a physical inspection of that property and an historical market trend in the immediate background. Therefore, in the interest of conservatism, no value premiums are considered for variances in view or size.

RESIDENTIAL VACANT LOTS:

Transactions of residential lots occurring in the subject and similar competing districts were utilized in the determination of a finished lot value for the subject properties using the Sales Comparison Analysis Approach.

Impact of Mello-Roos Tax Encumbrance When a lot in CFD 2002-2 is improved with a residence and sold, the homeowner assumes the special tax burden. The net effect on the purchaser appears in the form of buyer resistance due to a significantly higher property tax burden. In the case of this analysis, sales utilized were encumbered with similar assessments, and thus reflect the net effect on value to the developer and end user.

Lot Construction Costs: The developmental status of the lots in the ownership consists of raw approved parcels. To arrive at an "as is"

retail value for the ownership which reflects the differing stages of development, we have deducted the construction costs attributable to the ownership from the estimated unencumbered finished lot values.

DISCOUNTED CASH FLOW ANALYSIS:

This analysis has been used to determine the "Bulk Sale" value of the subject properties that are subject to an extended marketing or absorption period, as determined in Dr. Janczyk's study. The approach is a variation of the Income Approach and is used when a relatively long holding (sellout) period is anticipated for the subject property.

LAND VALUATION

Land is valued as if vacant and available for development to its highest and best use. Similar land recently sold or offered for sale is analyzed and comparisons made for such factors as size, location, physical characteristics, and prospective use. A search of County records and discussions with area developers and real estate agents produced the transactions which have been utilized in this report.

Finished Residential Lots:

The valuation of an individual finished residential lot within a new residential subdivision presents a unique problem for analysis. Typically, lots are sold to developers or merchant builders in bulk transactions, and in various stages of development from raw mapped land to fully completed lots. Bulk sales involving partially completed or incomplete lots require that the costs to finish the lots be known in order to provide a Proposed finished lot value. Additionally, bulk sales of lots, regardless of construction status, reflect the buyer's determination of internal rate of return (IRR) and profit, and include a discount for the time value of money for the initial capital investment, cost of financing, and holding costs over an anticipated absorption period (the lots will take time to construct and sell to end users). This information is extremely sensitive, and held proprietary by the purchaser. Without estimating absorption, and knowing the merchant builder's expectations of IRR, it is not possible to accurately determine the actual cost of a single finished lot from the bulk-sale of multiple lots.

It is much easier to determine with greater accuracy anticipated profit margins and construction costs for new tract residences than to determine a builder's anticipated IRR and absorption (which are also subject to more frequent and greater fluctuation). Using this information, the value of a finished lot can be extracted from the sale price of an individual home.

A survey of bulk-sale land transactions occurring in the subject background revealed 13 comparable transactions, ranging from \$48,000 to \$67,000 (estimated by buyer) per finished lot, with a median of \$53,000, and an average of \$55,000(r) per lot. While these transactions actually sold for differing per-lot values based upon their state of construction and buyer anticipation of IRR and absorption, the buyer's estimate of finished lot costs are nonetheless considered as a rule and guide of finished lot value. Since the actual finished lot values are based upon builder's estimates, which rely upon proprietary and confidential calculations, these transactions are not listed in detail, and are meant only to serve as an indication of current builder anticipation in the subject market area.

A more accurate method of determination of finished lot value for a single residential tract lot is analyzed utilizing land value extraction.

Land Value Extraction: The land value extraction method undertakes to determine the land value presently being achieved in competing projects as individual units sell to end users.

In this analysis, 18 competing residential tracts were surveyed to determine their present model line, sales price, and cost of construction. Many builders are reluctant to divulge exact construction cost figures and profit. As a result, they were asked

to provide general information if specific information was not provided. Unless otherwise noted, a general figure of \$36 per square foot is applied to the living area of each residence to provide an indication of construction cost. Also included in the overall instruction cost are indirect costs, the cost of financing construction, which was estimated at six months for residential unit, and based upon an 11-percent interest rate, as well as profit, which is considered at 10-percent of construction cost, and cost of sale, which is considered at 6-percent of construction cost. This latter figure represents the cost of marketing and sale, as well as developer overhead. None of these costs, direct or indirect, are applicable to the land development. As a result, the indicator produced reflects the portion of the sales price attributable to land, including profit on development, cost of development, land purchase price, and holding cost associative with land development.

The land value extraction analysis completed on the seventy one competing residential models in and near the subject district is set forth on the following page.

Project	Development	City	Builder	Model	Size	Base Price	Cost/sf	Cost	Fees	Indirects	Financing	Profit	CostofSale	Total Const	LandValue	Adjust(%)	Adjust(\$)	Adj.Land	
Abbey Lane	None	Menifee	Lennar Homes		1	1,883	\$183,990	\$37	\$69,671	\$24,796	\$14,719	\$4,641	\$8,439	\$5,063	\$127,329	\$56,661	0%	\$0	\$56,661
Abbey Lane	None	Menifee	Lennar Homes		2	2,374	\$204,990	\$37	\$87,838	\$26,490	\$16,399	\$5,733	\$10,424	\$6,254	\$153,138	\$51,852	0%	\$0	\$51,852
Abbey Lane	None	Menifee	Lennar Homes		3	2,473	\$218,990	\$37	\$91,501	\$26,832	\$17,519	\$5,996	\$10,902	\$6,541	\$159,291	\$59,699	0%	\$0	\$59,699
Abbey Lane	None	Menifee	Lennar Homes		4	2,904	\$236,990	\$37	\$107,448	\$28,319	\$16,959	\$6,952	\$12,841	\$7,584	\$181,903	\$55,087	0%	\$0	\$55,087
Ageans	The Oasis	Menifee	Ryland	Carmen	1,653	\$187,990	\$37	\$61,161	\$24,003	\$15,039	\$4,191	\$7,620	\$4,572	\$116,586	\$71,404	-25%	(\$17,851)	\$53,553	
Ageans	The Oasis	Menifee	Ryland	Cozumel	1,776	\$194,990	\$37	\$65,712	\$24,427	\$15,589	\$4,472	\$8,131	\$4,879	\$123,220	\$71,770	-25%	(\$17,943)	\$53,827	
Ageans	The Oasis	Menifee	Ryland	Curaco	1,973	\$206,990	\$37	\$73,001	\$25,107	\$16,559	\$4,926	\$8,956	\$5,374	\$133,923	\$73,067	-25%	(\$18,267)	\$54,800	
Antilles	The Oasis	Menifee	Ryland	Barcelona	2,327	\$214,990	\$37	\$86,099	\$26,328	\$17,199	\$5,681	\$10,330	\$6,198	\$151,835	\$83,155	-20%	(\$12,631)	\$50,524	
Antilles	The Oasis	Menifee	Ryland	Bellagio	2,455	\$229,990	\$37	\$90,835	\$26,770	\$18,399	\$6,008	\$10,923	\$6,554	\$159,489	\$70,501	-20%	(\$14,100)	\$56,401	
Antilles	The Oasis	Menifee	Ryland	Bonairs	2,134	\$202,990	\$37	\$78,958	\$25,662	\$16,239	\$5,236	\$9,520	\$5,712	\$141,327	\$81,683	-20%	(\$12,333)	\$49,330	
Azores	The Oasis	Menifee	Ryland	Marbnsa	1,295	\$164,990	\$37	\$47,915	\$22,768	\$13,199	\$3,981	\$6,111	\$3,667	\$97,021	\$67,969	-20%	(\$13,594)	\$54,375	
Azores	The Oasis	Menifee	Ryland	Marinique	1,523	\$183,990	\$37	\$56,351	\$23,554	\$14,719	\$3,909	\$7,107	\$4,264	\$109,904	\$74,086	-20%	(\$14,817)	\$59,269	
Azores	The Oasis	Menifee	Ryland	Montreaux	1,771	\$195,990	\$37	\$65,527	\$24,410	\$15,879	\$4,468	\$8,121	\$4,872	\$123,075	\$72,915	-20%	(\$14,583)	\$58,332	
Brookshire	Menifee Hills	Menifee	Woodside Homes		1	1,527	\$173,990	\$37	\$56,499	\$23,568	\$13,819	\$3,873	\$7,042	\$4,225	\$109,126	\$64,864	0%	\$0	\$64,864
Brookshire	Menifee Hills	Menifee	Woodside Homes		2	1,724	\$182,990	\$37	\$63,788	\$24,248	\$14,639	\$4,313	\$7,843	\$4,706	\$119,537	\$63,453	0%	\$0	\$63,453
Brookshire	Menifee Hills	Menifee	Woodside Homes		3	1,961	\$187,990	\$37	\$72,557	\$25,065	\$15,039	\$4,818	\$8,760	\$5,256	\$131,495	\$56,495	0%	\$0	\$56,495
Brookshire	Menifee Hills	Menifee	Woodside Homes		4	2,119	\$194,990	\$37	\$78,403	\$25,611	\$15,589	\$5,170	\$9,400	\$5,640	\$139,823	\$55,167	0%	\$0	\$55,167
Country Meadows	None	Menifee	Forecast Homes	Plan Four	2,000	\$184,990	\$37	\$74,000	\$25,200	\$14,799	\$4,884	\$8,880	\$5,328	\$133,091	\$51,899	0%	\$0	\$51,899	
Country Meadows	None	Menifee	Forecast Homes	Plan One	1,342	\$161,990	\$37	\$49,654	\$22,930	\$12,959	\$3,444	\$6,261	\$3,757	\$99,005	\$62,985	0%	\$0	\$62,985	
Country Meadows	None	Menifee	Forecast Homes	Plan Three	1,757	\$175,990	\$37	\$65,009	\$24,362	\$14,079	\$4,350	\$7,909	\$4,745	\$120,454	\$55,536	0%	\$0	\$55,536	
Eagle Ridge	Hillpoint	Menifee	Canada & Company		1	1,739	\$166,990	\$37	\$64,343	\$24,300	\$13,359	\$4,274	\$7,770	\$4,662	\$118,708	\$48,282	0%	\$0	\$48,282
Eagle Ridge	Hillpoint	Menifee	Canada & Company		2	1,858	\$176,990	\$37	\$68,746	\$24,710	\$14,159	\$4,560	\$8,291	\$4,874	\$125,440	\$51,550	0%	\$0	\$51,550
Eagle Ridge	Hillpoint	Menifee	Canada & Company		3	2,084	\$189,990	\$37	\$77,108	\$25,490	\$15,199	\$5,077	\$9,231	\$5,538	\$137,643	\$52,347	0%	\$0	\$52,347
Fiesta	Sunset Ranch	Moreno Valley	Fiesta Development		1585	1585	\$169,990	\$36	\$57,060	\$23,768	\$13,599	\$3,886	\$7,066	\$4,240	\$109,619	\$60,371	0%	\$0	\$60,371
Fiesta	Sunset Ranch	Moreno Valley	Fiesta Development		1854	1854	\$189,990	\$36	\$66,744	\$24,696	\$15,199	\$4,507	\$8,194	\$4,817	\$124,257	\$65,733	0%	\$0	\$65,733
Fiesta	Sunset Ranch	Moreno Valley	Fiesta Development		2409	2409	\$199,990	\$36	\$86,724	\$26,611	\$15,999	\$5,650	\$10,272	\$6,163	\$151,419	\$48,571	0%	\$0	\$48,571
Fiesta	Sunset Ranch	Moreno Valley	Fiesta Development		2558	2558	\$201,990	\$36	\$92,088	\$27,125	\$16,159	\$5,954	\$10,825	\$6,495	\$158,646	\$43,344	0%	\$0	\$43,344
Mandalay	Moreno Valley Ranch	Moreno Valley	Lewis Homes		1	1,443	\$164,990	\$36	\$51,948	\$23,278	\$13,199	\$3,583	\$6,515	\$3,809	\$102,432	\$62,558	0%	\$0	\$62,558
Mandalay	Moreno Valley Ranch	Moreno Valley	Lewis Homes		2	1,637	\$171,990	\$36	\$58,932	\$23,948	\$13,759	\$3,998	\$7,269	\$4,361	\$112,267	\$59,723	0%	\$0	\$59,723
Mandalay	Moreno Valley Ranch	Moreno Valley	Lewis Homes		3	1,975	\$179,990	\$36	\$71,100	\$25,114	\$14,399	\$4,702	\$8,550	\$5,130	\$128,995	\$50,995	0%	\$0	\$50,995
Mandalay	Moreno Valley Ranch	Moreno Valley	Lewis Homes		4	2,077	\$185,990	\$36	\$74,772	\$25,466	\$14,878	\$4,931	\$8,965	\$5,379	\$134,392	\$51,598	0%	\$0	\$51,598
Menifee Heights	None	Menifee	Fairway Homes		1	1,354	\$158,990	\$37	\$50,098	\$22,971	\$12,719	\$3,455	\$6,282	\$3,769	\$99,294	\$59,696	0%	\$0	\$59,696
Menifee Heights	None	Menifee	Fairway Homes		2	1,572	\$172,990	\$37	\$58,164	\$23,723	\$13,839	\$3,960	\$7,200	\$4,320	\$111,206	\$61,784	0%	\$0	\$61,784
Menifee Heights	None	Menifee	Fairway Homes		3	1,904	\$184,990	\$37	\$70,448	\$24,869	\$14,799	\$4,689	\$8,525	\$5,115	\$128,445	\$56,545	0%	\$0	\$56,545
Menifee Heights	None	Menifee	Fairway Homes		4	2,118	\$192,990	\$37	\$78,366	\$25,607	\$15,439	\$5,159	\$9,381	\$5,628	\$138,580	\$53,410	0%	\$0	\$53,410
Menifee Valley	None	Menifee	Citation Homes	Residence 1	1,558	\$161,990	\$37	\$57,646	\$23,675	\$12,959	\$3,883	\$7,061	\$4,236	\$109,460	\$52,530	0%	\$0	\$52,530	
Menifee Valley	None	Menifee	Citation Homes	Residence 2	1,715	\$170,990	\$37	\$63,455	\$24,217	\$13,679	\$4,242	\$7,713	\$4,628	\$117,934	\$53,056	0%	\$0	\$53,056	
Menifee Valley	None	Menifee	Citation Homes	Residence 3	1,954	\$180,990	\$37	\$72,298	\$25,041	\$14,479	\$4,773	\$8,678	\$5,207	\$130,476	\$50,514	0%	\$0	\$50,514	
Mountain View	None	Moreno Valley	Ryland Group		1	1,653	\$167,990	\$36	\$59,508	\$24,003	\$13,439	\$4,012	\$7,295	\$4,377	\$112,634	\$55,356	0%	\$0	\$55,356
Mountain View	None	Moreno Valley	Ryland Group		2	1,778	\$173,990	\$36	\$64,008	\$24,434	\$13,919	\$4,286	\$7,793	\$4,676	\$119,116	\$54,874	0%	\$0	\$54,874
Mountain View	None	Moreno Valley	Ryland Group		3	2,120	\$182,990	\$36	\$76,320	\$25,614	\$14,639	\$5,003	\$9,096	\$5,458	\$136,130	\$46,860	0%	\$0	\$46,860
Mountain View	None	Moreno Valley	Ryland Group		4	1,180	\$128,990	\$36	\$42,480	\$22,371	\$10,319	\$2,904	\$5,280	\$3,168	\$86,522	\$42,468	0%	\$0	\$42,468
Mountain View	None	Moreno Valley	Ryland Group		5	1,323	\$141,990	\$36	\$47,628	\$22,864	\$11,359	\$3,244	\$5,899	\$3,539	\$94,533	\$47,457	0%	\$0	\$47,457
Mountain View	None	Moreno Valley	Ryland Group		6	1,523	\$159,990	\$36	\$54,828	\$23,554	\$12,799	\$3,719	\$6,763	\$4,058	\$105,721	\$54,269	0%	\$0	\$54,269
Newport Canyon	Menifee Hills	Menifee	Laing Homes	Breitling 5	3,142	\$247,990	\$37	\$116,254	\$29,140	\$18,939	\$7,485	\$13,609	\$8,166	\$194,493	\$53,497	0%	\$0	\$53,497	
Newport Canyon	Menifee Hills	Menifee	Laing Homes	Jules Verne 1	2,152	\$196,990	\$37	\$79,624	\$25,724	\$15,759	\$5,246	\$9,538	\$5,723	\$141,614	\$55,376	0%	\$0	\$55,376	
Newport Canyon	Menifee Hills	Menifee	Laing Homes	Solo Spirit 2	2,663	\$219,990	\$37	\$98,531	\$27,487	\$17,589	\$6,387	\$11,613	\$6,988	\$168,585	\$51,405	0%	\$0	\$51,405	
Pacific Landing	None	Perris	Pacific Communities		1	1,625	\$161,990	\$36	\$58,500	\$23,906	\$12,959	\$3,930	\$7,146	\$4,288	\$110,729	\$51,261	0%	\$0	\$51,261
Pacific Landing	None	Perris	Pacific Communities		2	2,198	\$182,990	\$36	\$79,128	\$25,883	\$14,639	\$5,157	\$9,377	\$5,828	\$139,810	\$43,180	0%	\$0	\$43,180
Pacific Landing	None	Perris	Pacific Communities		3	2,365	\$193,990	\$36	\$85,140	\$26,459	\$15,519	\$5,536	\$10,066	\$6,040	\$148,760	\$45,230	0%	\$0	\$45,230
Shadow Mountain	None	Moreno Valley	MV Development		1	1,983	\$189,990	\$36	\$71,388	\$25,141	\$15,199	\$4,782	\$8,659	\$5,195	\$130,344	\$59,646	0%	\$0	\$59,646
Shadow Mountain	None	Moreno Valley	MV Development		2	2,397	\$211,990	\$37	\$88,689	\$26,570	\$16,959	\$5,811	\$10,565	\$6,339	\$154,933	\$57,057	0%	\$0	\$57,057
Shadow Mountain	None	Moreno Valley	MV Development		3	2,401	\$208,990	\$37	\$86,837	\$26,583	\$16,719	\$5,806	\$10,556	\$6,333	\$154,834	\$54,156	0%	\$0	\$54,156
Shadow Mountain	None	Moreno Valley	MV Development		4	2,646	\$226,990	\$37	\$97,902	\$27,429	\$18,159	\$6,383	\$11,606	\$6,964	\$168,443	\$58,547	0%	\$0	\$58,547
Shadow Mountain	None	Moreno Valley	MV Development		5	3,011	\$253,990	\$37	\$111,407	\$28,688	\$20,319	\$7,245	\$13,173	\$7,904	\$188,736	\$65,254	0%	\$0	\$65,254
Shadow Mountain	None	Moreno Valley	MV Development		6	3,012	\$247,990	\$37	\$111,444	\$28,691	\$19,839	\$7,221	\$13,128	\$7,877	\$188,200	\$59,790	0%	\$0	\$59,790
Silver Crest	None	Moreno Valley	Beazer Homes	Bronze	2,325	\$203,990	\$36	\$83,700	\$26,321	\$16,319	\$5,501	\$10,002	\$6,001	\$147,844	\$56,146	0%	\$0	\$56,146	
Silver Crest	None	Moreno Valley	Beazer Homes	Garnet	1,802	\$179,990	\$36	\$64,872	\$24,517	\$14,399	\$4,360	\$7,927	\$4,756	\$120,831	\$59,159	0%	\$0	\$59,159	
Silver Crest	None	Moreno Valley	Beazer Homes	Opal	2,002	\$180,990	\$36	\$72,072	\$25,207	\$14,479	\$4,760	\$8,655	\$5,193	\$130,366	\$50,624	0%	\$0	\$50,624	
Silver Crest	None	Moreno Valley	Beazer Homes	Silver	2,512	\$202,990	\$36	\$80,432	\$26,966	\$1									

As indicated in the analysis set forth on the previous page, president per lot values obtained by competing developers in this area range from \$38,045 to \$65,733. This range, which includes 71 models surveyed, indicates a median per lot value of \$54,269, and an average per lot value of \$53,958. In each case, base sales prices were utilized, and thus lot values do not reflect any lot premiums added during the sales process. Base land adjustments were required to properties in the Menifee Lakes and Oasis planned developments, as these projects enjoy master planned amenities that are considered superior to the subject, and which are reflected in the unadjusted value of the land.

Conclusions: Surveyed bulk-sale transactions in the subject district are based upon builder expectations of achieving a finished lot value ranging from \$48,000 to \$67,000 per lot, with a median of \$53,000 and an average of \$55,000 per lot. This closely matches actual extracted land values from current home sales in active tracts, which produce an indicated finished lot value range from \$38,045 to \$65,733, with a median of \$54,269 and an average of \$53,958 per finished lot. The Mountain View and Pacific Landing developments are considered most similar to the subject, and together provide a range from \$43,180 to \$55,536, with a median of \$49,359 per lot, and an average of \$49,833 per lot.

The subject consists of a ratio of 20% in the 3,600 s.f. range, 62% in the 4,000 s.f. range, and 18% in the 5,000 s.f. range. As a result, it is generally larger than the two most comparable subject properties, and would be expected to fall near the upper level of the indicated value spectrum. Therefore, based upon the data and reasoning set forth in the preceding analyses, it is my opinion that the value of the subject finished lots, exclusive of any lot premiums, would be equivalent to **\$52,000 per unit** for the 231 lots

DISCOUNTED VALUE

This analysis recognizes the discount applicable to a bulk sale of the vacant land located within the subject development that is scheduled for subdivision and eventual development for sale to an end user. The projected cash flow from the sale of the subject properties to ultimate users at retail value levels is discounted for the period of time estimated for complete absorption and basically recognizes the time value of money.

Procedural steps in the analysis are as follows:

1. Estimate a reasonable period of time for absorption of the project.
2. Estimate the revenue to be received over the period of absorption.
3. Estimate the holding and selling costs, including general and administrative, sales commissions, marketing and property taxes.
4. Estimate the applicable rate for discounting.

ABSORPTION

Absorption rates for the subject district have been determined by Dr. Joseph Janczyk of Empire Economics in his study, which is attached in the Addenda section of this report. The absorption study includes the forthcoming residential subdivisions in the subject ownership. Anticipated future absorption of these properties, as stated in the absorption study, are summarized as follows:

Villages of Avalon		
YEAR	UNITS SOLD	UNITS REMAINING
2001 Remaining	0	1158
2002	120	1038
2003	120	918
2004	197	721

2005	190	531
2006	189	342
2007	127	215
2008	110	105
2009	105	0

LAND DEVELOPMENT COSTS:

Many of the future residential units in the ownerships that are subject to discount reflect either partially finished lots, or undeveloped land. The cost to complete each lot prior to sale is deducted from the finished lot value to arrive at an "as-is" value for each of the future residential parcels. This cost estimate is based upon interviews with the developers, as well as the comparable sales utilized in this report, and engineers cost estimates provided for similar projects in the vicinity. Estimated costs to complete each lot are calculated at \$23,800.

These figures do NOT include development fees that will be credited to the builder as a result of the public financing, and thus represent the cost to finish the properties in the "after" condition (assuming public financing has been obtained). Thus, the benefit of the land-based financing is reflected in lower development costs to the merchant builders as shown above.

Additionally, there is a completion bond in place which guarantees the completion of land development to a total amount of approximately \$32,000,000. Although no land development has physically occurred on the site, the completion bond effectively provides "finished" lots throughout the project in that, should the current owner fail to develop the land, the bond would provide for the funds necessary to perform the task.

While all lots in the district boundaries are covered by this completion bond, it is considered too speculative to value the entire district as though in finished lot condition. Until the physical improvements are

actually in place, there remains speculation, however minimal, as to the potential failure of the bond to provide funds for land improvement as specified. Should the developer fail to perform, it is considered entirely reasonable to assume that the bond would be enforced in full force. Such an assumption is, however, considered too speculative for the purposes of this analysis. As a result, only the first planned phase of development, consisting of 315 lots, or approximately 27% of the district, is considered as though finished for the purposes of this analysis. This, in our opinion, adequately reflects potential contribution of the completion bond, without creating a speculative condition in the valuation methodology.

Again, it should be noted that no physical improvements actually exist on the property, but that the first phase of development (315 lots) is valued as though finished based upon the completion bond in effect. Further, that the estimated \$7,500,000+/- in value given to this completion bond in the appraisal analysis represents only a portion of the actual \$32,000,000 guarantee, providing a conservative estimate of the potential contribution value of this bond.

Thus, in the discounting process, the first 315 lots are considered to have a zero dollar cost to complete (they being covered by the bond). The remaining lots, although also covered by the bond, are considered to have a \$23,800 cost to finish for the purposes of this analysis. Thus, should the developer fail to perform and the bond be called, the actual value to the new developer or investor of the bonded improvements would greatly exceed the value given in this analysis.

GENERAL EXPENSES AND MARKETING COSTS:

Estimated expenses during the absorption period are deducted from the gross income received. Items of general expense include accounting, management, supervision, office expense, insurance, travel, marketing, and miscellaneous categories. The amount of these expenses is distributed evenly over the absorption period for the active projects. Developers report that such expenses typically amount to two to four percent of sales and 2.5-percent has been utilized for this analysis,

reflecting the fact that the properties are selling from within an established master planned community.

Base and special tax rates are utilized as provided by the Riverside County Assessor's Office, and include special taxes already in place for CFD 2002-2.

Marketing costs include commission, advertisements, and other incidental costs related to sales. Typical expenses for projects of this type are approximately 3 percent of sales.

DEVELOPER'S PROFIT

Developer's profit is estimated at an overall 10 percent of the revenues over the period of absorption.

DISCOUNT RATE:

The discount rate of 10.5 percent is reflective of a 6% safe rate, plus a 4.5% risk rate.

INFLATION FACTOR a 3% annual increase is assumed, which reflects the recovering status of the market at present, combined with the positive outlook for the future. Expenses and development costs are anticipated to rise at a rate equivalent to inflation.

**Barratt American Incorporated
Valuation**

"As-proposed Value of Ownership (Aggregate Retail Value):

Finished Lots: Reference is made to the Land Value Section of this report, where a value of \$54,935 per finished lot is concluded. This value is applied to the 1,158 proposed finished lots in the ownership to provide an estimate of aggregate retail value of \$63,615,000(r) in "as-proposed" condition.

SIXTY THREE MILLION SIX HUNDRED FIFTEEN THOUSAND DOLLARS

Discounted, "Bulk-Sale" Value of the Ownership:

Reference is made to the Absorption Schedule in the Absorption Section of this report that details anticipated absorption for this ownership.

A discounted cash flow analysis utilizing the methodologies described in the "Discounted Value" section of this report is set forth on the following page. Note that the first phase of development, consisting of 315 lots, is considered to be in "finished lot" condition, with a zero-dollar cost to complete, based upon the completion bond as discussed in the "Land Development Costs" section on pages 24 and 25 of this report.

Villages of Avalon	2001	2002	2003	2004	2005	2006	2007	2008	2009
Property Remaining (as of 12/01/01)									
Standing Inventory	0	0	0	0	0	0	0	0	0
Finished Lots*	315	315	195	75	0	0	0	0	0
Unfinished Lots	843	843	843	843	721	531	342	215	105
Models	0	0	0	0	0	0	0	0	0
Property Sold (Total Units)	0	120	120	197	190	189	127	110	105
Standing Inventory	0	0	0	0	0	0	0	0	0
Finished Lots	0	120	120	75	0	0	0	0	0
Unfinished Lots	0	0	0	122	190	189	127	110	105
Models	0	0	0	0	0	0	0	0	0
Estimated Values									
Standing Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Finished Lots	\$54,935	\$56,583	\$58,280	\$60,028	\$61,829	\$63,684	\$65,595	\$67,563	\$69,590
Models	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gross Sales:									
Standing Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Finished Lots	\$0	\$6,789,960	\$6,993,600	\$11,825,516	\$11,747,510	\$12,036,276	\$8,330,565	\$7,431,930	\$7,306,950
Models	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Gross Sales:	\$0	\$6,789,960	\$6,993,600	\$11,825,516	\$11,747,510	\$12,036,276	\$8,330,565	\$7,431,930	\$7,306,950
Holding/Development Costs									
Real Estate Taxes (Inc. Spec.)	\$0	\$492,150	\$441,150	\$390,150	\$306,425	\$225,675	\$145,350	\$91,375	\$44,625
Land Development (Inc. Infrastructure)	\$0	\$0	\$0	\$3,172,732	\$5,089,340	\$5,214,510	\$3,609,086	\$3,219,810	\$3,165,645
Profit (10%)	\$0	\$678,996	\$699,360	\$1,182,552	\$1,174,751	\$1,203,628	\$833,057	\$743,193	\$730,695
Administration (3%)	\$0	\$203,699	\$209,808	\$354,765	\$352,425	\$361,088	\$249,917	\$222,958	\$219,209
Management & Accounting (3%)	\$0	\$203,699	\$209,808	\$354,765	\$352,425	\$361,088	\$249,917	\$222,958	\$219,209
Total Operating Expenses	\$0	\$1,578,544	\$1,560,126	\$5,454,964	\$7,275,366	\$7,365,989	\$5,087,327	\$4,500,294	\$4,379,383
Net Operating Income	\$0	\$5,211,416	\$5,433,474	\$6,370,552	\$4,472,144	\$4,670,287	\$3,243,238	\$2,931,636	\$2,927,567
Discounting Factor @ 10.5%	0.904977	0.818984	0.741162	0.670735	0.607000	0.549321	0.497123	0.449885	0.407136
Present Value (Each Year)	\$0	\$4,268,067	\$4,027,085	\$4,272,951	\$2,714,591	\$2,565,487	\$1,612,289	\$1,318,900	\$1,191,918
Indicated Present Value of Subject Property			\$21,971,288						
Rounded To:			\$21,970,000						

Villages of Avalon – Draft Discounted Value

NOTE: As the result of a completion bond in effect on the property, the first phase of development (315 lots) is considered to be in "finished lot" condition for the purposes of this analysis, despite there being no physical improvements on the property as of the date of value. See pages 24-25 for details.

Discounted Value Conclusions: It is my opinion that the discounted, "bulk-sale" value of the subject ownership, as of the date of value stated herein, is:

TWENTY ONE MILLION NINE HUNDRED SEVENTY THOUSAND DOLLARS

(\$21,970,000)

APPENDIX E
RATE AND METHOD OF SPECIAL TAX APPORTIONMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

EXHIBIT C

CITY OF PERRIS COMMUNITY FACILITIES DISTRICT NO. 2001-2 (VILLAGES OF AVALON)

RATE AND METHOD OF APPORTIONMENT

Provided that the lien of special taxes of Community Facilities District No. 88-2 of the City of Perris has first been cancelled, then a Special Tax of Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris ("CFD 2001-2") shall be levied on all Assessor's Parcels in CFD 2001-2 and collected each Fiscal Year commencing in Fiscal Year 2002-03 in an amount determined by the Council through the application of the rate and method of apportionment of the Special Tax set forth below. All of the real property in CFD No. 2001-2, 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:

"Acquisition Agreement" means the Acquisition Agreement by and between the City, for itself and on behalf of CFD No. 2001-2, and Barratt American Incorporated, as it may be modified or supplemented from time to time.

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

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

"Administrative Expenses" means the actual or estimated costs incurred by the City as administrator of the CFD to determine, levy and collect the Special Taxes, including salaries of City employees and the fees of consultants, legal counsel, corporate paying agents, fiscal agents, and trustees; the costs of collecting installments of the Special Taxes upon the general tax rolls; the cost of arbitrage calculation and arbitrage rebates, preparation of required reports; and any other costs required to administer the CFD as determined by the City.

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

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

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

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

"Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued or incurred by CFD No. 2001-2 and secured by the levy of Special Taxes under the Act.

"CFD Administrator" means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

"CFD No. 2001-2" means Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris.

"City" means the City of Perris.

"Council" means the City Council of the City of Perris, acting as the legislative body of CFD No. 2001-2.

"County" means the County of Riverside.

"Developed Property" means all Taxable Property, exclusive of Property Owner Association Property, Public Property or Water Company Property, for which a building permit was issued after January 1, 2002, but prior to the March 1st preceding the Fiscal Year in which the Special Tax is being levied.

"Final Subdivision" means a subdivision of property creating buildable lots 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 1352, that creates individual lots for which building permits may be issued without further subdivision.

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

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

"Landscape Maintenance Costs" means the estimated and reasonable costs of providing landscape maintenance services, including the salaries of City staff and City overhead costs, for the maintenance of street medians, parks and open space within CFD

No. 2001-2, in an amount not to exceed \$173,000 for Fiscal Year 2002-03, increasing by 2% each year thereafter.

"Landscape Maintenance Charge" means (i) the charge assigned to a dwelling unit of Residential Property to cover its proportionate share of Landscape Maintenance Costs, not to exceed \$150 per dwelling unit for Fiscal Year 2002-03, increasing by 2% each Fiscal Year thereafter, or (ii) the charge assigned to Assessor's Parcels of Undeveloped Property to cover Landscape Maintenance Costs not already paid for by the Landscape Maintenance Charges on Residential Property.

"Land Use Class" means any of the classes listed in Table 1.

"Maximum Special Tax A" means the maximum Special Tax A, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor's Parcel prior to the full prepayment or partial prepayment of Special Tax A.

"Non-Residential Floor Area" means the total floor area of a non-residential building(s) located on an Assessor's Parcel, measured from outside wall to outside wall, exclusive of overhangs, porches, patios, carports, or similar spaces attached to the building but generally open on at least two sides, as determined by reference to the building permit(s) issued for that Assessor's Parcel, or if these are not available, as otherwise determined by the CFD Administrator.

"Non-Residential Property" means all Assessor's Parcels of Developed Property for which a building permit(s) has been issued for a non-residential use.

"Outstanding Bonds" means, as of any date, all Bonds previously issued that are outstanding under the applicable Indenture.

"Property Owner Association Property" means any property within the boundaries of CFD No. 2001-2 that is owned by, or irrevocably dedicated as indicated in an instrument recorded with the County Recorder to, a property owner association, including any master or sub-association.

"Proportionately" means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax A is equal for all Assessor's Parcels of Developed Property within CFD No. 2001-2. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax A per Acre is equal for all Assessor's Parcels of Undeveloped Property in CFD No. 2001-2.

"Public Property" means any property within the boundaries of CFD No. 2001-2 that is used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to the federal government, the State, the County, the City or any other public agency. Once an Assessor's Parcel has been designated as Public Property, it shall retain such status permanently.

"Public Safety CFD" means City of Perris Community Facilities District No. 2001-3 (North Perris Public Safety).

"Public Safety CFD Special Tax" means, if the Public Safety CFD is approved by its qualified electors prior to January 1, 2005, the special tax that is levied by Public Safety CFD each Fiscal Year on each dwelling unit of Residential Property prior to the application of any credits applicable under Section IV. C. of the Public Safety CFD Rate and Method of Apportionment, not to exceed \$250 per year per Single-Family Unit, \$50 per Multi-Family Unit and \$1,000 per Non-Residential Acre, plus an Annual Tax Escalation Factor (as all such terms are defined in the Rate and Method of Apportionment for the Public Safety CFD). If no special tax is levied in a given Fiscal Year by the Public Safety CFD, the Public Safety CFD Special Tax shall be \$0 for that Fiscal Year.

"Residential Floor Area" means all of the square footage 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 the CFD Administrator with reference to the building permit(s) issued for such Assessor's Parcel or other appropriate means selected by the CFD Administrator.

"Residential Property" means all Assessor's Parcels of Developed Property for which a building permit(s) has been issued for purposes of constructing one or more residential dwelling units.

"Special Tax" means Special Tax A or Special Tax B.

"Special Tax A" means the Special Tax to be levied in each Fiscal Year prior to full prepayment or termination of Special Tax A on each Assessor's Parcel of Developed Property, Undeveloped Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Water Company Property to fund the Special Tax Requirement, and shall include Special Taxes levied or to be levied under Sections C and D, below.

"Special Tax B" means a Special Tax to be levied in each Fiscal Year on Assessor's Parcels of Residential Property for which the Special Tax A obligation has been fully or partially prepaid, starting with the Fiscal Year after the Special Tax A obligation has been fully or partially prepaid, to cover each Assessor's Parcel's Landscape Maintenance Charge. In the case of full prepayment, the amount of Special Tax B to be levied on an Assessor's Parcel shall be equal to the Landscape Maintenance Charge. In the case of a partial prepayment, Special Tax B shall be equal to the portion of the Landscape Maintenance Charge no longer covered by Special Tax A.

"Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 2001-2 to: (a) (i) pay debt service on all Outstanding Bonds for the calendar year that commences in such Fiscal Year; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for acquisition or construction of facilities identified on Exhibit A to the Acquisition Agreement, except Special Taxes on Undeveloped Property shall not be levied for this purpose; (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes

levied in the previous Fiscal Year; and (vii) pay for Landscape Maintenance Charges for all Developed Property and Undeveloped Property; less (b) a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

"State" means the State of California.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 2001-2 that are not exempt from the Special Tax pursuant to law or Section E below.

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

"Taxable Public Property" means all Assessor's Parcels of Public Property that are not exempt pursuant to Section E below.

"Taxable Water Company Property" means all Assessor's Parcels of Water Company Property that are not exempt pursuant to Section E below.

"Total Floor Area" means for an Assessor's Parcel, the total Residential Floor Area plus total Non-Residential Floor Area for which building permits have been issued on that Assessor's Parcel.

"Trustee" means the trustee or fiscal agent under the Indenture.

"Undeveloped Property" means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Water Company Property.

"Update Property" means an Assessor's Parcel of Undeveloped Property for which a building permit has been issued, but which has not yet been classified as Developed Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Water Company Property.

"Water Company Property" means property owned or used by McCanna Ranch Water Company, a California corporation.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within CFD No. 2001-2 shall be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Water Company Property or Undeveloped Property, and shall be subject to Special Taxes pursuant to Sections C and D below. Developed Property shall be assigned to a Land Use Class as specified in Table 1.

The Assigned Special Tax A for Residential Property shall be based on the Residential Floor Area located on the Assessor's Parcel. The Assigned Special Tax A for Non-Residential Property, Taxable Public Property, Taxable Property Owner Association

Property, Taxable Water Company Property or Undeveloped Property shall be based on the Acreage of the Assessor's Parcel. Special Tax B shall be levied equally on each dwelling unit for Assessor's Parcels of Residential Property for which Special Tax A liens have been fully or partially prepaid, as described in Section H.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property

a. Maximum Special Tax A

The Maximum Special Tax A for each Assessor's Parcel classified as Developed Property shall be the greater of (i) the amount derived by application of the Assigned Special Tax A, or (ii) the amount derived by application of the Backup Special Tax A.

b. Assigned Special Tax A

The Assigned Special Tax A for Developed Property in each Fiscal Year for each Land Use Class, starting with Fiscal Year 2002-03 and for each Fiscal Year thereafter, is shown below in Table 1.

**TABLE 1
Assigned Special Tax A Levies for Developed Property
For Fiscal Year 2002-03
Community Facilities District No. 2001-2**

Land Use Class	Description	Residential Floor Area	Assigned Special Tax A Per Unit/Acre
1	Residential Property	2,250 + square feet	\$1,567 per unit
2	Residential Property	1,600 - 2,250 square feet	\$1,377 per unit
3	Residential Property	less than 1,600 square feet	\$1,158 per unit
4	Non-Residential Property	Not Applicable	\$9,323 per Acre

c. Backup Special Tax A

The Backup Special Tax A shall equal \$9,323 per Acre for Fiscal Year 2002-03.

d. Increase in the Assigned Special Tax A and Backup Special Tax A

On each July 1, commencing on July 1, 2003, the Assigned Special Tax A and the Backup Special Tax A shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

e. Multiple Land Use Classes

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Class. The Assigned Special Tax A levied on an Assessor's Parcel shall be the sum of the Assigned Special Tax A levies for all Land Use Classes located on that Assessor's Parcel. The Backup Special Tax A levied on an Assessor's Parcel shall be the sum of the Backup Special Tax A levies that can be imposed on all Land Use Classes located on that Assessor's Parcel. The Maximum Special Tax A levied on an Assessor's Parcel shall be the sum of the Maximum Special Tax A levies that can be imposed on all Land Use Classes located on that Assessor's Parcel.

For purposes of calculating the Backup Special Tax A for Non-Residential Property under such circumstances, the Acreage assigned to Non-Residential Property shall be based on the proportion of Non-Residential Floor Area in the Assessor's Parcel as compared with the Total Floor Area in the Assessor's Parcel. All allocations made under this section shall be determined by the CFD Administrator, and all such allocations shall be final.

2. **Undeveloped Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Water Company Property**

a. Maximum Special Tax A

The Maximum Special Tax A for Fiscal Year 2002-03 and future Fiscal Years for Undeveloped Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Water Company Property shall be \$9,323 per Acre.

b. Increase in the Maximum Special Tax A

On each July 1, commencing on July 1, 2003, the Maximum Special Tax A for Undeveloped Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Water Company Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2002-03, and for each following Fiscal Year, the Council shall levy the Special Tax A until the amount of Special Tax A levies equals the Special Tax Requirement. The Special Taxes shall be levied each Fiscal Year as follows:

First: The Special Tax A shall be levied on each Assessor's Parcel of Developed Property at 100% of the applicable Assigned Special Tax A. However, a credit shall be granted to

each Assessor's Parcel of Developed Property equal to the Public Safety CFD Special Tax levied on that Assessor's Parcel in that Fiscal Year;

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

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax A on each Assessor's Parcel of Developed Property whose Maximum Special Tax A is determined through the application of the Backup Special Tax A shall be increased Proportionately from the Assigned Special Tax A up to the Maximum Special Tax A for each such Assessor's Parcel. However, under no circumstances shall Special Taxes be levied under this third step to pay for Landscape Maintenance Charges;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax A shall be levied Proportionately on each Assessor's Parcel of Taxable Property Owner Association Property, Taxable Public Property, and Taxable Water Company Property at up to the Maximum Special Tax A for Taxable Property Owner Association Property, Taxable Public Property, and Taxable Water Company Property. However, under no circumstances shall Special Taxes be levied under this fourth step to pay for Landscape Maintenance Charges.

In cases where the Special Tax A for an Assessor's Parcel has been fully or partially prepaid for Residential Property, a Special Tax B shall be levied annually on such Assessor's Parcel, when appropriate, as described in Section H, below.

Notwithstanding the above the Council may, in any Fiscal Year, levy Proportionately less than 100% of the Assigned Special Tax A in step one of Section D (above), when (i) the Council is no longer required to levy a Special Tax pursuant to steps two through four above in order to meet the Special Tax Requirement; (ii) all authorized CFD No. 2001-2 Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD No. 2001-2 Bonds (except refunding bonds) to be supported by Special Taxes; and (iii) all facilities identified in Exhibit A to the Acquisition Agreement have been acquired.

Notwithstanding the above, under no circumstances will the Special Tax A levied against 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 as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2001-2.

E. EXEMPTIONS

No Special Tax shall be levied on up to 1.96 Acres of Property Owner Association Property, 68.06 Acres of Public Property and 1.5 Acres of Water Company Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property, Public Property or Water Company Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property, Public Property or Water Company Property, its tax-exempt status will be revoked.

Property Owner Association Property, Public Property, or Water Company Property that is not exempt from Special Taxes under this section shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fourth step in Section D above, at up to 100% of the applicable Maximum Special Tax A for Taxable Property Owner Association Property, Taxable Public Property, or Taxable Water Company Property.

F. REVIEW/APPEAL COMMITTEE

The Council shall establish as part of the proceedings and administration of CFD No. 2001-2 a special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax levied on their Assessor's Parcel is in error may file a notice with the Review/Appeal Committee appealing the amount of the Special Tax levied on such Assessor's Parcel. The Review/Appeal Committee shall interpret this Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding as to all persons.

G. MANNER OF COLLECTION

Special Tax A and Special Tax B as levied pursuant to Section D above shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that the CFD Administrator may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet the financial obligations of CFD No. 2001-2 or as otherwise determined appropriate by the CFD Administrator.

H. PREPAYMENT OF SPECIAL TAX A

The following definition applies to Section H.

"**CFD Public Facilities**" means either \$13,728,000 in 2001 dollars, which shall increase by the Construction Inflation Index on July 1, 2002, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 2001-2 under the authorized Mello-Roos financing program for CFD No. 2001-2, or (ii) shall be determined by the

Council concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

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

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

"Future Facilities Costs" means the CFD Public Facilities minus (i) public facility costs available to be funded through existing construction or escrow accounts or funded by Outstanding Bonds, (ii) public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment, and (iii) public facilities costs paid directly with Special Taxes.

"Outstanding Prepayment Bonds" means, as of any date, all Bonds previously issued that are anticipated by the CFD Administrator to be outstanding under the applicable Indenture immediately after the first principal payment date for such Bonds following the then current Fiscal Year.

1. Prepayment in Full

The Special Tax A obligation described in Section D above with respect to any Assessor's Parcel of Developed Property or Update Property may be fully prepaid, except that a Special Tax B shall be levied on such Assessor's Parcel after the prepayment has occurred if such Assessor's Parcel is Residential Property, or if it becomes Residential Property. In addition, the Special Tax A obligation of any Assessor's Parcel of Taxable Public Property may be prepaid, without a Special Tax B being levied thereafter. A prepayment may be made on an Assessor's Parcel only if there are no delinquent Special Tax A levies with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax A obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel, and the amount of the Special Tax B, if any, that shall continue to be levied on the Assessor's Parcel after prepayment has been made. The CFD Administrator may charge the Assessor's Parcel's owner a reasonable fee for providing these figures, which must be paid by the owner of the Assessor's Parcel prior to the calculation of the prepayment amount. Prepayment must be made not less than 15 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

The Prepayment Amount (defined below) for any Assessor's Parcel of Taxable Public Property shall be determined by the CFD Administrator as authorized under Sections 53317.3 and 53317.5 of the Act. However, no Special Tax A prepayment for any Assessor's Parcel of Taxable Public Property shall be allowed unless the amount of Assigned Special Tax A levies that may be imposed on Taxable Property within CFD No. 2001-2 after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Prepayment Bonds.

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

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

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

Paragraph No.:

1. Confirm that no Special Tax A delinquencies apply to such Assessor's Parcel.
2. For Assessor's Parcels of Developed Property compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Update Property, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
3. (a) Divide the Assigned Special Tax A computed pursuant to paragraph 2 by the estimated Assigned Special Tax A levies for all of CFD No. 2001-2 based on the Developed Property Special Tax A levies which could be imposed in the current Fiscal Year on all existing and expected development in CFD No. 2001-2, excluding any Assessor's Parcels which have been prepaid; and

(b) Divide the Backup Special Tax A computed pursuant to paragraph 2 by the estimated Backup Special Tax A levies at buildout for CFD No. 2001-2 using the Backup Special Tax A amounts for the current Fiscal Year, excluding any Assessor's Parcels which have been prepaid.
4. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the Outstanding Prepayment Bonds, and (if determined necessary by the CFD Administrator to effect the redemption of Bonds with such prepayment) round up

to the nearest integral multiple of \$5,000 to compute the amount of Outstanding Prepayment Bonds to be retired and prepaid (the "Bond Redemption Amount").

5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium, if any, on the Outstanding Prepayment Bonds to be redeemed (the "Redemption Premium").
6. Compute the current Future Facilities Costs.
7. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
8. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
9. Determine the Special Tax A levied on the Assessor's Parcel in the current Fiscal Year which has not yet been paid.
10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Prepayment Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 8 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
12. Verify the administrative fees and expenses of CFD No. 2001-2, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
13. If bond reserve funds for the Outstanding Prepayment Bonds, if any, are anticipated to be at or above 100% of the bond reserve requirement (as specified in the Indenture) immediately after the first principal payment date in the next Fiscal Year, the reserve fund credit shall equal the expected reduction in the bond reserve requirement, if any, associated with the redemption of Outstanding Prepayment Bonds as a result of the prepayment (the "Reserve Fund Credit"). No Reserve Fund Credit shall be granted if bond reserve funds are anticipated to be below 100% of the bond reserve requirement immediately after the first principal payment date in the next Fiscal Year.
14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal

Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").

15. The Special Tax A prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").
16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Prepayment Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 2001-2.

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

As a result of the payment of the current Fiscal Year's Special Tax A levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax A levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel that is prepaid, the City shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Tax A and the release of the Special Tax A lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax A shall cease. However, Special Tax B shall still be levied on such Assessor's Parcels in future Fiscal Years when appropriate.

Notwithstanding the foregoing, no Special Tax A prepayment shall be allowed unless the amount of Maximum Special Taxes that may be levied on Taxable Property within CFD No. 2001-2 after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Prepayment Bonds.

2. Prepayment in Part

The Maximum Special Tax A on an Assessor's Parcel of Developed Property or Update Property may also be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula (provided that the partial prepayment must in any event be sufficient to, in addition to payment of all other components of the Prepayment Amount, redeem Bonds in increments of \$5,000):

$$PP = P_E \times F$$

These terms have the following meaning:

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

The owner of an Assessor's Parcel who desires to partially prepay the Maximum Special Tax A shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax A, (ii) the percentage by which the Maximum Special Tax A shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if applicable. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Maximum Special Tax A for an Assessor's Parcel within 30 days of the request and may charge a reasonable fee for providing this service. Such fee must be paid prior to the calculation of the Prepayment Amount.

With respect to any Assessor's Parcel that is partially prepaid, the CFD Administrator shall (i) distribute the funds remitted to it according to Paragraph 13 of Section H.1. and (ii) indicate in the records of CFD No. 2001-2 that there has been a partial prepayment of the Maximum Special Tax A and that a portion of the Maximum Special Tax A equal to the outstanding percentage $(1.00 - F)$ of the remaining Maximum Special Tax A shall continue to be authorized to be levied on such Assessor's Parcel pursuant to Section D. A Special Tax B shall also be levied in future Fiscal Years on such Assessor's Parcel when appropriate.

I. TERM OF SPECIAL TAX

The Special Tax shall be levied for the period not to exceed 40 years commencing in Fiscal Year 2002-03, provided however that Special Tax A will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined (i) that all required interest and principal payments on the Bonds have been paid; and (ii) all facilities have been acquired and all reimbursements to the developer have been paid pursuant to the Acquisition Agreement. However, the Landscape Maintenance Charge may be levied in perpetuity for maintenance within CFD 2001-2.

S:\Clients\Perris\CFD 2001-2 Avalon\CFD Report\RMA draft 4 redlined.doc

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENTS

CONTINUING DISCLOSURE AGREEMENT (Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris)

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of March 1, 2002, is executed and delivered by the Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris (the "District") and MuniFinancial as Dissemination Agent (the "Dissemination Agent"), in connection with the issuance of the \$16,890,000 Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris Special Tax Revenue Bonds, 2002 Series A (the "Bonds"). The Bonds are being issued pursuant to provisions of a Fiscal Agent Agreement, dated as of March 1, 2002, by and between the District and Wells Fargo Bank, National Association, as Fiscal Agent (the "Fiscal Agent Agreement"). The District and the Dissemination Agent covenant and agree as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

"Disclosure Representative" shall mean the City Manager of the City or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean MuniFinancial, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District.

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

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov/consumer/nrmsir.htm>.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

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

“State” shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than February 15 of each year, commencing February 15, 2003, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f) hereof.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the District shall provide the Annual Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the first sentence of this subsection (b). The District 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 District and shall have no duty or obligation to review such Annual Report.

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

(d) The Dissemination Agent shall:

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

(ii) to the extent information is known to it, file a report with the District and (if the Dissemination Agent is not the Fiscal Agent) the Fiscal Agent certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following (as of June 30 next preceding the Annual Report date):

(a) The principal amount of the Bonds outstanding.

(b) The balance of the Reserve Account and the Reserve Requirement.

(c) The balance of the Improvement Fund.

(d) A table showing value-to-lien ratios (either individually or in categories such as "below 3:1," "3:1 to 4:1," "4:1 to 5:1," etc.) for all parcels subject to special taxes in the District based on the ratio of assessed valuation of such parcels to all overlapping direct debt.

(e) The status of the payment of special taxes for the properties within the District which were due and payable during the preceding fiscal year, including as to delinquent parcels:

- (1) the number of parcels delinquent in the payment of special taxes;
- (2) the aggregate amount of the delinquent special taxes;
- (3) as to any parcel for which the delinquent special taxes represents more than 5% of the aggregate special taxes within the District;
 - (ii) the assessor's parcel number;
 - (iii) the identity of the owner(s) of such parcel based on the Assessor's Roll or County delinquency report received by the City, whichever is more current;
 - (iv) the aggregate amount of delinquent property taxes, assessments (both fixed lien and annual) and special taxes and the accrued penalties and interest on such aggregate amount; and
- (4) the assessment delinquency rate for such preceding fiscal year.

(f) The status of any judicial foreclosure proceedings initiated by the District as a result of the delinquency in the payment of special taxes and the summary of the results of foreclosure sales, if available.

(g) As to any parcel for which the annual special tax levy represents more than 5% of the aggregate special tax levy within the District:

- (1) names of the owners of such parcels as shown on the Assessor's Roll or County delinquency report received by the City, whichever is more current;
- (2) percentage of the special tax levy allocated to such parcels;
- (3) Developed Property or Undeveloped Property status (as such terms are defined in the RMA) of such parcels;
- (4) significant amendments to applicable District granted land use entitlements;
- (5) status of any significant conditions of approval of development imposed by the District as to any undeveloped parcel; and

- (6) status of any significant legislative, administrative or judicial challenges to the development of any undeveloped parcels or to the use or continuing use of any parcel known to the District.

(h) The audited financial statements for the City for the preceding fiscal year (or if not available at the time of filing, the unaudited financial statements). The audited financial statements 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.

(i) The principal amount of prepayments of the special tax with respect to the District for the preceding fiscal year.

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

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on credit enhancements reflecting financial difficulties; and
10. substitution of credit or liquidity providers, or their failure to perform.

(b) The Disclosure Representative shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter, promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and to the Bondholders.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

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

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Fiscal Agent Agreement.

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

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be MuniFinancial. The Dissemination Agent may resign by providing thirty days written notice to the District. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the District. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the District in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the District) provided, the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the

time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Article VIII of the Fiscal Agent Agreement pertaining to the Fiscal Agent is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Fiscal Agent Agreement and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Fiscal Agent thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders, or any other party. The Dissemination Agent shall not have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Agreement. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

To the District: Community Facilities District No. 2001-2
 (Villages of Avalon) of the City of Perris
 c/o City of Perris
 101 North "D" Street
 Perris, California 92570
 Attn: City Manager

To the Dissemination Agent: MuniFinacial
 28765 Single Oak Drive, Suite 200
 Temecula, California 92590
 Attn: Disclosure Group

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

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

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

COMMUNITY FACILITIES DISTRICT NO. 2001-2
(VILLAGES OF AVALON) OF THE CITY OF
PERRIS

By _____
Mayor, on behalf of the District

MUNIFINANCIAL
as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris

Name of Bond Issue: Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris Special Tax Revenue Bonds, 2002 Series A

Date of Issuance: March 7, 2002

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of March 1, 2002, with respect to the Bonds. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

MUNIFINANCIAL, as Dissemination Agent
on behalf of District

cc: Issuer

CONTINUING DISCLOSURE AGREEMENT
(Property Owner)

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of March 1, 2002, is executed and delivered by Barratt American Incorporated (the "Property Owner") and MuniFinancial as Dissemination Agent (the "Dissemination Agent"), in connection with the issuance of the \$16,890,000 Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris Special Tax Revenue Bonds, 2002 Series A (the "Bonds"). The Bonds are being issued pursuant to provisions of a Fiscal Agent Agreement, dated as of March 1, 2002, by and between the Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris (the "District" or "Issuer") and Wells Fargo Bank, National Association, as Fiscal Agent (the "Fiscal Agent Agreement"). The Property Owner and the Dissemination Agent covenant and agree as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Affiliate" of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, five percent (5%) or more of the outstanding voting securities of such other Person, (b) any Person whose outstanding voting securities of five percent (5%) or more are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

"Annual Report" shall mean any Annual Report provided by the Major Owner pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

"Disclosure Representative" shall mean the Vice President and General Counsel of the Property Owner or his or her designee, or such other officer or employee as the Property Owner shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean MuniFinancial, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Property Owner and which has filed with the District a written acceptance of such designation.

"District" shall mean Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris.

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

“Major Owner” shall mean an owner (including all Affiliates of such owner) of land in the District responsible in the aggregate for 20% or more of the annual special taxes levied in the District.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov/consumer/nrmsir.htm>.

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

“Person” means an individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“Property” means all real property owned by Property Owner within the District.

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

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

“State” shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) Property Owner shall, or, upon written direction of the District, shall cause the Dissemination Agent to, not later than February 15 in each year, commencing February 15, 2003, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement with a copy to the Issuer. Not later than February 1 in each year, commencing February 1, 2003, Property Owner shall provide the Annual Report to the Dissemination Agent. Property Owner shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Issuer to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and the Issuer may conclusively rely upon such certification of Property Owner and shall have no duty or obligation to review such Annual Report. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement. If Property Owner’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

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

(c) The Dissemination Agent shall:

- (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and
- (ii) to the extent information is known to it, file a report with the Issuer and the Property Owner certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Property Owner's Annual Report shall contain or include by reference the following:

(a) Relating to the Property, a summary of the Property Owner's development activity on the Property as of the preceding January 1 consisting of the following: (A) number of acres/lots owned by the Property Owner or its Affiliates as of such date, (B) progress of construction activities on the Property, and (C) number of acres/lots sold by Property Owner or its Affiliates to end users or builders as of such date.

(b) Any material changes in the information relating to the Property Owner and/or the Property contained in the Official Statement under the caption "THE DISTRICT – The Property Owner" and "BONDOWNERS' RISKS -- Endangered and Threatened Species."

(c) A description of the status of any pending land purchase contracts with regard to the Property (other than with individual home buyers).

(d) A description of any change in the legal structure of the Property Owner and/or the financial condition of the Property Owner that would materially interfere with its ability to complete the development plan described in the Official Statement under the caption "THE DISTRICT" (the "Development Plan") or to pay its portion of the annual special taxes levied within the District (the "Special Taxes").

(e) A description of any previously undisclosed material amendment to the land use entitlement for the Property.

(f) An update of the status of any previously reported Listed Event described in Section 5 hereof.

(g) A statement as to whether or not the Property Owner and all of its Affiliates paid, prior to their becoming delinquent, all Special Taxes levied on the Property and if such Property Owner or any of such Affiliates is delinquent in the payment of such Special Taxes, a statement identifying each entity that is so delinquent, specifying the amount of each such delinquency and describing any plans to resolve such delinquency.

(h) A description of any material changes in the financing plan of the Property Owner or the Development Plan described in the Official Statement and the causes or rationale for such changes.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Property Owner or related entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by

reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Property Owner shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Property Owner shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material. Such notice shall be given within 30 days of the date the Property Owner obtains actual knowledge of the occurrence of any such event:

- (1) bankruptcy or insolvency proceedings commenced by or against Property Owner or Affiliate thereof that would materially interfere with the Property Owner's ability to complete the Development Plan or to pay its Special Taxes;
- (2) failure to pay any taxes, special taxes or assessments due with respect to the Property;
- (3) filing of a lawsuit against Property Owner or Affiliate thereof seeking damages, or a judgment which, if decided adversely to Property Owner or Affiliate thereof, could have a significant impact on the Property Owner's ability to pay Special Taxes or to sell or develop the Property;
- (4) any conveyance by the Property Owner of property to an entity that is not an Affiliate of such Property Owner, the result of which conveyance is to cause the transferee to become a Major Owner and the related assumption of any obligation by a Major Owner pursuant to Section 6;
- (5) any denial or termination of credit, any denial or termination of, or default under, any line of credit or loan or any other loss of a source of funds that would have a material adverse effect on the Property Owner's most recently disclosed financing plan or the ability of the Property Owner or any Affiliate thereof to pay Special Taxes when due;
- (6) any significant amendments to land use entitlements for the Property;
- (7) any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development on the Property;
- (8) any previously undisclosed legislative, administrative or judicial challenges to development on the Property;

(b) The Disclosure Representative shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter, promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and to the Bondholders.

(c) Whenever the Property Owner obtains actual knowledge of the occurrence of a Listed Event, the Property Owner shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

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

(f) If the Dissemination Agent has been instructed by the Property Owner to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories.

SECTION 6. Duration of Reporting Obligation. (a) All of the Property Owner's obligations hereunder shall commence on such date the Property is responsible for payment of 20% or more of the Special Taxes and shall terminate (except as provided in Section 11) upon the earlier to occur of (i) the legal defeasance, prior redemption or payment in full of all the Bonds, (ii) so long as the Bonds are outstanding, at such time as the Property is no longer responsible for payment of 20% or more of the Special Taxes or (iii) the date on which all Special Taxes levied on the Property are paid or prepaid in full. Upon the occurrence of any such termination or suspension prior to the final maturity of the Bonds, the Property Owner shall give notice of such termination or suspension in the same manner as for a Listed event under Section 5.

(b) If a portion of the Property is conveyed by Property Owner to a Person that, upon such conveyance, will be a Major Owner, the obligations of Property Owner hereunder with respect to such property owned by such Major Owner and its Affiliates shall be assumed by such Major Owner or by an Affiliate thereof and the Property Owner's obligations hereunder will be terminated. In order to effect such an assumption, such Major Owner or Affiliate shall enter into a continuing disclosure agreement in substantially the same form as this Disclosure Agreement. If, upon such conveyance, such Major Owner or Affiliate thereof does not enter into a continuing disclosure agreement in substantially the same form as this Disclosure Agreement, the Property Owner's obligations hereunder shall continue until such a continuing disclosure agreement is executed. The Property Owner shall provide a copy of the executed continuing disclosure agreement to the District.

SECTION 7. Dissemination Agent. The Property Owner may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Property Owner pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be MuniFinancial. The Dissemination Agent may resign by providing thirty days written notice to the Property Owner and the Issuer. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Property Owner in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Property Owner and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Property Owner) provided, the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or

increases its duties or obligations hereunder, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Property Owner shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Property Owner.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Property Owner from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Property Owner chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Property Owner shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Property Owner or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Property Owner or Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Property Owner or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Article VIII of the Fiscal Agent Agreement pertaining to the Fiscal Agent is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Fiscal Agent Agreement and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Fiscal Agent thereunder. The Dissemination Agent shall have only such duties

as are specifically set forth in this Disclosure Agreement, and the Property Owner agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the reasonable exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding losses, expenses, costs of defense or liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Property Owner, the Bondholders, or any other party. Neither the Property Owner or the Dissemination Agent shall have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Agreement. The obligations of the Property Owner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

- | | |
|-----------------------------|--|
| To the Issuer: | Community Facilities District No. 2001-2
(Villages of Avalon) of the City of Perris
101 North "D" Street
Perris, California 92570
Attn: City Manager |
| To the Dissemination Agent: | MuniFinancial
28765 Single Oak Drive, Suite 200
Temecula, California 92590
Attn: Disclosure Group |
| To the Property Owner: | Barratt American Incorporated
2035 Corte Del Nogal, Suite 160
Carlsbad, California 92009
Attn: Mike Armstrong, Vice President and General Counsel |

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

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

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

BARRATT AMERICAN INCORPORATED

By _____
Authorized Officer

MUNIFINANCIAL
as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Barratt American Incorporated
Name of Bond Issue: Community Facilities District No. 2001-2
(Villages of Avalon) of the City of Perris
Special Tax Revenue Bonds, 2002 Series A
Date of Issuance: March 7, 2002

NOTICE IS HEREBY GIVEN that the Property Owner has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of March 1, 2002, with respect to the Bonds. [The Property Owner anticipates that the Annual Report will be filed by _____.]

Dated: _____

MUNIFINANCIAL, as Dissemination Agent
on behalf of Property Owner

cc: Issuer

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G
FORM OF BOND COUNSEL OPINION

LAW OFFICES

BURKE, WILLIAMS & SORENSEN, LLP

18301 VON KARMAN AVENUE
SUITE 1050
IRVINE, CALIFORNIA 92612-1009
Tel: (949) 863-3363
Fax: (949) 863-3350
www.bwslaw.com

LOS ANGELES OFFICE
611 WEST SIXTH STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-3102
Tel: (213) 236-0600
Fax: (213) 236-2700

RIVERSIDE COUNTY OFFICE
3403 TENTH STREET, SUITE 300
RIVERSIDE, CALIFORNIA 92501-3629
Tel: (909) 788-0100
Fax: (909) 788-5785

SAN DIEGO COUNTY OFFICE
550 WEST C STREET, SUITE 1880
SAN DIEGO, CALIFORNIA 92101-8583
Tel: (619) 615-6672
Fax: (619) 615-6673

VENTURA COUNTY OFFICE
2310 EAST PONDEROSA DRIVE, SUITE 25
CAMARILLO, CALIFORNIA 93010-4747
Tel: (805) 987-3468
Fax: (805) 482-9834

OUR FILE NO.
04194-0028

March 7, 2002

Honorable Mayor and Members of the City Council
City of Perris
101 North "D" Street
Perris, California 92570

Re: \$16,890,000 Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris Special Tax Revenue Bonds, Series 2002

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris (the "District") of \$16,890,000 Community Facilities District No. 2001-2 (Villages of Avalon) of the City of Perris Special Tax Revenue Bonds, Series 2002 (the "Bonds"), pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, constituting Section 53311, *et seq.* of the California Government Code (the "Act") and a Fiscal Agent Agreement, dated as of March 1, 2002 (the "Fiscal Agent Agreement") by and between the City of Perris (the "City") on behalf of the District and Wells Fargo Bank, National Association. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations of the District contained in the Fiscal Agent Agreement, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion, under existing law, as follows:

1. The District is a community facilities district duly organized and validly existing under the laws of the State of California.
2. The City is duly created and validly existing as a public body, corporate and politic, with the power, on behalf of the District, to adopt the resolution authorizing the issuance of the Bonds,

enter into the Fiscal Agent Agreement, and perform the agreements on its part contained therein and issue the Bonds.

3. The Bonds have been duly authorized, executed and delivered by the District and are valid and binding limited obligations of the District, payable solely from the sources provided therefor in the Fiscal Agent Agreement.

4. The Fiscal Agent Agreement has been duly entered into by the City on behalf of the District and constitutes a valid and binding obligation of the District enforceable upon the District.

5. Pursuant to the Act, the Fiscal Agent Agreement creates a valid lien on the funds pledged by the Fiscal Agent Agreement.

6. The 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 the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinion set forth in the preceding sentence is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that such interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

7. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Fiscal Agent Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

