

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2018A Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2018A Bonds. See “Concluding Information – Tax Matters” herein.

\$15,710,000

COMMUNITY FACILITIES DISTRICT NO. 2008-01
(HARMONY GROVE VILLAGE) OF THE COUNTY OF SAN DIEGO
IMPROVEMENT AREA NO. 1 SPECIAL TAX BONDS, SERIES 2018A

Dated: Date of Delivery

Due: September 1, as shown on inside cover

The Community Facilities District No. 2008-01 (Harmony Grove Village) of the County of San Diego, Improvement Area No. 1 Special Tax Bonds, Series 2018A (the “Series 2018A Bonds”), are authorized to be issued 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 an Indenture (the “Indenture”), dated as of February 1, 2018, by and between Community Facilities District No. 2008-1 (Harmony Grove Village), County of San Diego, State of California (the “District”) and ZB, National Association dba Zions Bank as trustee (the “Trustee”).

Proceeds of the Series 2018A Bonds will be used (i) to pay the costs of the acquisition of certain public facilities (the “Facilities”) necessary for the development of that portion of the District designated as Improvement Area No. 1 (“Improvement Area No. 1”), (ii) to fund a reserve fund for the Series 2018A Bonds, and (iii) to pay the costs of issuing the Series 2018A Bonds. The Series 2018A Bonds are payable from Net Special Tax Revenues derived from the levy of the Special Taxes (as such capitalized terms are defined in the Indenture) on real property located within the boundaries of Improvement Area No. 1, and are secured by a pledge of all of the Net Special Tax Revenues and moneys deposited in certain funds established under the Indenture.

The Series 2018A Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The Series 2018A Bonds will be delivered in fully registered form only, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Series 2018A Bonds. Ownership interests in the Series 2018A Bonds may be purchased in book-entry form only. Purchasers will not receive bonds or certificates representing their interest in the Series 2018A Bonds purchased. Payments of principal of and interest on the Series 2018A Bonds will be payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2018A Bonds, as more fully described herein. See Appendix G – “DTC and the Book Entry System” herein. Interest on the Series 2018A Bonds is payable March 1 and September 1 of each year, commencing September 1, 2018.

The Series 2018A Bonds are subject to optional redemption, mandatory redemption from prepayments of Special Tax A and payments of the One-Time Special Tax, and mandatory sinking fund redemption, all as more fully described herein. See “The Series 2018A Bonds – Redemption.”

The Series 2018A Bonds are special obligations of the District, payable solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Indenture), the County, or the State of California, or any political subdivision thereof, is pledged to the payment of the Series 2018A Bonds.

This cover page contains certain information for quick reference only. It is not a complete summary of the terms of this bond issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Series 2018A Bonds. See the section of this Official Statement entitled “Special Risk Factors” for a discussion of certain risk factors that should be considered, in addition to the other matters discussed herein, in considering the investment quality of the Series 2018A Bonds.

The Series 2018A Bonds are being offered when, as and if issued by the District, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by the County Counsel and by Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel, and for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. Delivery of the Series 2018A Bonds is expected to occur through the facilities of DTC on or about February 7, 2018.

STIFEL

PiperJaffray

\$15,710,000
COMMUNITY FACILITIES DISTRICT NO. 2008-01
(HARMONY GROVE VILLAGE) OF THE COUNTY OF SAN DIEGO
IMPROVEMENT AREA NO. 1 SPECIAL TAX BONDS, SERIES 2018A

Maturity Schedule

Base CUSIP†: 79743A

\$6,495,000 Serial Bonds

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† Suffix
2019	\$ 95,000	2.000%	1.480%	100.801%	AA1
2020	115,000	2.000	1.710	100.724	AB9
2021	130,000	3.000	1.950	103.599	AC7
2022	150,000	3.000	2.140	103.721	AD5
2023	165,000	3.000	2.360	103.319	AE3
2024	190,000	3.000	2.490	103.070	AF0
2025	210,000	4.000	2.670	109.056	AG8
2026	235,000	4.000	2.810	109.002	AH6
2027	260,000	4.000	2.900	109.015 ^C	AJ2
2028	285,000	4.000	3.000	108.261 ^{CC}	AK9
2029	315,000	4.000	3.070	107.657 ^{CC}	AL7
2030	345,000	4.000	3.170	106.801 ^{CC}	AM5
2031	375,000	4.000	3.220	106.376 ^{CC}	AN3
2032	410,000	4.000	3.270	105.953 ^{CC}	AP8
2033	440,000	4.000	3.330	105.448 ^{CC}	AQ6
2034	480,000	4.000	3.360	105.197 ^{CC}	AR4
2035	515,000	3.375	3.550	97.725	AS2
2036	555,000	3.375	3.570	97.367	AT0
2037	590,000	3.500	3.600	98.602	AU7
2038	635,000	3.500	3.630	98.125	AV5

\$3,880,000 4.00% Term Bonds due September 1, 2043, Yield 3.570% Price 103.456%^{CC} CUSIP† AW3
\$5,335,000 4.00% Term Bonds due September 1, 2048, Yield 3.620% Price 103.047%^{CC} CUSIP† AX1

^C Priced to the first optional redemption date of September 1, 2024 at 103% of par.

^{CC} Priced to the optional redemption date of September 1, 2027 at par.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of American Bankers Association by S&P Capital IQ. Copyright© 2018 CUSIP Global Services. All rights reserved. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. The District, the County and the Underwriters assume no responsibility for the accuracy of such CUSIP® numbers.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2018A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the District, the County or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2018A Bonds. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District, the County or the Underwriters. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District, the County or any other parties described herein since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the District and the County for further information in connection therewith.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with the offering of the Series 2018A Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of such Series 2018A 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 Underwriters may offer and sell the Series 2018A Bonds to certain dealers and dealer banks and banks acting as agents at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

COUNTY OF SAN DIEGO, STATE OF CALIFORNIA

**COUNTY OF SAN DIEGO
BOARD OF SUPERVISORS**

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Dan McAllister, *Treasurer – Tax Collector*
Thomas E. Montgomery, *County Counsel*

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Los Angeles, California

Disclosure Counsel

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Financial Advisor

Public Resources Advisory Group
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Kitty Siino & Associates, Inc.
Tustin, California

Special Tax Consultant

Willdan Financial Services
Temecula, California

Absorption Consultant

Empire Economics, Inc.
Capistrano Beach, California

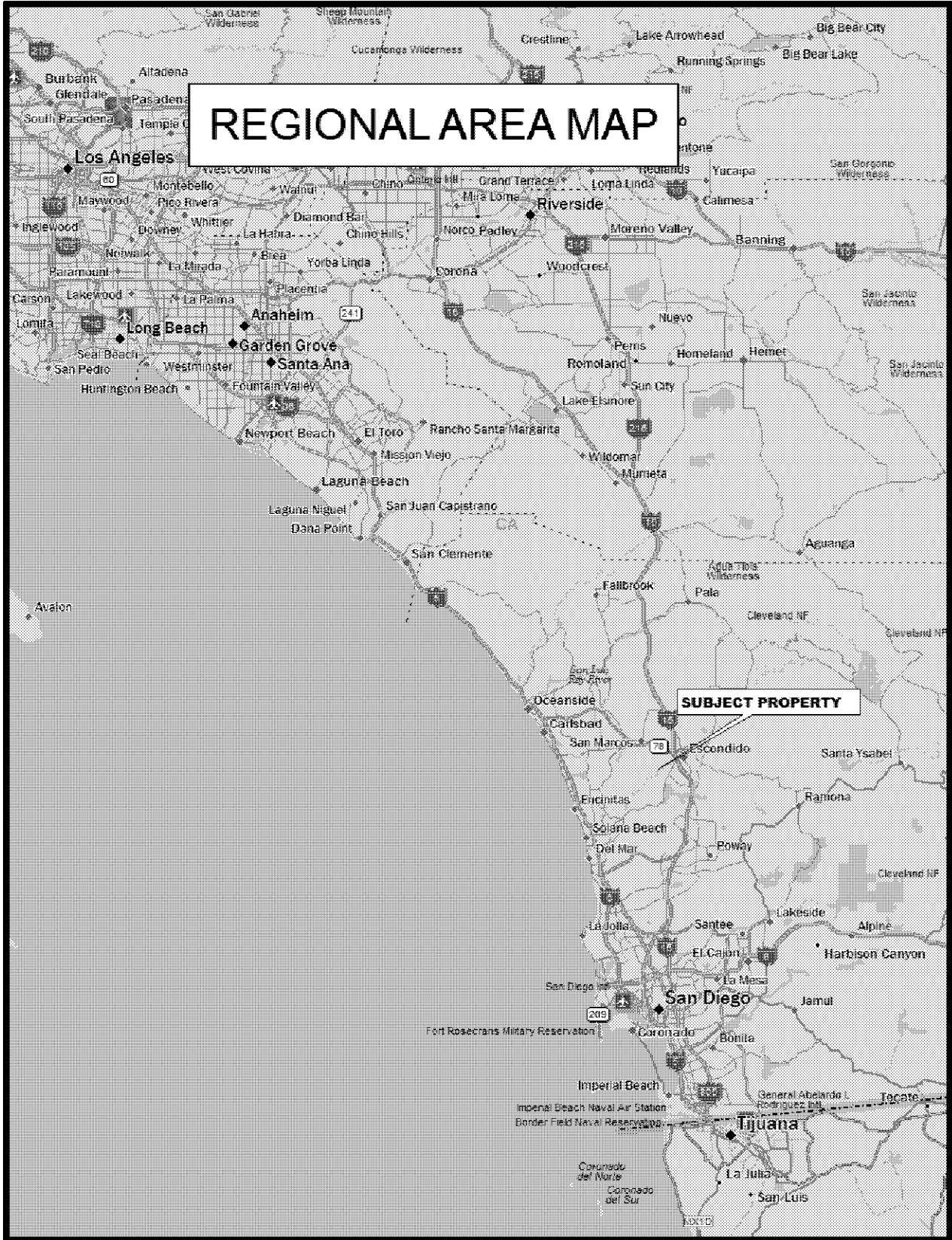
Trustee

ZB, National Association dba Zions Bank
Los Angeles, California

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\$15,710,000
COMMUNITY FACILITIES DISTRICT NO. 2008-01
(HARMONY GROVE VILLAGE) OF THE COUNTY OF SAN DIEGO
IMPROVEMENT AREA NO. 1 SPECIAL TAX BONDS, SERIES 2018A

INTRODUCTION

General

This Official Statement, including the cover page and appendices hereto, sets forth certain information concerning the issuance by Community Facilities District No. 2008-1 (Harmony Grove Village), County of San Diego, State of California (the “District”), of its Community Facilities District No. 2008-01 (Harmony Grove Village) of the County of San Diego, Improvement Area No. 1 Special Tax Bonds, Series 2018A (the “Series 2018A Bonds”). The Series 2018A Bonds are being issued under the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (constituting Section 53311 *et seq.* of the California Government Code) (the “Act”), the Resolution of Issuance hereinafter referred to, and an Indenture, dated as of February 1, 2018 (the “Indenture”), between the District and ZB, National Association dba Zions Bank, as trustee (the “Trustee”).

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in, this entire Official Statement, including the cover page and appendices hereto, and the documents summarized or otherwise described herein. A full review should be made of this entire Official Statement and such documents prior to making an investment in the Series 2018A Bonds. The sale and delivery of the Series 2018A Bonds to potential investors is made only by means of the entire Official Statement.

Capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given to them in the Indenture. See Appendix A – “Summary of Certain Provisions of the Indenture.”

The District and the Improvement Areas

General. The District encompasses approximately 418 acres, and is located in an unincorporated portion of San Diego County located north of the intersection of Country Club Drive and Harmony Grove Road, west-southwest of the City of Escondido, south of State Route 78 and west of U.S. Interstate 15. The land in the District is coterminous with the boundaries of a master-planned community known as Harmony Grove Village (the “Development”), except for an approximately 37-acre portion of the Development lying outside of the District that is planned for equestrian use, and approximately 13 acres of parks and open space. Final maps authorizing the subdivision of the Development into 736 residential units as well as certain non-residential parcels were recorded in January, 2013.

The District is divided into two improvement areas. Improvement Area No. 1 comprises an approximately 234-acre portion of the Development. Improvement Area No. 1 is planned to be developed with 444 single-family detached residential dwelling units, an approximately 2.89-acre commercial site consisting of two contiguous parcels (the “Commercial Site”), and three additional parcels intended for development as a fire station, a church, and a wastewater treatment plant. Only the residential parcels and the Commercial Site are subject to the Special Tax. Special Taxes have been prepaid on two of the residential parcels in Improvement Area No. 1. Accordingly, a maximum of 442 residential parcels will be subject to the Special Tax levy. Improvement Area No. 2 comprises an approximately 181-acre portion of the Development. An additional 292 single-family detached residential units are planned to be

developed in Improvement Area No. 2. A portion of the lots in Improvement Area No. 2 are in an active sales program and as of December 1, 2017, a total of 35 completed residential units in Improvement Area No. 2 had been conveyed to individual owners.

Principal of and interest on the Series 2018A Bonds are payable solely from Special Taxes levied within Improvement Area No. 1, as further described herein. Special taxes levied within Improvement Area No. 2 do not secure the Series 2018A Bonds.

District Formation. Under the Act, the Board of Supervisors (the “Board of Supervisors”) of the County of San Diego, California (the “County”) is authorized to establish a community facilities district and act as the legislative body for the district. Subject to approval by a two-thirds vote of the qualified electors voting, and compliance with the provisions of the Act, the Board of Supervisors, acting as the legislative body of a community facilities district, may authorize the issuance of bonds by such district, and the levy and collection of a special tax within such district (and/or one or more improvement areas within such district), to repay such indebtedness.

Pursuant to the Act, on May 14, 2008, the Board of Supervisors adopted a resolution stating its intention to establish the District. On June 25, 2008, the Board of Supervisors adopted its Resolution No. 08-113 establishing the District and the two improvement areas therein (the “Resolution of Formation”), its Resolution No. 08-114 deeming it necessary to incur bonded indebtedness in an aggregate principal amount not to exceed \$32,000,000 for Improvement Area No. 1 and \$35,000,000 for Improvement Area No. 2, and its Resolution No. 08-115 calling a special election within Improvement Area No. 1. The qualified electors within Improvement Area No. 1 voted in favor of, among other things, the incurrence of bonded indebtedness in a principal amount not to exceed \$32,000,000 to finance certain infrastructure and other improvements (the “Facilities”), which Facilities would be owned by the County, the San Diego County Sanitation District (the “County Sanitation District”), or Rincon del Diablo Municipal Water District (“Rincon”).

Special Tax Levy

At the time of formation of the District, the qualified electors also voted in favor of the levy of Special Taxes (defined below, see, “– Sources of Payment for the Series 2018A Bonds”) on certain property in Improvement Area No. 1, to pay, among other things, the principal of and interest on bonds (including the Series 2018A Bonds) to be issued to finance a portion of the Facilities, to pay a portion of the administrative expenses of the District, and to make any replenishments to the Reserve Fund consistent with the Rate and Method of Apportionment for County of San Diego Community Facilities District No. 2008-01 Improvement Area No. 1 (Harmony Grove Village) (as amended in part and restated in part as described below, the “Rate and Method”). The Rate and Method provides for the levy of an annual Special Tax A (“Special Tax A”), and an additional tax (the “One-Time Special Tax”). The One-Time Special Tax is to be levied in certain specified circumstances in order to assure maintenance of the required debt service coverage ratio on indebtedness payable from Special Tax A. See “The District and Improvement Area No. 1 – Rate and Method of Apportionment of Special Tax – One-Time Special Tax.” Resolution No. 17-180 adopted by the Board of Supervisors on December 5, 2017 (the “Resolution of Issuance”) restated Section D of the Rate and Method, which provides for the determination and levy of the One-Time Special Tax, in order to cure ambiguities within that section and to clarify the procedures for levying the One-Time Special Tax. As permitted under the Rate and Method, certain of the Maximum Special Tax A rates originally set forth in Table 1 of the Rate and Method have been revised downward pursuant to a Certificate to Amend Special Tax A (the “Reduction Certificate”) executed in connection with the adoption of the Resolution of Issuance and recorded in the office of the San Diego County Recorder. References herein to the “Rate and Method” include Section D thereof as thus restated, and the Maximum Special Tax A rates as thus amended by the Reduction Certificate. See Appendix E – “Rate

and Method of Apportionment of Special Tax.” The Special Taxes are levied pursuant to County Ordinance No. 10369 (N.S.), adopted by the Board of Supervisors on January 7, 2015 (the “Ordinance”). See “The District and Improvement Area No. 1 – Rate and Method of Apportionment of Special Tax,” and “– The Facilities” herein.

The Rate and Method also provides for the levy of a Special Tax B on property in Improvement Area No. 1 to pay annual costs of certain services the District is authorized to fund and related administrative expenses. *Special Tax B is not pledged to the payment of debt service on the Series 2018A Bonds and will not be used to pay the principal of or interest on the Series 2018A Bonds.*

Application of Proceeds of the Series 2018A Bonds

Proceeds of the Series 2018A Bonds will be used (i) to pay the costs of the acquisition of certain Facilities, (ii) to fund a reserve fund for the Series 2018A Bonds, and (iii) to pay the costs of issuing the Series 2018A Bonds. See “Estimated Sources and Uses of Funds,” and “The District and Improvement Area No. 1 – The Facilities.”

The Development and the Developer

Improvement Area No. 1 comprises an approximately 234-acre portion of the Development, a 468-acre residential development known as Harmony Grove Village. The Development is situated west-southwest of, and nearly adjacent to, the City of Escondido, south of State Route 78 and west of U.S. Interstate 15. The Development is planned to include a total of 736 single-family detached residential units, the Commercial Site, which is expected to generate approximately 20,000 square feet of retail space, a fire station, a church, and a wastewater treatment plant. Planned amenities include 189 acres of permanent open space, a community clubhouse and pool, a central park, and a trail system. A portion of the Development is situated outside of the District and consists of an approximately 37-acre parcel south of and adjacent to the District planned for equestrian use, as well as approximately 13 acres of parks and open space.

As of September 10, 2017, which is the date of valuation (the “Valuation Date”) of the Appraisal (see “— Appraised Value,” below), of the 442 planned residential units subject to the Special Tax levy in Improvement Area No. 1, 148 had been completed, sold and conveyed to individual homeowners, and an additional 69 home sales were pending. Home sales contracts are subject to cancellation and, therefore, pending home sales may not result in closed escrows with the prospective homebuyers. Also as of the Valuation Date, a total of 254 building permits had been issued (excluding the two parcels for which the Special Tax has been prepaid). The Developer expects an additional 136 building permits to be issued in 2018, and the remaining 54 building permits to be issued in 2019. Between the Valuation Date and December 1, 2017, no additional building permits were issued, and an additional 30 units (excluding the two parcels for which the Special Tax has been prepaid) had been conveyed to individual homeowners. As of December 1, 2017, 178 units (excluding the two parcels for which the Special Tax has been prepaid) had been conveyed to individual homeowners.

The remaining 292 residential units within the Development are expected to be situated in Improvement Area No. 2. As of December 1, 2017, 35 completed residential units in Improvement Area No. 2 had been conveyed to individual homeowners.

The Series 2018A Bonds are special obligations of the District, payable solely from Net Special Tax Revenues derived from Taxable Property within Improvement Area No. 1 and amounts in certain funds established under the Indenture, as more fully described herein.

The Development is being developed by CalAtlantic Group, Inc., a Delaware corporation (the “Developer” or “CalAtlantic”) through its San Diego Division. The Developer is a homebuilder, incorporated in 1991 with principal executive offices located in Arlington, Virginia, and West Coast corporate headquarters located in Irvine, California. CalAtlantic is a publicly traded company with its stock listed on the New York Stock Exchange under the symbol “CAA.” See “The Development and the Developer – The Developer.” On October 30, 2017, the Developer announced that it had entered into a definitive agreement to merge with Lennar Corporation. See “The Development and the Developer – The Developer – CalAtlantic/Lennar Merger Announcement.”

The Facilities eligible to be financed with the Series 2018A Bond proceeds consist of public roads, a wastewater treatment plant, sewer pump station, parks, multi-use trails, water reclamation facilities and other public improvements located within, or designed to provide services to, Improvement Area No. 1. Facilities also include certain development and other fees charged to the Developer by the County and other public agencies, and for which the Developer may be reimbursed. Pursuant to the Acquisition and Funding Agreement dated as of December 1, 2012 (the “Acquisition and Funding Agreement”), by and among the District, the County, and the Developer, the Facilities specified therein are to be constructed by the Developer, and are to be acquired by the County, the County Sanitation District, or Rincon when such Facilities are operational. The Developer becomes eligible for reimbursement of the costs related to the Facilities when they are accepted by these agencies. See Table 8 in “The District and Improvement Area No. 1 – The Facilities.”

Description of the Series 2018A Bonds

The Series 2018A Bonds will be issued and delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to purchasers of the Series 2018A Bonds (the “Beneficial Owners”) in denominations of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. See “The Series 2018A Bonds – Description of the Series 2018A Bonds” and Appendix G – “DTC and the Book Entry System.” *So long as the Series 2018A Bonds are in book-entry-only form, all references in the Official Statement to the owners or holders of the Series 2018A Bonds shall mean DTC (or its nominee) and not the Beneficial Owners of the Series 2018A Bonds.*

The Series 2018A Bonds are subject to optional redemption and mandatory redemption as described herein. For more complete descriptions of the Series 2018A Bonds and the Indenture pursuant to which they are being issued and delivered, see “The Series 2018A Bonds” and Appendix A – “Summary of Certain Provisions of the Indenture.”

Sources of Payment for the Series 2018A Bonds

Under the Indenture, the Series 2018A Bonds are payable from, and secured by a pledge of and lien on, the Net Special Tax Revenues and amounts held in the Special Tax Fund, the Bond Fund, the Redemption Fund, and the Reserve Fund of the Indenture. The term “Net Special Tax Revenues” means Special Tax Revenues, less amounts required to pay Priority Administrative Expenses. “Special Taxes” consist of the special taxes described as “Special Tax A” and the “One-Time Special Tax” in the Rate and Method levied within Improvement Area No. 1 pursuant to the Act, the Rate and Method, the Ordinance, and the Indenture. The term “Special Tax Revenues” means the proceeds of the Special Taxes received by or on behalf of the District, including any prepayments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, which are limited to the amount of said lien and interest and penalties thereon. Under the Indenture, the District has agreed to repay the Series 2018A Bonds from the Net Special Tax Revenues

collected and received by the District, and from amounts on deposit in certain funds established under the Indenture. See “Security for the Series 2018A Bonds” and Appendix A – “Summary of Certain Provisions of the Indenture.”

In the event that the Special Taxes are not paid when due, the only other source of funds to repay the Series 2018A Bonds will be the amounts held by the Trustee in certain of the funds established under the Indenture, including amounts held in the Reserve Fund, and the proceeds, if any, from foreclosure sales of land with delinquent Special Taxes. A portion of the proceeds of the Series 2018A Bonds equal to the initial Reserve Requirement will be deposited in the Reserve Fund, which may be drawn upon as needed to pay the scheduled debt service on the Bonds, in accordance with the provisions of the Indenture. Amounts in the Reserve Fund may also be used to redeem Bonds in conjunction with the prepayments of Special Tax A and payments of the One-Time Special Tax, and to pay rebate payments to the federal government. See “Security for the Series 2018A Bonds – Reserve Fund” and Appendix A – “Summary of Certain Provisions of the Indenture.”

Resolution No. 08-114 of the County Board of Supervisors provides that Bonds payable from Special Taxes may be issued in an amount not to exceed \$32,000,000. The District and the Developer anticipate that, as additional homes are completed by the Developer and sold to individual homeowners, subject to the conditions precedent set forth in the Indenture, the Developer will be reimbursed for the cost of additional Facilities that are expected to be financed with additional Bonds to the extent permitted under the Indenture and Resolution No. 08-114. Upon the issuance of the Series 2018A Bonds, a total of \$16,290,000 of additional debt to finance Facilities may be issued and secured by Special Taxes in Improvement Area No. 1. See “Security for the Series 2018A Bonds – Additional Bonds.”

Appraised Value

In connection with the offering and sale of the Series 2018A Bonds, an Appraisal Report (the “Appraisal”) was prepared by Kitty Siino & Associates, Inc. (the “Appraiser”), dated October 30, 2017, with a Valuation Date of September 10, 2017. According to the Appraisal, as of the Valuation Date, the aggregate value of the residential and commercial property subject to the Special Tax in Improvement Area No. 1 was \$150,908,682 (excluding the two residential properties for which the Special Taxes have been prepaid), of which \$70,382,200 represented property owned by the Developer and \$80,526,482 represented property owned by individual homeowners. Certain limited appraisal information has been updated to December 1, 2017 by the Appraiser in a Supplement to the Appraisal (the “Appraisal Supplement”) dated December 8, 2017. The Appraisal and the Appraisal Supplement contain various assumptions and conditions and should be read in their entirety by those interested in an investment in the Series 2018A Bonds. Complete copies of the Appraisal and the Appraisal Supplement are attached hereto as Appendix C – “Appraisal Report.” See “Security for the Series 2018A Bonds – Appraised Value” for various tables indicating value-to-lien ratios by development status and product type of the homes permitted and expected to be constructed in Improvement Area No. 1.

Continuing Disclosure

The District, pursuant to a Continuing Disclosure Agreement (the “District Continuing Disclosure Agreement”), and the Developer, pursuant to a Continuing Disclosure Agreement (the “Developer Continuing Disclosure Agreement”), have each agreed to provide, or cause to be provided, to the Electronic Municipal Market Access (“EMMA”) maintained by the Municipal Securities Rulemaking Board, certain annual financial and other information and notice of certain enumerated events. The Developer has also agreed to provide additional semiannual financial and other information. The District Continuing Disclosure Agreement is being executed by the District in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the “Rule”). The

Developer Continuing Disclosure Agreement shall terminate at such time as the Developer and its Affiliates are collectively responsible for less than 20% of the Special Taxes. In addition, the Developer Continuing Disclosure Agreement may terminate in certain other circumstances, as described in the Developer Continuing Disclosure Agreement. See “Concluding Information – Continuing Disclosure,” Appendix H – “Form of District Continuing Disclosure Agreement” and Appendix I – “Form of Developer Continuing Disclosure Agreement.”

Risk Factors

The purchase of the Series 2018A Bonds involves certain risks which should be considered by prospective Bond purchasers. See “Special Risk Factors” herein for a description of certain such risks.

Limited Liability

Although the unpaid Special Taxes constitute liens on parcels within Improvement Area No. 1, they do not constitute a personal indebtedness of the Developer or any other property owners or homeowners. There is no assurance that any landowner or homeowner will be financially able to pay the Special Taxes levied on their property in Improvement Area No. 1, or that they will pay the Special Taxes even though financially able to do so.

The Series 2018A Bonds are special obligations of the District, payable solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Indenture), the County, or the State of California, or any political subdivision thereof, is pledged to the payment of the Series 2018A Bonds.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, is acting as Bond Counsel to the District. Certain legal matters will be passed upon for the District by County Counsel, and by Hawkins Delafield & Wood LLP, Los Angeles, California, acting as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Underwriters’ Counsel. Public Resources Advisory Group, Los Angeles, California, will serve as the District’s Financial Advisor. Payment of the fees and expenses of Bond Counsel, Disclosure Counsel and Underwriters’ Counsel is contingent upon the sale and issuance of the Series 2018A Bonds.

The Appraisal and the Appraisal Supplement were prepared by Kitty Siino & Associates, Inc., Tustin, California (the “Appraiser”). Empire Economics, Inc., Capistrano Beach, California (the “Absorption Consultant”), prepared the Market Absorption Study. The firm of Willdan Financial Services, Temecula, California, is the Special Tax Consultant to the District for the financing. Willdan Financial Services will also serve as the initial dissemination agent under the Continuing Disclosure Agreements.

Additional Information

Brief descriptions of the Series 2018A Bonds, the security for the Series 2018A Bonds, certain special risk factors, the District, the County, the Developer, the Development and other information are included in this Official Statement, together with summaries of certain provisions of the Series 2018A Bonds, the Indenture and other documents. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Series 2018A Bonds, resolutions and other

documents are qualified in their entirety by reference to the complete text thereof and the information with respect thereto included in the Indenture. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights.

Unless the context clearly requires otherwise, capitalized terms used but not defined in this Official Statement have the meanings given to them in the Indenture, some of which are set forth in Appendix A hereto.

ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds in connection with the Series 2018A Bonds are estimated to be applied as follows:

Source of Funds	
Principal Amount of Series 2018A Bonds	\$15,710,000.00
Plus: Net Original Issue Premium	505,301.75
Less: Underwriters' Discount	<u>141,387.50</u>
Total Sources	<u>\$16,073,914.25</u>
 Application of Funds	
Deposit to Improvement Fund ⁽¹⁾	\$14,444,364.79
Deposit to Reserve Fund ⁽²⁾	1,179,810.46
Deposit to Costs of Issuance Fund ⁽³⁾	<u>449,739.00</u>
Total Uses	<u>\$16,073,914.25</u>

⁽¹⁾ To be used, together with other Special Tax Revenues available to the District, to pay costs of the Facilities. See "The District and Improvement Area No. 1 – The Facilities."

⁽²⁾ An amount equal to the initial Reserve Requirement. See "Security for the Series 2018A Bonds – Reserve Fund."

⁽³⁾ Includes fees and expenses of Bond Counsel, Disclosure Counsel, the Financial Advisor, the Trustee, the Appraiser, the Special Tax Consultant, the Absorption Consultant and the County, printing expenses and other costs related to the issuance of the Series 2018A Bonds.

SCHEDULED ANNUAL DEBT SERVICE FOR THE SERIES 2018A BONDS

The table below sets forth the scheduled annual debt service payments on the Series 2018A Bonds, assuming no optional redemption of the Series 2018A Bonds or mandatory redemption of the Series 2018A Bonds from prepayments of Special Tax A or payments of One-Time Special Tax.

Year Ending September 1	Principal	Interest	Total
2018	--	\$ 342,854.58	\$ 342,854.58
2019	\$ 95,000	605,037.50	700,037.50
2020	115,000	603,137.50	718,137.50
2021	130,000	600,837.50	730,837.50
2022	150,000	596,937.50	746,937.50
2023	165,000	592,437.50	757,437.50
2024	190,000	587,487.50	777,487.50
2025	210,000	581,787.50	791,787.50
2026	235,000	573,387.50	808,387.50
2027	260,000	563,987.50	823,987.50
2028	285,000	553,587.50	838,587.50
2029	315,000	542,187.50	857,187.50
2030	345,000	529,587.50	874,587.50
2031	375,000	515,787.50	890,787.50
2032	410,000	500,787.50	910,787.50
2033	440,000	484,387.50	924,387.50
2034	480,000	466,787.50	946,787.50
2035	515,000	447,587.50	962,587.50
2036	555,000	430,206.26	985,206.26
2037	590,000	411,475.00	1,001,475.00
2038	635,000	390,825.00	1,025,825.00
2039	675,000	368,600.00	1,043,600.00
2040	725,000	341,600.00	1,066,600.00
2041	775,000	312,600.00	1,087,600.00
2042	825,000	281,600.00	1,106,600.00
2043	880,000	248,600.00	1,128,600.00
2044	940,000	213,400.00	1,153,400.00
2045	1,000,000	175,800.00	1,175,800.00
2046	1,065,000	135,800.00	1,200,800.00
2047	1,130,000	93,200.00	1,223,200.00
2048	<u>1,200,000</u>	<u>48,000.00</u>	<u>1,248,000.00</u>
TOTALS	\$15,710,000	\$13,140,298.34	\$28,850,298.34

THE SERIES 2018A BONDS

The following is a summary of certain provisions of the Series 2018A Bonds. Reference is made to the Series 2018A Bonds for the complete text thereof and to the Indenture for a more detailed description of such provisions. The discussion herein is qualified by such reference. See Appendix A – “Summary of Certain Provisions of the Indenture.”

Authority for Issuance

The Series 2018A Bonds are being issued pursuant to the Resolution of Issuance, the Act and the Indenture. The Act was adopted by the State Legislature to provide an alternate method of financing certain public capital facilities and services. Once duly established by a local governmental agency, a community facilities district is itself a legally constituted governmental entity, with the governing board or legislative body of the local agency that established it constituting the legislative body of the community facilities district. Subject to approval by a two-thirds vote of a community facilities district’s qualified electors and compliance with the provisions of the Act, the legislative body may authorize the issuance of bonds for the community facilities district in order to finance certain public improvements, and the legislative body may levy and collect a special tax within such community facilities district (and/or one or more improvement areas within such district), to repay such indebtedness. The total aggregate principal amount of the Bonds authorized to be issued and payable from Net Special Tax Revenues is \$32,000,000. See “Security for the Series 2018A Bonds” and Appendix A – “Summary of Certain Provisions of the Indenture.”

Purpose of the Series 2018A Bonds

Proceeds of the Series 2018A Bonds will be used (i) to pay the costs of the acquisition of the Facilities necessary for the development of Improvement Area No. 1, (ii) to fund a reserve fund for the Series 2018A Bonds, and (iii) to pay the costs of issuing the Series 2018A Bonds. See “Estimated Sources and Uses of Funds” and “The District and Improvement Area No. 1 – The Facilities.”

Description of the Series 2018A Bonds

The Series 2018A Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof (“Authorized Denominations”), and will be dated as of their date of issuance. The Series 2018A Bonds are scheduled to mature on September 1 in the years and in the principal amounts and will bear interest at the rates shown on the inside front cover page of this Official Statement. Interest on the Series 2018A Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months and will be payable semiannually on March 1 and September 1 of each year, commencing September 1, 2018.

Interest on the Series 2018A Bonds shall be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series 2018A Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it shall bear interest from such Interest Payment Date, (ii) a Series 2018A Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the Closing Date, or (iii) interest on any Series 2018A Bond is in default as of the date of authentication thereof, in which event interest thereon shall be payable from the date to which interest has previously been paid or duly provided for.

Interest shall be paid in lawful money of the United States of America on each Interest Payment Date. Interest shall be paid by check of the Trustee mailed by first class mail, postage prepaid, or by wire

transfer made on such Interest Payment Date upon the written instructions of any Owner of \$1,000,000 or more Series 2018A Bonds to an account within the United States of America, on each Interest Payment Date to the Series 2018A Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. Notwithstanding the foregoing, interest on any Series 2018A Bond which is not punctually paid or duly provided for on any Interest Payment Date shall, if and to the extent that amounts subsequently become available therefor, be paid on a payment date established by the Trustee to the Person in whose name the ownership of such Series 2018A Bond is registered on the Registration Books at the close of business on a special record date to be established by the Trustee for the payment of such defaulted interest, notice of which shall be given to such Owner not less than ten days prior to such special record date. The principal of the Series 2018A Bonds shall be payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee.

The Series 2018A Bonds are special obligations of the District, payable solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Indenture), the County, or the State of California, or any political subdivision thereof, is pledged to the payment of the Series 2018A Bonds.

Redemption

Optional Redemption. The Series 2018A Bonds maturing on and after September 1, 2025 are subject to optional redemption, in whole or in part in Authorized Denominations, on any Interest Payment Date on or after September 1, 2024, from any source of available funds, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series 2018A Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 2024 and March 1, 2025	103%
September 1, 2025 and March 1, 2026	102
September 1, 2026 and March 1, 2027	101
September 1, 2027 and any Interest Payment Date thereafter	100

Mandatory Redemption from Special Tax A Prepayments and One-Time Special Tax Payments. The Series 2018A Bonds are subject to mandatory redemption, in whole or in part in Authorized Denominations, on any Interest Payment Date, from and to the extent of any prepayment of Special Tax A, or of any payment of the One-Time Special Tax, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series 2018A Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 2018 through and including March 1, 2025	103%
September 1, 2025 and March 1, 2026	102
September 1, 2026 and March 1, 2027	101
September 1, 2027 and any Interest Payment Date thereafter	100

The District does not expect that the One-Time Special Tax will be levied and accordingly does not expect that mandatory redemption from One-Time Special Tax payments will occur. See “The District and Improvement Area No. 1 – Rate and Method of Apportionment of Special Tax – One-Time Special Tax” and “Special Risk Factors – Collection of One-Time Special Tax.”

Mandatory Sinking Fund Redemption. The Series 2018A Bonds maturing September 1, 2043 shall be subject to mandatory sinking fund redemption, in part, on September 1 in each year, commencing September 1, 2039, at a Redemption Price equal to the principal amount of the Series 2018A Bonds maturing September 1, 2043 to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

Sinking Fund Redemption Date (September 1)	Principal Amount to be Redeemed
2039	\$675,000
2040	725,000
2041	775,000
2042	825,000
2043 (Maturity)	880,000

If some but not all of the Series 2018A Bonds maturing on September 1, 2043 are redeemed pursuant to the provisions described in “—Optional Redemption,” above, the principal amount of Series 2018A Bonds maturing on September 1, 2043 to be redeemed pursuant mandatory sinking fund redemption on any subsequent September 1 shall be reduced, by \$5,000 or an integral multiple thereof, as designated by the District in a Written Certificate of the District filed with the Trustee; provided, however, that the aggregate amount of such reductions shall not exceed the aggregate amount of Series 2018A Bonds maturing on September 1, 2043 redeemed pursuant to the provisions described in “—Optional Redemption,” above. If some but not all of the Series 2018A Bonds maturing on September 1, 2043 are redeemed pursuant to the provisions described in “Mandatory Redemption from Special Tax A Prepayments and One-Time Special Tax Payments” above, the principal amount of Series 2018A Bonds maturing on September 1, 2043 to be redeemed pursuant to mandatory sinking fund redemption on any subsequent September 1 shall be reduced by the aggregate principal amount of the Series 2018A Bonds maturing on September 1, 2043 so redeemed pursuant to the provisions described in “—Mandatory Redemption from Special Tax A Prepayments and One-Time Special Tax Payments” above, such reduction to be allocated among redemption dates as nearly as practicable on a *pro rata* basis in amounts of \$5,000 or integral multiples thereof, as determined by the Trustee, notice of which determination shall be given by the Trustee to the District.

The Series 2018A Bonds maturing September 1, 2048 shall be subject to mandatory sinking fund redemption, in part, on September 1 in each year, commencing September 1, 2044, at a Redemption Price equal to the principal amount of the Series 2018A Bonds maturing September 1, 2048 to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

Sinking Fund Redemption Date (September 1)	Principal Amount to be Redeemed
2044	\$ 940,000
2045	1,000,000
2046	1,065,000
2047	1,130,000
2048 (Maturity)	1,200,000

If some but not all of the Series 2018A Bonds maturing on September 1, 2048 are redeemed pursuant to the provisions described in “—Optional Redemption,” above, the principal amount of Series 2018A Bonds maturing on September 1, 2048 to be redeemed pursuant mandatory sinking fund

redemption on any subsequent September 1 shall be reduced, by \$5,000 or an integral multiple thereof, as designated by the District in a Written Certificate of the District filed with the Trustee; provided, however, that the aggregate amount of such reductions shall not exceed the aggregate amount of Series 2018A Bonds maturing on September 1, 2048 redeemed pursuant to the provisions described in “—Optional Redemption,” above. If some but not all of the Series 2018A Bonds maturing on September 1, 2048 are redeemed pursuant to the provisions described in “—Mandatory Redemption from Special Tax A Prepayments and One-Time Special Tax Payments” above, the principal amount of Series 2018A Bonds maturing on September 1, 2048 to be redeemed pursuant to mandatory sinking fund redemption on any subsequent September 1 shall be reduced by the aggregate principal amount of the Series 2018A Bonds maturing on September 1, 2048 so redeemed pursuant to the provisions described in “—Mandatory Redemption from Special Tax A Prepayments and One-Time Special Tax Payments” above, such reduction to be allocated among redemption dates as nearly as practicable on a *pro rata* basis in amounts of \$5,000 or integral multiples thereof, as determined by the Trustee, notice of which determination shall be given by the Trustee to the District.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Series 2018A Bonds to be redeemed from all Bonds not previously called for redemption: (a) with respect to any optional redemption of Series 2018A Bonds, among maturities of Series 2018A Bonds as directed by the District; (b) with respect to any redemption from prepayment of Special Tax A or payment of the One-Time Special Tax and the corresponding provision of any Supplemental Indenture pursuant to which Additional Bonds are issued, among maturities of all Series of Bonds on a *pro rata* basis as nearly as practicable; and (c) with respect to any other redemption of Additional Bonds, among maturities as provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued, and by lot among Bonds of the same Series with the same maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

Notice of Redemption. The Indenture provides that the Trustee will mail (by first class mail) notice of any redemption to the respective Owners of any Series 2018A Bonds designated for redemption at their respective addresses appearing on the Registration Books, at least 30 but not more than 60 days prior to the date fixed for redemption. Such notice shall state the date of the notice, the redemption date, the redemption place and the Redemption Price and shall designate the CUSIP numbers, if any, the Series 2018A Bond numbers and the maturity or maturities of the Series 2018A Bonds to be redeemed (except in the event of redemption of all of the Series 2018A Bonds of such maturity or maturities in whole), and shall require that such Series 2018A Bonds be then surrendered at the Office of the Trustee for redemption at the Redemption Price, giving notice also that further interest on such Series 2018A Bonds will not accrue from and after the date fixed for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the validity of the proceedings for the redemption of the Series 2018A Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption. With respect to any notice of any optional redemption of Series 2018A Bonds, unless at the time such notice is given the Series 2018A Bonds to be redeemed shall be deemed to have been paid within the meaning of the Indenture, such notice shall state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the Redemption Price of, and accrued interest on, the Series 2018A Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the District shall not be required to redeem such Series 2018A Bonds. In the event a notice of redemption of Series 2018A Bonds contains such a condition and such moneys are not so received, the redemption of Series 2018A Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after

the date on which such redemption was to occur, give notice to the Persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there shall be no redemption of Series 2018A Bonds pursuant to such notice of redemption.

Partial Redemption of Series 2018A Bonds. Upon surrender of any Series 2018A Bond redeemed in part only, the District will execute and the Trustee will authenticate and deliver to the Owner thereof a new Bond or Bonds representing the unpaid principal amount of the Series 2018A Bond surrendered.

Effect of Notice of Redemption. Notice having been mailed as described under the caption “– Notice of Redemption,” and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, having been set aside in the Redemption Fund, the Series 2018A Bonds shall become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds shall be paid at the Redemption Price thereof, together with interest accrued and unpaid to said date.

If, on the date fixed for redemption, moneys for the Redemption Price of all the Series 2018A Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof shall have been mailed as aforesaid and not canceled, then, from and after said date, interest on said Series 2018A Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Series 2018A Bonds shall be held in trust for the account of the Owners of the Series 2018A Bonds so to be redeemed without liability to such Owners for interest thereon.

All Series 2018A Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions hereof shall be canceled upon surrender thereof and destroyed.

Purchase In Lieu of Redemption. In lieu of an optional, mandatory, or mandatory sinking fund redemption, the District may elect to purchase Series 2018A Bonds at public or private sale at such prices as the District in its discretion may determine; provided, that, unless otherwise authorized by law, the purchase price (including brokerage and other charges) thereof will not exceed the principal amount thereof, plus accrued interest accrued to the purchase date and any premium which would otherwise be due if such Series 2018A Bonds were to be redeemed in accordance with the Indenture.

Discontinuation of Book Entry Only System

Initially, The Depository Trust Company (“DTC”) will act as securities depository (the “Depository”) for the Series 2018A Bonds. See Appendix G – “DTC and the Book Entry System.” In the event (i) DTC, including any successor as securities depository for the Series 2018A Bonds, determines not to continue to act as securities depository for the Series 2018A Bonds, or (ii) the District determines that the incumbent securities depository shall no longer so act as securities depository for the Series 2018A Bonds, and delivers a written certificate to the Trustee to that effect, then the District will discontinue the book-entry system with the incumbent securities depository for the Series 2018A Bonds. If the District determines to replace the incumbent securities depository for the Series 2018A Bonds with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered series 2018A Bond for the aggregate outstanding principal amount of Series 2018A Bonds of each maturity, registered in the name of such successor or substitute qualified securities depository, or its nominee, or make such other arrangement acceptable to the District, the Trustee and the successor securities depository for the Series 2018A Bonds as are not inconsistent with the terms of the Indenture. If the District fails to identify another qualified successor securities depository for the Series 2018A Bonds to replace the incumbent securities depository, then the Series 2018A Bonds shall no longer

be restricted to being registered in the Registration Books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository for the Series 2018A Bonds, or its nominee, shall designate. In such event the District shall execute, and deliver to the Trustee, a sufficient quantity of the Series 2018A Bonds to carry out the transfers and exchanges provided for in the Indenture. All such the Series 2018A Bonds shall be in fully registered form in denominations authorized by the Indenture.

SECURITY FOR THE SERIES 2018A BONDS

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, the District pledges under the Indenture all of the Net Special Tax Revenues and any other amounts (including proceeds of the sale of the Series 2018A Bonds) held in the Special Tax Fund, the Bond Fund, the Redemption Fund, and the Reserve Fund to secure the payment of the principal of, premium, if any, and interest on the Series 2018A Bonds in accordance with their terms, the provisions of the Indenture and the Act. Said pledge shall constitute a first lien on such assets. See Appendix A – “Summary of Certain Provisions of the Indenture” for a description of the Special Tax Fund and the Bond Fund.

Limited Liability

The Series 2018A Bonds are special obligations of the District, payable solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Indenture), the County, or the State of California, or any political subdivision thereof, is pledged to the payment of the Series 2018A Bonds.

Pledge of Net Special Tax Revenues

In accordance with provisions of the Act, the qualified electors within Improvement Area No. 1 voted to approve, among other things, bonded indebtedness in an amount not to exceed \$32,000,000 to finance the Facilities, and the levy of the Special Taxes. The Board of Supervisors approved the levy of the Special Taxes as provided in the Rate and Method to pay the principal and interest on the Bonds, to pay a portion of the administrative expenses of the District, and to replenish the Reserve Fund to the Reserve Requirement. The Special Tax Revenues will be transferred by the District to the Trustee for deposit by the Trustee in the Special Tax Fund established under the Indenture as soon as practicable after they have been received by the District, except for Special Tax A prepayments and payments of the One-Time Special Tax, which amounts will be deposited into the Redemption Fund. See Appendix A – “Summary of Certain Provisions of the Indenture.”

The Indenture defines the “Special Taxes” as Special Tax A and the One-Time Special Tax levied within Improvement Area No. 1 pursuant to the Act, the Rate and Method, the Ordinance and the Indenture, where Special Tax A and the One-Time Special Tax are the taxes defined as such in the Rate and Method. The Indenture defines the “Special Tax Revenues” as the proceeds of the Special Taxes received by or on behalf of the District, including any prepayments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, which shall be limited to the amount of said lien and interest and penalties thereon. The Indenture defines the “Net Special Tax Revenues” as the Special Tax Revenues, less amounts required to pay Priority Administrative Expenses. “Priority Administrative Expenses” are defined as a portion of the specified annual actual or reasonably estimated costs directly related to the administration of Improvement Area No. 1 equal to \$42,000 for Fiscal Year 2018-19, and escalating 2% per Fiscal Year thereafter. See Appendix A – “Summary of Certain Provisions of the Indenture.”

Special Tax A is levied in each Fiscal Year on each Assessor's Parcel of Taxable Property within Improvement Area No. 1 to fund the Special Tax Requirement for Facilities (as such terms are defined in the Rate and Method). Special Tax A constitutes the principal source of payment for the Series 2018A Bonds.

In addition to Special Tax A, the Rate and Method provides for the levy and collection of a One-Time Special Tax under specified circumstances. The One-Time Special Tax will be levied only if and to the extent required in order to assure the District's ability to collect the Maximum Special Tax A (as defined in the Rate and Method) in an amount at least equal to 110% of the debt service on the Outstanding Bonds, plus Administrative Expenses. The Series 2018A Bonds are being issued in a principal amount such that the Maximum Special Tax A that can be levied on parcels with a building permit plus the Maximum Special Tax A that can be levied on Final Mapped Property is at least equal to the sum of Priority Administrative Expenses and 110% of debt service on the Series 2018A Bonds. The Indenture provides that Additional Bonds may be issued only if, among other things, for each Fiscal Year that Bonds will be Outstanding, the Maximum Special Tax A that may be levied in such Fiscal Year on parcels of Developed Property and Final Mapped Property that have been issued a building permit (treating such Final Mapped Property that has been issued a building permit as if it were Developed Property for purposes of calculating the Maximum Special Tax A that may be levied in such Fiscal Year), less the Priority Administrative Expenses for such Fiscal Year, is not less than the sum of (A) 110% of the Annual Debt Service for the Bond Year that begins in such Fiscal Year on all Bonds that will be Outstanding after the issuance of such Additional Bonds, plus (B) any other payments included in the Special Tax Requirement for Facilities. Thus, the Developer does not expect that the One-Time Special Tax will be levied. See "Security for the Series 2018A Bonds – Additional Bonds" and "The District and Improvement Area No. 1 – Rate and Method of Apportionment of Special Taxes – Estimated Debt Service Coverage."

Proceeds of any levy of the One-Time Special Tax (were it to be levied) would be used to redeem Bonds in an amount sufficient to provide for a debt service coverage ratio of at least 110%. Failure of property owners to pay the One-Time Special Tax could result in a debt service coverage ratio below 110%. See "The Bonds – Redemption – Mandatory Redemption from Special Tax A Prepayments and One-Time Special Tax Payments," and "Special Risk Factors – Collection of One-Time Special Tax."

The Series 2018A Bonds are being issued in a principal amount such that the Net Special Tax Revenues that are expected to be generated from the levy of Special Tax A solely on parcels for which a building permit had already been issued as of the Valuation Date will equal at least 100% of the scheduled Annual Debt Service Payments on the Series 2018A Bonds, assuming that there are no delinquencies in the payment of Special Taxes. See "The District and Improvement Area No. 1 – Rate and Method of Apportionment of Special Tax – Estimated Debt Service Coverage."

Collection of Special Tax Revenues

Pursuant to the Indenture, the District is to comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including the enforcement of delinquent Special Taxes.

Prior to August 1 of each year, the District will ascertain from the County Assessor 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 District will effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 10 that the Series 2018A Bonds are Outstanding, or otherwise such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within Improvement Area No. 1 for inclusion on the next real property tax roll.

The District shall fix and levy the amount of Special Taxes within Improvement Area No. 1 in accordance with the Rate and Method and, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield the amount required for the payment of principal of and interest on any Series 2018A Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, the amount required for any necessary replenishment of the Reserve Fund and the amount estimated to be sufficient to pay the Administrative Expenses during such year, taking into account the balances in the funds and accounts established under the Indenture.

The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installments as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property.

Although the Special Tax will constitute a lien on property subject to taxation within the District, it does not constitute a personal indebtedness of the owner of such property. There is no assurance that the landowners and homeowners will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. The risk of the Developer, or subsequent landowners or homeowners, not paying the annual Special Tax is more fully described in “SPECIAL RISK FACTORS – Insufficiency of Special Tax Revenues.”

Flow of Funds

As soon as practicable after the receipt by the District of any Special Tax Revenues, but in any event no later than the date ten Business Days prior to the Interest Payment Date after such receipt, the District will transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; provided, that for any prepayments of Special Tax A and payment of the One-Time Special Tax under the Rate and Method, any portion of any such prepayment or payment that is to be applied to the payment of the Redemption Price of Bonds in accordance with the provisions of the Indenture will be deposited in the Redemption Fund.

Upon receipt of a Written Request of the District, the Trustee will withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the Priority Administrative Expenses specified in such Written Request of the District.

On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer of the Priority Administrative Expenses to the Administrative Expense Fund, the Trustee will withdraw from the Special Tax Fund Net Special Tax Revenues in an amount sufficient to enable the Trustee to make the following transfers in the following order of priority:

(i) *Interest Account of the Bond Fund.* To the Interest Account, the amount, if any, necessary to cause the amount on deposit in the Interest Account to be equal to the interest due on the Bonds on such Interest Payment Date;

(ii) *Principal Account of the Bond Fund.* To the Principal Account, the amount, if any, necessary to cause the amount on deposit in the Principal Account to be equal to the principal, if any, due on the Bonds on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds; and

(iii) *Reserve Fund.* To the Reserve Fund, the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

On or after each September 2, after having made the transfers described in paragraphs (i)-(iii) above, the Trustee shall withdraw from the Special Tax Fund any Net Special Tax Revenues therein as of such September 2 to make the following transfers in the following order of priority:

(i) *Administrative Expense Fund.* To the Administrative Expense Fund, if upon receipt of a Written Request of the District for an amount greater than the Priority Administrative Expenses, the amount necessary to be transferred thereto in order to have sufficient amounts available therein to pay Administrative Expenses; and

(ii) *Surplus Fund.* To the Surplus Fund.

Amounts in the Surplus Fund may be transferred by the Trustee pursuant to a written request of the District to the Redemption Fund to redeem Bonds or to the District to be applied to the payment of costs of Facilities authorized to be financed by the District pursuant to the Resolution of Formation.

Appraised Value

The District has been furnished with the Appraisal prepared by the Appraiser dated October 30, 2017, and the Appraisal Supplement dated December 8, 2017. The Appraisal summarizes the Appraiser's conclusion that the Market Value, as defined therein, of the property within Improvement Area No. 1 that is subject to the levy of the Special Tax, as of the Valuation Date, was \$150,908,682. Of that amount, \$70,382,200 was attributable to land owned by the Developer, and \$80,526,482 was attributable to individually owned homes. See Appendix C – "Appraisal Report." The valuation in the Appraisal is based primarily on a sales comparison methodology and a discounted cash flow analysis.

The Appraiser's estimate of the Market Value of the property in Improvement Area No. 1 on which the Special Tax is levied as reflected in the Appraisal is approximately 9.61 times the initial principal amount of the Series 2018A Bonds. Property in Improvement Area No. 1 is also subject to certain overlapping indebtedness. See "Special Risk Factors – Direct and Overlapping Indebtedness."

The Appraisal is subject to certain contingencies and limiting conditions which are set forth in detail in the Appraisal in Appendix C and which should be reviewed carefully. In preparing the Appraisal, the Appraiser took into account certain matters set forth in a Market Absorption Study, dated June 15, 2017 (the "Market Absorption Study"), prepared by Empire Economics, Inc. for the District. The Market Absorption Study estimated that 186 homes would have closed escrow by the end of 2017, an additional 88 homes will close escrow in 2018, 60 homes will close escrow in 2019, 52 homes will close escrow in 2020, 45 homes will close escrow in 2021, and the final 11 homes will close escrow in 2022. As of December 8, 2017, the actual number of escrow closings was 184 (excluding the two parcels for which the Special Tax has been prepaid). The District makes no representation or warranty as to the accuracy or completeness of the Appraisal or the Market Absorption Study. A complete copy of the Market Absorption Study is included as Appendix D hereto.

Set forth below are four tables that show the expected ratio of the value of taxable parcels to the allocable portion of bonded indebtedness (referred to as "lien" in the tables) of the Taxable Property in Improvement Area No. 1, based on the respective values of the parcels of Taxable Property reflected in the Appraisal, the percentage of the Fiscal Year 2018-19 Special Tax A levy on those parcels, the initial principal amount of the Series 2018A Bonds and the development status of the respective parcels as of the Valuation Date (parcels for which a building permit has been issued as of May 1 of the Fiscal Year preceding the Fiscal Year for which the Special Taxes are being levied become "Developed Property" under the Rate and Method, see "The District and Improvement Area No. 1 – Rate and Method of Apportionment of Special Tax"). Table 1 below sets forth value-to-lien ratios based on the classification

of the Taxable Property in Improvement Area No. 1 under the Rate and Method. Table 2 sets forth value-to-lien ratios by ownership status as of December 1, 2017. Table 3 sets forth value-to-lien ratios for each of the eight types of production homes, plus the Commercial Site, to be constructed in Improvement Area No. 1. Table 4 sets forth the stratification of the value-to-lien ratios for all of the Taxable Property in Improvement Area No. 1.

**Table 1
Community Facilities District No. 2008-01 (Harmony Grove Village)
County of San Diego, State of California (Improvement Area No. 1)
Value-to-Lien By Development Status as of September 10, 2017**

Development Status	Parcel Count	Appraised Property Value ⁽¹⁾	FY 2018-19 Special Tax A Levy ⁽²⁾	Principal of the Series 2018A Bonds ⁽³⁾	Value-to-Lien Ratio
Developed Property	254	\$110,833,678	\$746,209	\$15,710,000	7.05:1
Final Mapped Property ⁽⁴⁾	<u>155</u>	<u>40,075,004</u>	<u>0</u>	<u>0</u>	N/A
Totals	409	\$150,908,682	\$746,209	\$15,710,000	9.61:1

⁽¹⁾ Based on the Appraisal with a date of value of September 10, 2017.

⁽²⁾ Represents Special Tax A to be levied on parcels that will be Developed Property for Fiscal Year 2018-19, assuming no further development beyond September 10, 2017.

⁽³⁾ Pro-rata allocation based on percentage of hypothetical Fiscal Year 2018-19 Special Tax A levy.

⁽⁴⁾ Final Mapped Property includes five parcels comprised of 8 residential units each. Improvement Area No. 1 is anticipated to consist of 442 residential units and two non-residential lots (excluding two residential parcels whose Special Taxes have been prepaid).

Source: Willdan Financial Services.

**Table 2
Community Facilities District No. 2008-01 (Harmony Grove Village)
County of San Diego, State of California (Improvement Area No. 1)
Value-to-Lien by Ownership Status**

Ownership Status	Parcel Count	Appraised Property Value ⁽¹⁾	FY 2018-19 Special Tax A Levy ⁽²⁾	Principal of the Series 2018A Bonds ⁽³⁾	Value-to-Lien Ratio
Individuals	178	\$ 80,526,482	\$514,642	\$10,834,803	7.43:1
Developer ⁽⁴⁾	<u>231</u>	<u>70,382,200</u>	<u>231,567</u>	<u>4,875,197</u>	14.44:1
Totals	409	\$150,908,682	\$746,209	\$15,710,000	9.61:1

⁽¹⁾ Based on the Appraisal Supplement with a date of value of December 1, 2017.

⁽²⁾ Represents Special Tax A to be levied on parcels that will be Developed Property for Fiscal Year 2018-19, assuming no further building permit issuance beyond September 10, 2017.

⁽³⁾ Pro-rata allocation based on percentage of hypothetical Fiscal Year 2018-19 Special Tax A levy.

⁽⁴⁾ Developer-owned property includes five parcels comprised of 8 residential units each. Improvement Area No. 1 is anticipated to consist of 442 residential units and two non-residential lots (excluding two residential parcels whose Special Taxes have been prepaid).

Source: Willdan Financial Services.

Table 3
Community Facilities District No. 2008-01 (Harmony Grove Village)
County of San Diego, State of California (Improvement Area No. 1)
Value-to-Lien by Production Type of Home

Production Type of Homes	Approved Parcel Count	Developed Parcel Count	Expected Residential Units	Appraised Property Value ⁽¹⁾	Aggregate Maximum Special Tax A ⁽²⁾	FY 2018-19 Special Tax A Levy ⁽³⁾	Percentage of FY 2018-19 Special Tax A Levy ⁽³⁾	Principal of the Series 2018A Bonds ⁽⁴⁾	Value-to-Lien Ratio
Canteridge	69	69	69	\$33,798,834	\$191,039	\$191,039	25.60%	\$4,021,949	8.40:1
Seabreeze	109	79	109	42,362,491	255,088	255,088	34.18	5,370,390	7.88:1
Lusitano	97	97	97	37,312,174	264,190	264,190	35.40	5,562,003	6.70:1
Andalucia	49	3	49	12,081,149	12,647	12,647	1.69	266,267	45.37:1
Martingale	27	2	27	4,666,525	6,079	6,079	0.81	127,979	36.46:1
Whittingham Hillside	27	4	27	8,622,926	17,167	17,167	2.30	361,413	23.85:1
Compound	24	0	24	4,148,022	0	0	0	0	-
Village Court(S)	5	0	40	6,612,789	0	0	0	0	-
Commercial	2	0	N/A	1,303,771	0	0	0	0	-
Totals	409	254	442	\$150,908,682	\$746,209	\$746,209	100.00%	\$15,710,000	9.61:1

⁽¹⁾ Based on the Appraisal with a date of value of September 10, 2017.

⁽²⁾ Represents the Maximum Special Tax A, assuming no levy of the One-Time Special Tax for Fiscal Year 2018-19. Increases by 2% per year beginning July 1, 2019.

⁽³⁾ Represents Special Tax A to be levied on parcels that will be Developed Property for Fiscal Year 2018-19, assuming no additional building permits issued after September 10, 2017.

⁽⁴⁾ Pro-rata allocation based on percentage of hypothetical Fiscal Year 2018-19 Special Tax A levy. Data may not add due to independent rounding.

⁽⁵⁾ Consists of 40 units on five parcels.

Source: Willdan Financial Services.

Table 4
Community Facilities District No. 2008-01 (Harmony Grove Village)
County of San Diego, State of California (Improvement Area No. 1)
Value-to-Lien Stratification Based Upon Development Status as of September 10, 2017

Value-to-Lien Category	FY 2018-19 Number of Parcels Taxed ⁽¹⁾	Appraised Property Value ⁽²⁾	FY 2018-19 Special Tax A Levy ⁽¹⁾	Percentage of FY 2018-19 Special Tax A Levy	Principal of the Series 2018A Bonds ⁽³⁾	Value-to-Lien Ratio
Less than 5.00:1	68	\$ 12,924,996	\$201,453	27.00%	\$4,241,195	3.04:1
5.00:1 to 6.99:1	18	8,572,907	61,028	8.18	1,284,830	6.67:1
7.00:1 to 8.99:1	100	53,647,764	302,607	40.55	6,370,808	8.42:1
9.00:1 to 10.99:1	68	35,688,011	181,122	24.27	3,813,166	9.35:1
11.00:1 to 12.99:1	0	0	0	0.00	0	-
Greater than 12.99:1	0	0	0	0.00	0	-
Undeveloped	0	0	0	0.00	0	-
Total	254	\$110,833,678	\$746,209	100.00%	\$15,710,000	7.05:1

⁽¹⁾ Assumes development status as of September 10, 2017 with no additional building permits issued after September 10, 2017.

⁽²⁾ Based on the Appraisal with a date of value of September 10, 2017.

⁽³⁾ Pro-rata allocation based on percentage of hypothetical Fiscal Year 2018-19 Special Tax A levy. Data may not add due to independent rounding.

Source: Willdan Financial Services.

Covenant for Superior Court Foreclosure

Pursuant to Section 53356.1 of the Act, the District covenants in the Indenture that it will determine or cause to be determined, on or about October 1 of each year, whether or not any owners of property within Improvement Area No. 1 are delinquent in the payment of Special Taxes and, if such delinquencies exist, the District will send or cause to be sent a notice of delinquency and demand for payment thereof to the property owner within 45 days of such determination and if such delinquency remains uncured, order and cause to be commenced within 90 days of such determination of delinquency, and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due.

The District is not required to order the commencement of foreclosure proceedings as described in the preceding paragraph, if (i) the total Special Tax delinquency in Improvement Area No. 1 for such Fiscal Year is less than 5% of the total Special Tax levied in such Fiscal Year, and (ii) no draw has been made on the Reserve Fund that has not been replenished. However, if the District determines that any single property owner in Improvement Area No. 1 is delinquent in excess of \$10,000 in the payment of the Special Tax, then the District is required to diligently institute, prosecute and pursue foreclosure proceedings against such property owner.

No assurances can be given that the real property subject to a judicial foreclosure sale will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. Subject to the maximum rates, the Rate and Method is designed to generate from all Taxable Property within Improvement Area No. 1 an annual amount sufficient to pay the current year's debt service and Administrative Expenses. However, if foreclosure proceedings are necessary, and the Reserve Fund has been depleted, there could be a delay in payments to owners of the Series 2018A Bonds pending prosecution of the foreclosure proceedings and receipt by the District of the proceeds of the foreclosure sale.

The ability of the District to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the obligee in the event the property is owned by or in receivership of a federal government entity. See "Special Risk Factors — Bankruptcy and Foreclosure Delays" and "— Property Interests of Government Agencies; Federal Deposit Insurance Corporation."

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days from the date of service of the Notice of Levy in which to redeem the property to be sold, which period may be shortened to 20 days for parcels other than those on which a dwelling unit for not more than four persons is located. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made (Section 701.680 of the California Code of Civil Procedure). The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld.

Section 53356.6 of the Act requires that property sold pursuant to foreclosure under the Act be sold for not less than the amount of judgment in the foreclosure action, plus post-judgment interest and authorized costs, unless the consent of the owners of 75% of the outstanding Bonds is obtained. However, under Section 53356.5 of the Act, the District, as judgment creditor, is entitled to purchase any property sold at foreclosure using a "credit bid," where the District could submit a bid crediting all or part of the

amount required to satisfy the judgment for the delinquent amount of the Special Tax. If the District becomes the purchaser under a credit bid, the District must pay the amount of its credit bid into the Redemption Fund under the Indenture, but this payment may be made up to 24 months after the date of the foreclosure sale. Neither the Act nor the Indenture requires the District to purchase or otherwise acquire any lot or parcel of property foreclosed upon if there is no other purchaser at such sale, and the District has no current intent to be such a purchaser.

The District will levy Special Tax A to pay the current year's debt service and related Administrative Expenses and to replenish the Reserve Fund to the Reserve Requirement, subject to the Rate and Method. However, if superior court foreclosure proceedings are necessary to collect delinquent Special Taxes, and if the Reserve Fund is depleted, there could be a delay in payments of principal of and interest on the Series 2018A Bonds pending prosecution of the foreclosure proceedings and receipt by the District of the proceeds of the foreclosure sale. See "Special Risk Factors—Bankruptcy and Foreclosure Delays."

No Teeter Plan

Collection of the Special Taxes is not subject to the "Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds," as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code (known as the "Teeter Plan"). Accordingly, collections of Special Taxes will reflect actual delinquencies, if any. See "Special Risk Factors – Special Tax Delinquencies."

Reserve Fund

In order to further secure the payment of principal and interest on the Bonds, the District will initially deposit a portion of the Series 2018A Bonds proceeds into the Reserve Fund held by the Trustee in an amount equal to the initial Reserve Requirement. The Reserve Requirement is defined in the Indenture as an amount, as of any date of calculation, equal to the least of (a) 10% of the original aggregate principal amount of the Bonds (excluding Bonds refunded with the proceeds of subsequently issued Bonds), (b) Maximum Annual Debt Service on the outstanding Bonds, (c) 125% of Average Annual Debt Service on the outstanding Bonds, and (d) \$1,179,810.46 (such amount being equal to 125% of Average Annual Debt Service as of the Closing Date). See Appendix A – "Summary of Certain Provisions of the Indenture."

The Indenture provides for amounts in the Reserve Fund to be transferred to the Bond Fund in such amounts as are needed, taking into account amounts available for such purpose in the Bond Fund, to pay the scheduled principal of and interest on the Bonds when due. Amounts in the Reserve Fund may also be used to redeem Bonds in connection with prepayments of Special Tax A or the payment of the One-Time Special Tax in accordance with the provisions of the Indenture. See Appendix A – "Summary of Certain Provisions of the Indenture."

Additional Bonds

The District is authorized to incur bonded indebtedness secured by Special Taxes levied in Improvement Area No. 1 in an amount not to exceed \$32,000,000. The Series 2018A Bonds are being issued in a principal amount such that the Net Special Tax Revenues that are expected to be generated from the levy of Special Tax A solely on parcels for which a building permit had already been issued as of the Valuation Date will equal at least 100% of the scheduled Annual Debt Service on the Series 2018A Bonds, assuming that there are no delinquencies in the payment of Special Taxes. The District and the Developer anticipate that, as additional homes are completed by the Developer and sold to individual homeowners, subject to the conditions precedent set forth in the Indenture, the Developer will be

reimbursed for the cost of additional Facilities that are expected to be financed with additional Bonds to the extent authorized.

The Indenture provides that, so long as any of the Series 2018A Bonds remain Outstanding, the District will not issue any Additional Bonds or obligations payable from Net Special Tax Revenues on a parity with the Series 2018A Bonds, except as described below. The Indenture further provides that, so long as any of the Series 2018A Bonds remain Outstanding, the District shall not issue any obligations payable from Net Special Tax Revenues on a basis senior to the Series 2018A Bonds.

The District may at any time issue one or more Series of Additional Bonds (in addition to the Series 2018A Bonds) payable from Net Special Tax Revenues on a parity with all other Bonds theretofore issued under the Indenture, but only subject to the following conditions, which are made conditions precedent to the issuance of such Additional Bonds:

(a) upon the issuance of such Additional Bonds, no Event of Default shall have occurred and be continuing under the Indenture;

(b) the issuance of such Additional Bonds shall have been authorized under and pursuant to the Indenture and the Act and shall have been provided for by a Supplemental Indenture which must specify certain matters required by the Indenture, including the purposes for which the proceeds of such Additional Bonds are to be applied, which purposes may only include one or more of (A) providing funds to pay costs of the Facilities, (B) providing funds to refund any Bonds previously issued under the Indenture, (C) providing funds to pay Costs of Issuance incurred in connection with the issuance of such Additional Bonds, (D) providing funds to capitalize interest on such Additional Bonds, and (E) providing funds to make any deposit to the Reserve Fund required pursuant to such Supplemental Indenture; and

(c) The District shall have received a certificate from the CFD Administrator and/or an Independent Consultant which, taken together, certify that:

(i) for each Fiscal Year that Bonds will be Outstanding, the Maximum Special Tax A that may be levied in such Fiscal Year on parcels of Developed Property and Final Mapped Property that have been issued a building permit (treating such Final Mapped Property that has been issued a building permit as if it were Developed Property for purposes of calculating the Maximum Special Tax A that may be levied in such Fiscal Year for purposes of this paragraph (i)), less the Priority Administrative Expenses for such Fiscal Year, is not less than the sum of (A) 110% of the Annual Debt Service for the Bond Year that begins in such Fiscal Year on all Bonds that will be Outstanding after the issuance of such Additional Bonds, plus (B) any other payments included in the Special Tax Requirement for Facilities; and

(ii) the sum of (A) the aggregate Appraised Value of all Developed Property and Final Mapped Property that has been issued a building permit for which a Qualified Appraisal Report has been provided, as such Appraised Value is shown in such Qualified Appraisal Report, plus (B) the aggregate Assessed Value of all Developed Property and Final Mapped Property that has been issued a building permit for which a Qualified Appraisal Report has not been provided, is not less than five (5) times the aggregate principal amount of all Bonds that will be Outstanding after the issuance of such Additional Bonds.

Notwithstanding the foregoing, if (i) such Additional Bonds are being issued to refund previously issued Bonds, and (ii) Annual Debt Service in each Bond Year, calculated for all Bonds that will be Outstanding after the issuance of such Additional Bonds, will be less than or equal to Annual Debt Service in such Bond Year, calculated for all Bonds which are Outstanding immediately prior to the

issuance of such Additional Bonds, the receipt of the certificate described in paragraph (c), above, shall not be a condition precedent to the issuance of such Additional Bonds.

Overlapping CFDs

The Act permits the creation of separate community facilities districts established by the County or another local agency that include all or a portion of the Taxable Property in Improvement Area No. 1 and that levy special taxes pursuant to their own rate and method of apportionment on such property (each, an “Overlapping CFD.”) The special taxes levied in such Overlapping CFDs will have the same lien priority as the Special Taxes. The Indenture does not prohibit or limit in any way the issuance by the Overlapping CFDs of bonds payable at least partially from special taxes to be levied on parcels of Taxable Property, on a parity with the Bonds. In the event that special taxes collected from property that is in both Improvement Area No. 1 and the Overlapping CFDs are less than the amounts levied on such property by the District and the Overlapping CFDs, the actual amount of special taxes collected shall be distributed pro rata to the District and the Overlapping CFDs based on the amounts levied by each of the District and the Overlapping CFDs on such property. In the event amounts collected in foreclosure proceedings from property that is in both the District and the Overlapping CFDs are less than the amounts due from such property to both the District and the Overlapping CFDs, then the actual amounts collected from such property in foreclosure proceedings shall be distributed pro rata to the District and the Overlapping CFDs based on the amounts due from such property to each of the District and the Overlapping CFDs.

THE DISTRICT AND IMPROVEMENT AREA NO. 1

Location and Description

General. The District encompasses approximately 418 acres, and is located in an unincorporated portion of San Diego County located north of the intersection of Country Club Drive and Harmony Grove Road, west-southwest of the City of Escondido, south of State Route 78 and west of U.S. Interstate 15. The land in the District is coterminous with the boundaries of the Development, except for an approximately 37-acre portion of the Development lying outside of the District that is planned for equestrian use, and approximately 13 acres of parks and open space. The land in the District is entitled to include a total of 736 single family residences in ten separate neighborhood developments, the Commercial Site, as well as a fire station, a church, and a wastewater treatment plant. Final maps authorizing the subdivision of the Development were recorded in January, 2013.

The District is divided into two improvement areas. Improvement Area No. 1 comprises an approximately 234-acre portion of the Development. A total of 444 single-family detached residential dwelling units and the Commercial Site are planned to be developed in Improvement Area No. 1. Special Tax A has been prepaid on two of the residential parcels in Improvement Area No. 1. Accordingly, a maximum of 442 residential units at buildout will be subject to the Special Tax levy. The fire station, the church, and the wastewater treatment plant, also located or to be located in Improvement Area No. 1, are not subject to the Special Tax levy. Improvement Area No. 2 comprises an approximately 181-acre portion of the Development and is planned to be developed with 292 single-family detached residential units. A portion of the lots in Improvement Area No. 2 are in an active sales program and as of December 1, 2017, 35 completed residential units in Improvement Area No. 2 had been conveyed to individual homeowners.

Principal of and interest on the Bonds are payable solely from Net Special Tax Revenues derived from property within Improvement Area No. 1. Special taxes levied within Improvement Area No. 2 do not secure the Bonds.

The following page contains an aerial photo of the area included within the boundaries of the District.

County of San Diego
Community Facilities District No. 2008-1 (Improvement Area 1)
(Portion of) Harmony Grove



Rate and Method of Apportionment of Special Tax

General. The amount of Special Tax A that the District may levy in any year is strictly limited by the maximum rates set forth in the Rate and Method. Special Taxes will be levied on each parcel in Improvement Area No. 1 subject to such Special Taxes as set forth in the Rate and Method. Special Taxes include Special Tax A, levied annually, and the One-Time Special Tax, levied only under specified circumstances set forth in the Rate and Method. See “—One-Time Special Tax” below, and Appendix E-2, “Restatement of Section D of Rate And Method of Apportionment for County of San Diego Community Facilities District No. 2008-01 Improvement Area No. 1 (Harmony Grove Village).”

Maximum Special Tax A. Maximum Special Tax A rates that may be levied in any Fiscal Year were established for Improvement Area No. 1 as set forth in the Rate and Method. Maximum Special Tax A rates for Single Family Residential Property that is classified as Developed Property for Fiscal Year 2017-18 vary from \$2,365.09 per year for properties with homes with residential floor areas less than 1,650 square feet, to \$5,761.54 per year for properties with homes with residential floor areas equal to or greater than 4,250 square feet. The Rate and Method specifies an annual Maximum Special Tax A rate for Fiscal Year 2017-18 for Non-Residential Property of \$0.25 per square foot of Non-Residential Floor Area. The Maximum Special Tax A rate for Final Mapped Property under the Rate and Method for Fiscal Year 2017-18 is \$31,226.57 per acre per year.

As permitted under the Rate and Method, certain of the Maximum Special Tax A rates have been revised downward pursuant to the Reduction Certificate executed in connection with the adoption of the Resolution of Issuance and recorded in the office of the San Diego County Recorder, effective as of Fiscal Year 2018-19. The Maximum Special Tax A Rates were reduced to the amount necessary to satisfy the County’s policy objective with respect to the maximum overlapping debt burden level for a community facilities district or improvement area thereof. See Table 1 of the Rate and Method set forth in Appendix E-3, “Certificate To Amend Special Tax A.” See also Table 7 in “The District and Improvement Area No. 1 – Rate and Method of Apportionment of Special Tax – Estimated Sample Tax Bills.”

Limitation on Increase of Special Tax A Rates. The Rate and Method provides that the respective Maximum Special Tax A rates shall increase each Fiscal Year by two percent (2%) of the respective Maximum Special Tax A rates in effect for the prior Fiscal Year. The Rate and Method also provides that under no circumstances will the Special Tax A levy in any Fiscal Year against residential property for which a certificate of occupancy has been issued be increased as a consequence of delinquency or default by the owners of any other parcels in Improvement Area No. 1 by more than ten percent (10%) above the amount that would have been levied in that Fiscal Year had there never been any such delinquencies or defaults. Such limitation does not apply to increases in Special Tax A levied for other purposes, such as the issuance of Additional Bonds or to pay directly for the acquisition or construction of Facilities as authorized by the Rate and Method.

Method of Apportionment of Special Tax A. The Rate and Method provides that the levy of Special Tax A each Fiscal Year is to be apportioned among parcels in Improvement Area No. 1 according to the following procedure (capitalized terms used and not defined in this subsection have the meanings given to them in the Rate and Method):

Commencing with Fiscal Year 2008-2009 and for each following Fiscal Year, the Board of Supervisors or its designee shall determine the Special Tax Requirement for Facilities and levy Special Tax A until the amount of the Special Tax A levy equals the Special Tax Requirement for Facilities. Special Tax A shall be levied each Fiscal Year as follows:

First: Special Tax A shall be levied on each Assessor's Parcel of Developed Property in an amount equal to 100% of the applicable Maximum Special Tax A;

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

Third: If additional monies are needed to satisfy the Special Tax Requirement for Facilities after the first two steps have been completed, Special Tax A shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Intermediate Maximum Special Tax A for Undeveloped Property;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement for Facilities after the first three steps have been completed, then the levy of Special Tax A on each Assessor's Parcel of Final Mapped Property and Undeveloped Property shall be increased in equal percentages from the Intermediate Maximum Special Tax A up to 100% of the Maximum Special Tax A for Final Mapped Property and Undeveloped Property;

Fifth: If additional monies are needed to satisfy the Special Tax Requirement for Facilities after the first four steps have been completed, then Special Tax A shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property and Taxable Property Owner Association Property at up to 100% of the Maximum Special Tax A for Taxable Public Property and Taxable Property Owner Association property.

Notwithstanding the above, the Board of Supervisors or its designee may, in any Fiscal Year, levy Proportionately less than 100% of the Maximum Special Tax A in step one (above), when (i) the Board of Supervisors or its designee is no longer required to levy Special Tax A pursuant to steps two through five above in order to meet the Special Tax Requirement for Facilities; and (ii) all bonds authorized to be issued by the District and secured solely by the Special Tax levy on property within Improvement Area No. 1 under the Act have already been issued or the Board of Supervisors has covenanted that it will not issue any such additional bonds (except refunding bonds) to be supported by Special Tax A.

Further notwithstanding the above, under no circumstances will the Special Tax A levy against any Assessor's Parcel of Residential Property for which a Certificate of Occupancy has been issued be increased by more than ten percent above the amount that would have been levied in that Fiscal Year had there never been any such delinquencies or defaults as a consequence of delinquency or default by the owner of any other Assessor's Parcel within Improvement Area No. 1.

See Appendix E – "Rate and Method of Apportionment of Special Tax."

One-Time Special Tax. The Rate and Method provides for the levy and collection, in certain circumstances, of the One-Time Special Tax in addition to Special Tax A. The One-Time Special Tax was established to preserve debt service coverage on the Bonds in the event that the amount of Special Tax A that could be levied in any year is reduced as a result of changes in development within Improvement Area No. 1. Because the amount of the per-parcel levy of Special Tax A for each parcel of Developed Property is based on the residential floor area for residential property and the square footage of non-residential floor area for the non-residential (commercial) property, any net reduction in the number or size of residential units or retail square footage actually constructed could have the effect of reducing the Net Special Tax Revenues available to pay debt service on the Bonds. The Rate and Method provides for the levy of the One-Time Special Tax in order to offset this potential reduction in available Net

Special Tax Revenues to the extent required so that the Maximum Special Tax A could be levied in an amount equal to at least 110% of debt service on outstanding Bonds, plus Priority Administrative Expenses. The method of calculating the One-Time Special Tax is set forth in Section D, “One-Time Special Tax,” of the Rate and Method. See Appendix E-2 “Restatement of Section D of Rate And Method of Apportionment for County of San Diego Community Facilities District No. 2008-01 Improvement Area No. 1 (Harmony Grove Village),” and “The Series 2018A Bonds – Redemption – Mandatory Redemption from Special Tax A Prepayments and One-Time Special Tax Payments.”

In order to reduce if not eliminate the possibility that the One-Time Special Tax will ever be levied, the Indenture provides that Additional Bonds may be issued only if, among other things, for each Fiscal Year that Bonds will be Outstanding, the Maximum Special Tax A that may be levied in such Fiscal Year on parcels of Developed Property and Final Mapped Property that have been issued a building permit (treating such Final Mapped Property that has been issued a building permit as if it were Developed Property for purposes of calculating the Maximum Special Tax A that may be levied in such Fiscal Year), less the Priority Administrative Expenses for such Fiscal Year, is not less than the sum of (A) 110% of the Annual Debt Service for the Bond Year that begins in such Fiscal Year on all Bonds that will be Outstanding after the issuance of such Additional Bonds, plus (B) any other payments included in the Special Tax Requirement for Facilities. See “Security for the Series 2018A Bonds – Additional Bonds.”

Collection of Special Taxes. Special Tax A is levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as ad valorem property taxes. The County assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County of San Diego, including Special Tax A for Improvement Area No. 1. The delinquency dates for property tax payments are December 10 for the first installment and April 10 for the second installment. Prior to distribution to the District, the moneys collected are deposited in an account established on behalf of the County in the County investment pool (the “Pool”) which is invested by the County Treasurer. If the County or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that District property taxes held in the Pool (including the Special Taxes) could be temporarily unavailable to the County, and a bankruptcy court might hold that the Series 2018A Bond Owners do not have a valid and/or prior lien on the Special Taxes. See “Special Risk Factors – Funds Invested in the County Investment Pool.”

The Rate and Method provides that Special Tax A can only be levied for a period not to exceed fifty years commencing with Fiscal Year 2008-09.

Special Tax A for any parcel in Improvement Area No. 1 may also be optionally prepaid in whole or in part. See Section J of the Rate and Method in Appendix E hereto for more specific information on optional prepayments of Special Tax A. See “The Series 2018A Bonds – Redemption – Mandatory Redemption from Special Tax A Prepayments and One-Time Special Tax Payments.”

Special Tax A was first levied in Fiscal Year 2015-16. None of the parcels in Improvement Area No. 1 are currently delinquent in the payment of Special Tax A levied for Fiscal Year 2015-16 or Fiscal Year 2016-17. Delinquency information for Fiscal Year 2017-18 is not yet available. The proceeds of the previously levied Special Taxes (including the levy thereof for Fiscal Year 2017-18) will be applied to pay interest coming due on the Series 2018A Bonds on September 1, 2018 and make an initial deposit for Administrative Expenses with any excess being available for deposit in the Improvement Fund.

Estimated Debt Service Coverage. Table 5 below sets forth the estimated debt service coverage for the Series 2018A Bonds for each Bond Year through the scheduled final maturity of the Series 2018A Bonds, assuming no additional bonded indebtedness secured by Special Tax A on property in

Improvement Area No. 1 and assuming no additional building permits are issued after the Valuation Date. Pursuant to the Rate and Method, and subject to the Maximum Special Tax A prescribed therein and permitted by the Act, the District will only levy Special Tax A in an amount sufficient to fund the annual Special Tax Requirement for Facilities (as defined in the Rate and Method).

**Table 5
Community Facilities District No. 2008-01 (Harmony Grove Village)
County of San Diego, State of California (Improvement Area No. 1)
Maximum Special Tax A and Series 2018A Bond Debt Service Coverage**

Year ⁽¹⁾	Maximum Special Tax A From Lots With Building Permits ⁽²⁾	Total Maximum Special Tax A	Series 2018A Bond Debt Service	Priority Administrative Expense	Coverage From Lots with Building Permits	Total Debt Service Coverage
2018 ⁽³⁾	\$ 564,947	--	\$ 342,855	\$40,839	152.87%	152.87%
2019	745,658	\$1,937,622	700,038	42,000	100.60	270.87
2020	760,571	1,976,374	718,138	42,840	100.02	269.32
2021	775,783	2,015,902	730,838	43,697	100.25	269.93
2022	791,298	2,056,220	746,938	44,571	100.05	269.40
2023	807,124	2,097,344	757,438	45,462	100.64	270.98
2024	823,267	2,139,291	777,488	46,371	100.00	269.27
2025	839,732	2,182,077	791,788	47,299	100.16	269.69
2026	856,527	2,225,718	808,388	48,245	100.07	269.44
2027	873,657	2,270,233	823,988	49,210	100.13	269.62
2028	891,130	2,315,637	838,588	50,194	100.36	270.23
2029	908,953	2,361,950	857,188	51,198	100.14	269.65
2030	927,132	2,409,189	874,588	52,222	100.12	269.57
2031	945,675	2,457,373	890,788	53,266	100.26	269.96
2032	964,588	2,506,520	910,788	54,331	100.02	269.32
2033	983,880	2,556,651	924,388	55,418	100.52	270.66
2034	1,003,557	2,607,784	946,788	56,526	100.10	269.54
2035	1,023,629	2,659,939	962,588	57,657	100.43	270.42
2036	1,044,101	2,713,138	985,206	58,810	100.09	269.50
2037	1,064,983	2,767,401	1,001,475	59,986	100.43	270.42
2038	1,086,283	2,822,749	1,025,825	61,186	100.01	269.28
2039	1,108,009	2,879,204	1,043,600	62,410	100.27	269.99
2040	1,130,169	2,936,788	1,066,600	63,658	100.07	269.45
2041	1,152,772	2,995,524	1,087,600	64,931	100.10	269.53
2042	1,175,828	3,055,434	1,106,600	66,230	100.35	270.20
2043	1,199,344	3,116,543	1,128,600	67,554	100.36	270.24
2044	1,223,331	3,178,874	1,153,400	68,905	100.17	269.71
2045	1,247,798	3,242,451	1,175,800	70,284	100.22	269.87
2046	1,272,754	3,307,300	1,200,800	71,689	100.10	269.53
2047	1,298,209	3,373,446	1,223,200	73,123	100.23	269.89
2048	1,324,173	3,440,915	1,248,000	74,585	100.21	269.82

⁽¹⁾ Special Taxes collected in each Fiscal Year are used to pay debt service on the Series 2018A Bonds for the Bond Year beginning in such Fiscal Year.

⁽²⁾ Assumes that no additional building permits are issued after the Valuation Date.

⁽³⁾ In Fiscal Year 2017-18, Special Tax A was only levied on “Developed Property” as of such Fiscal Year.

Source: Willdan Financial Services; except Series 2018A Bonds Debt Service, which was provided by the Underwriters.

See “Security for the Series 2018A Bonds – Pledge of Net Special Tax Revenues” for other information regarding the Special Taxes.

Estimated Sample Tax Bills. Set forth in Table 6 below are estimated, sample property tax bills for Fiscal Year 2017-18 that would be received by individual homeowners in Improvement Area No. 1 if their respective property was classified for such Fiscal Year as Developed Property under the Rate and Method. See “Special Risk Factors – Direct and Overlapping Indebtedness” for a table that describes the overlapping indebtedness for which taxes would be levied on the parcels in Improvement Area No. 1 as shown in the table below.

Table 6
Community Facilities District No. 2008-01 (Harmony Grove Village)
County of San Diego, State of California (Improvement Area No. 1)
Fiscal Year 2017-18 Estimated Sample Tax Bill for a Developed Property

Home Prices		Canteridge	Lusitano	Seabreeze
Plan				
Residential Land Use Type		SFR	SFR	SFR
Estimated Base Sales Price ⁽¹⁾		\$556,000.00	\$526,300.00	\$624,600.00
Homeowner's Exemption		(7,000.00)	(7,000.00)	(7,000.00)
Equals: Net Taxable Assessed Value		\$549,000.00	\$519,300.00	\$617,600.00
Fiscal Year 2017-2018 Tax Distribution	Tax Rate	Amount	Amount	Amount
Ad Valorem Taxes ⁽²⁾				
1 % Tax on Net Value	1.00000%	\$5,490.00	\$5,193.00	\$6,176.00
Palomar Health 2005A - Debt Service	0.02100%	115.29	109.05	129.70
Gen Bond Escondido - Prop K 3/05/2002, 2007B Ref	0.01601%	87.89	83.14	98.88
Gen Bond Escondido - Prop E 11/04/2014, 2014A	0.02483%	136.32	128.94	153.35
HI Bond Escondido Prop A 6/04/1996, 1996A Ref	0.03183%	174.75	165.29	196.58
Palomar Community Coll Prop M 11/07/06, 2006A	0.00261%	14.33	13.55	16.12
Palomar Community Coll Prop M 11/07/06, 2006B	0.00381%	20.92	19.79	23.53
Palomar Community Coll Prop M 11/07/06, 2015 Ref	0.00751%	41.23	39.00	46.38
Palomar Community Coll Prop M 11/07/06, 2006C	0.00660%	36.23	34.27	40.76
MWD D/S Remainder of SDCWA 15019999	0.00350%	19.22	18.18	21.62
Total on Net Value	1.11770%	\$6,136.17	\$5,804.22	\$6,902.92
Fixed Rate Levies				
Vector Disease Control		\$7.06	\$7.06	\$7.06
Mosquito Surveillance		2.28	2.28	2.28
MWD Standby Charge		11.50	11.50	11.50
CWA Water Availability		10.00	10.00	10.00
SD CO STLTG Zone A		13.50	13.50	13.50
CSA 107 Fire Protection		304.48	304.48	304.48
Total Fixed Rate Levies		\$348.82	\$348.82	\$348.82
CFD No. 2008-1 ⁽³⁾				
Max Special Tax A ⁽⁴⁾		\$2,844.73	\$2,580.20	\$3,353.95
Max Special Tax B ⁽⁵⁾		1,011.87	1,011.87	1,011.87
Total Fixed Rate Levies		\$3,856.60	\$3,592.07	\$4,365.82
Total on Net Value		\$10,341.59	\$9,745.11	\$11,617.56
Total Effective Tax Rate (as % of Net Taxable Assessed Value)		1.86%	1.85%	1.86%

⁽¹⁾ As set forth in the Market Absorption Study.

⁽²⁾ Estimated based on actual Fiscal Year 2017-18 ad valorem rates.

⁽³⁾ Does not include any levy of the One-Time Special Tax.

⁽⁴⁾ The Maximum Special Tax rate A escalates by 2% per year beginning July 1, 2018.

⁽⁵⁾ The Maximum Special Tax B escalates at a minimum of 2% and a maximum of 6% per year beginning July 1, 2018.

Source: Willdan Financial Services.

The Facilities

Under the provisions of the Resolution of Formation, the Facilities that may be financed with Bonds secured by Special Taxes consist of street improvements, storm drains, water quality devices, public utilities, public parks, open space and recreation facilities, fire protection and emergency response facilities, land, rights of way and easements necessary for any of the foregoing, other property with an expected useful life of five years or longer necessary for any of the foregoing, or necessary to provide authorized services, and fees related to traffic, fire, open space, park and other fees related to public facilities and services.

Pursuant to the Acquisition and Funding Agreement, the Developer is to construct the following Facilities (and pay the fees that constitute Facilities) for the benefit of the District (both Improvement Area No. 1 and Improvement Area No. 2), as summarized in Table 7. The description of acquisition costs specified in the Acquisition and Funding Agreement for the Facilities may be modified by agreement among the District, the County and the Developer. Upon completion or substantial completion of each specified segment of the Facilities, the County or other government entity that will own and operate such segment, is to acquire such segment from the Developer at a purchase price equal to the lesser of the actual cost or the acquisition cost (the "Acquisition Cost") specified in the Acquisition and Funding Agreement for such segment of the Facilities. The construction and acquisition of the Facilities to be owned by the County Sanitation District are governed by the terms of a Joint Community Facilities Agreement, dated as of August 1, 2015, by and among the County, the County Sanitation District and the Developer. The construction and acquisition of the Facilities to be owned by Rincon are governed by the terms of a Joint Community Facilities Agreement, dated as of March 1, 2015, by and among the County, Rincon and the Developer. Pursuant to the Joint Improvement Agreement for Vesting Tentative Map 5365 (Wastewater Treatment Plant for Harmony Grove), dated as of December 7, 2012, by and among the County, the County Sanitation District, Rincon, and the Developer (the "Wastewater Treatment Plant Agreement"), the Developer is to operate all wastewater treatment facilities until sufficient revenue can be generated from sewer service charges or standby assessments to allow the County Sanitation District to operate the facility without subsidy from ratepayers outside the Development. The Wastewater Treatment Plant Agreement further requires the Developer to ensure operating permit compliance and meet other success criteria before the County Sanitation District will assume responsibility for operation and maintenance of the facility.

Table 7
Community Facilities District No. 2008-01 (Harmony Grove Village)
County of San Diego, State of California (Improvement Area No. 1)
Estimated Cost and Percentage Completion of Facilities (as of September 10, 2017)

<u>Facility Description⁽¹⁾</u>	<u>Estimated Acquisition Cost</u>	<u>Percent Complete</u>
County Sanitation District Facilities	\$17,700,000	98%
Park Improvement Facilities	6,000,000	94
Off-Site Road Improvement Facilities	11,000,000	58
Intract Street Improvements	7,700,000	69
Intract Sewer Improvements	4,100,000	73
Intract Water Improvements	<u>5,900,000</u>	80
SUBTOTAL Facilities to be constructed	\$52,400,000	80
Impact Fees and Water Connection Fees	<u>\$11,000,000</u>	<u>100</u>
TOTAL Facilities	\$63,400,000	84%

⁽¹⁾As categorized in the Acquisition and Funding Agreement.
Source: Developer.

As of September 10, 2017, the Facilities to be constructed by the Developer were approximately 84% completed. In addition to the Facilities to be constructed by the Developer, under the Acquisition and Funding Agreement, the Series 2018A Bond proceeds may be used to finance the costs of certain public facilities to be constructed by the County or another public agency for which the Developer will receive a credit for certain improvement fees, development impact fees, and/or water connection fees or be reimbursed for improvement fees, development impact fees, and/or water connection fees previously paid by the Developer.

The Facilities that are anticipated to be financed with the proceeds of the Series 2018A Bonds, together with certain other Special Tax Revenues available to the District, consist of water connection fees in the amount of approximately \$8.1 million; impact fees related to the fire station in the amount of approximately \$2.7 million, and street and bridge improvements in the amount of approximately \$3.2 million. The District and the Developer may in their discretion determine to finance other Facilities with the proceeds of the Series 2018A Bonds.

THE COUNTY OF SAN DIEGO

Under the Act, the Board of Supervisors of the County is authorized to establish and act as the legislative body for community facilities districts. However, the County has no liability in connection with the District or the Series 2018A Bonds. See “Security for the Series 2018A Bonds – Limited Liability” herein. See Appendix F hereto for general information regarding the County.

THE DEVELOPMENT AND THE DEVELOPER

The following information regarding the Developer and the ownership and planned development of Improvement Area No. 1 has been provided by, or on behalf of, CalAtlantic for use in this Official Statement, and has not been independently confirmed or verified by the County, the District or the Underwriters. Neither the County, the District nor the Underwriters makes any representation as to the accuracy or adequacy of this information or the absence of any material

change after the date of this Official Statement. No assurance can be given that the proposed development will occur as described herein or that it will be completed in a timely manner. See “Special Risk Factors.”

The Series 2018A Bonds and the Special Taxes are not personal obligations of CalAtlantic or any other current or subsequent property owners and, in the event CalAtlantic or any other current or subsequent property owner defaults in the payment of Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of CalAtlantic or any other current or subsequent property owner. As a result, other than as provided in this Official Statement, no financial statements or information is or will be provided about CalAtlantic or any other current or subsequent property owner. The Series 2018A Bonds are secured solely by the Net Special Tax Revenues and other amounts pledged under the Indenture. See “Security for the Series 2018A Bonds” and “Special Risk Factors.”

The Development

The Developer acquired the property comprising the Development in 2012 from New Urban West, Inc. (“NUWT”), which retained an option to purchase certain non-residential lots, including the equestrian parcel situated outside the District, and the Commercial Site. NUWI has exercised its option to purchase these parcels and the Developer expects that the sale of these parcels to NUWI will be completed in the first quarter of 2018. The property in the Development is currently subject to final tract maps recorded on January 18, 2013, in the County Recorder’s Office, which subdivide the Development into 736 residential parcels, the Commercial Site, the two parcels intended for development as a fire station and a church, and a wastewater treatment plant. The 736 residential parcels include 40 planned condominium units in the Village Court community, each of which is to be built out with a single family detached home. The Development is planned to include 189 acres of permanent open space, a community clubhouse and pool, a central park, and a trail system. The residential products range from about ½-acre minimum lots to small detached lots ranging from 2,500 to 5,500 square feet and some homes situated in a cluster/courtyard configuration. An approximately 36.8-acre portion of the Development lying outside of the District is planned for equestrian use.

The general area surrounding the Development is rural in character, with Escondido Creek extending from the eastern edge of the Development to the northern edge of Rancho Santa Fe. The Development is characterized by gently sloping hill areas with sharp granitic escarpments. Local topography includes riparian wetlands, oak woodlands, native grasslands, chaparral and coastal sage scrub. The Escondido Creek wildlife corridor runs through the center of the Development. Most existing development in the area consists of rural residential homes and estate lots located on hillsides. Historically, the predominant uses in the area included dairy and poultry farms, avocado and citrus groves, and a rock quarry, now abandoned.

The Developer

CalAtlantic. The Developer, CalAtlantic Group, Inc., is a homebuilder incorporated in Delaware in 1991 with principal executive offices located in Arlington, Virginia, and West Coast corporate headquarters located in Irvine, California. CalAtlantic is a publicly traded company with its stock listed on the New York Stock Exchange under the symbol “CAA.” Formerly known as Standard Pacific Corp., the Developer changed its name to CalAtlantic Group, Inc. following the October 1, 2015 merger with The Ryland Group, Inc. The Development is currently being undertaken by the San Diego Division of CalAtlantic.

The Developer is subject to the requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith is obligated to file reports, proxy statements, and other information, including financial statements, with the SEC. Such filings set forth, among other things, certain data relative to the consolidated results of operations and financial position of the Developer and its subsidiaries as of the dates described therein. See, e.g., the Developer’s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2016, as filed with the SEC on February 28, 2017, and Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017, as filed with the SEC on November 9, 2017. The SEC maintains an Internet web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including CalAtlantic. The address of such Internet web site is www.sec.gov. All documents subsequently filed by CalAtlantic pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in such manner as the SEC prescribes. Copies of the Developer’s annual report, quarterly reports and current reports, including any amendments, will be available from the Developer’s website at www.calatlantichomes.com.

CalAtlantic/Lennar Merger Announcement. On October 30, 2017, CalAtlantic announced that it had entered into a definitive merger agreement with Lennar Corporation (“Lennar”) pursuant to which each share of CalAtlantic stock will be exchanged for 0.885 shares of Lennar Class A common stock. CalAtlantic’s stockholders will also have the option to elect to change all or a portion of their shares for cash in the amount of \$48.26 per share, subject to a maximum cash amount of approximately \$1.2 billion. Subject to the terms and conditions of the merger agreement, CalAtlantic will be merged with and into a wholly-owned subsidiary of Lennar, with the wholly-owned subsidiary of Lennar continuing as the surviving corporation. The merger would create the nation’s largest homebuilder. The transaction, which is subject to the satisfaction or waiver of certain customary conditions, including the approval of the merger by CalAtlantic’s stockholders and the stockholders of Lennar, is expected to close in the first quarter of 2018. For additional information about the merger agreement, reference is made to the Current Report on Form 8-K filed by CalAtlantic with the SEC on October 30, 2017. The Developer does not expect that the merger will have a substantive effect on the current development and financing plans of the Developer with respect to the Development and Improvement Area No. 1.

Lennar. The information in this paragraph is taken from Lennar’s Form 10-K for the fiscal year ending November 30, 2016, and has not been verified by the District, the Developer, or the Underwriters. Lennar is one of the nation’s largest homebuilders, operating in various states with deliveries of 26,563 new homes in 2016. Lennar’s homebuilding operations are the most substantial part of its operations, accounting for \$9.7 billion, or approximately 89%, of consolidated revenues in fiscal 2016. Lennar is listed on the New York Stock Exchange under the symbol “LEN.” Additional information regarding Lennar is available on its website at www.lennar.com.

The foregoing internet addresses and references to filings with the SEC are included for reference only, and the information on these internet sites and on file with the SEC are not a part of this Official Statement and are not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained in these internet sites.

The Development Plan

The Developer is currently constructing infrastructure improvements in the Development consisting of a wastewater treatment plant, a sewer lift station, sewer and water improvements, and street improvements. Construction commenced in November 2012, and is expected to be completed by December 2019. In total, the Developer expects ten neighborhood development projects to be built for the Development, eight of which will be included in Improvement Area No. 1. Model home construction for four of the neighborhoods is complete and the model homes were opened to the public beginning in

March, 2015. Several construction phases were underway as of the Valuation Date, and sales of homes in both Improvement Area No. 1 and Improvement Area No. 2 are ongoing. Within Improvement Area No. 1, the Developer has begun constructing and selling four of the eight planned neighborhood communities: Andalucia, Canteridge, Lusitano and Seabreeze. Construction has begun on four model homes in the Whittingham neighborhood, and sales in that neighborhood commenced in December 2017.

The following Table 8 presents a summary of the development of the eight communities proposed within Improvement Area No. 1 as of September 10, 2017.

Table 8
Community Facilities District No. 2008-01 (Harmony Grove Village)
County of San Diego, State of California (Improvement Area No. 1)
Status of Planned Residential Development
As of September 10, 2017

<u>Community</u>	<u>Planned Units</u>	<u>Permits</u>	<u>Home Sales</u>	<u>Average Price</u> ⁽²⁾	<u>Average Square</u>
	<u>Subject to Special</u>				
	<u>Tax A</u> ⁽¹⁾				
Martingale	27	2	0	\$582,267	2,256
Village Court	40	0	0	644,219	2,885
Lusitano	97	97	51	542,426	1,863
Canteridge	69	69	55	556,352	2,088
Seabreeze	109	79	42	599,339	2,488
Andalucia	49	3	0	670,470	3,289
Hillside Compound	24	0	0	698,425	3,246
Whittingham	27	4	0	766,550	3,785
Total	442	254	148		

⁽¹⁾ Source: Developer (Planned Units, Permits Issued, and Home Sales Closed).

⁽²⁾ Source: Absorption Study (Average Price and Average Square Footage).

As of the Valuation Date, of the 442 planned residential units subject to the Special Tax levy in Improvement Area No. 1, 148 had been completed, sold and conveyed to individual homeowners, and an additional 69 home sales were pending. Home sales contracts are subject to cancellation and, therefore, pending home sales may not result in closed escrows with the prospective homebuyers. Also as of the Valuation Date, a total of 254 building permits had been issued (excluding the two parcels for which Special Tax A has been prepaid), and the Developer expected an additional 136 building permits to be issued in 2018, and the remaining 54 building permits to be issued in 2019. Between the Valuation Date and December 1, 2017, no additional building permits had been issued, and an additional 30 home sales (excluding the two parcels for which the Special Tax has been prepaid) had closed escrow to individual home buyers. As of December 1, 2017, 178 units (excluding the two parcels for which the Special Tax has been prepaid) had been conveyed to individual homeowners. According to the Special Tax Consultant, based on ownership as of December 1, 2017, parcels owned by individual homeowners would be responsible for 69% of the estimated Fiscal Year 2018-19 Special Tax A levy.

As of the Valuation Date, properties owned by the Developer within Improvement Area No. 1 consisted of 13 model homes, 25 homes over 95% complete, 56 additional homes under construction, 200 finished or semifinished lots, and the Commercial Site which is a graded site.

Land Use Approvals and Environmental Review

All entitlements are in place within the Development. All final tract maps for the Development were recorded on January 18, 2013, in the County Recorder's Office. The Board of Supervisors certified the Environmental Impact Report ("EIR") for the Development on April 7, 2007. The Developer is not aware of any current liabilities related to the Development with respect to the presence of substances presently classified as hazardous under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 or applicable California law, and is not aware of the presence of endangered or threatened species or habitat for endangered or threatened species that could adversely affect the Development.

Services

Improvement Area No. 1 is served by Escondido Union School District. Water service for both potable and reclaimed water in Improvement Area No. 1 is provided by Rincon. Sanitation service will be provided by the County Sanitation District. The Developer, through a subcontractor, currently operates the wastewater treatment plant serving Improvement Area No. 1. See "The District and Improvement Area No. 1 — The Facilities." Rincon will act as the purveyor of reclaimed water generated by the County Sanitation District's treatment facilities. Electrical and natural gas service is provided by San Diego Gas & Electric Company.

The Developer's Financing Plan

As of the Valuation Date, the Developer had expended approximately \$112 million in land acquisition, site improvement, and construction costs of the 444 homes that the Developer plans to construct within Improvement Area No. 1, and other development, marketing and sales costs (exclusive of internal financing repayment and corporate overhead allocation) related to its property in Improvement Area No. 1. As of the Valuation Date, the Developer expects the remaining site improvements, construction costs, and other development, marketing and sales costs (exclusive of internal financing repayment and corporate overhead allocation) related to Improvement Area No. 1 to be approximately \$99 million. The total remaining cost for buildout of the entire Development (including areas outside of Improvement Area No. 1) is estimated by the Developer at \$229 million.

To date, the Developer has financed its land acquisition and various site development and home construction costs related to its property in the Development through internally generated funds. The Developer expects to use home sales, internal funding and funding under its Revolving Facility hereinafter described to complete its development activities for the Development. However, home sales revenues for the Developer's projects in the Development are not segregated and set aside for the payment of costs required to complete its activities for the Development. Home sales revenue is accumulated by the Developer and used to pay costs of the Developer's operations, to pay debt service on outstanding debt and for other corporate purposes, and may be diverted to pay costs other than the costs of completing its activities for the Development at the discretion of the Developer's management. Notwithstanding the foregoing, the Developer believes that it will have sufficient funds available to complete its proposed development activities for the Development in accordance with the development schedule described in this Official Statement.

As of September 30, 2017, the Developer was party to a \$750 million unsecured revolving credit facility (the "Revolving Facility"), \$350 million of which is available for letters of credit, which matures in October 2019. The Revolving Facility has an accordion feature under which the aggregate commitment may be increased up to \$1.2 billion, subject to the availability of additional bank commitments and certain other conditions. The Revolving Facility contains certain covenants and conditions which may limit the

amount the Developer may borrow or have outstanding at any time. On September 30, 2017, the Developer had \$295.6 million outstanding under the Revolving Facility, and had outstanding letters of credit issued under the Revolving Facility totaling \$119.2 million, leaving \$335.2 million available under the Revolving Facility to be drawn as of such date. The Developer’s ability to renew the Revolving Facility in the future is dependent upon a number of factors including the state of the commercial lending environment, the willingness of banks to lend to homebuilders and the Developer’s financial condition and strength.

Although the Developer expects to have sufficient funds available to complete its development activities for the Development in accordance with the development schedule described in this Official Statement, there can be no assurance that amounts necessary to finance the remaining development and home construction costs will be available from the Developer or any other source when needed. For example, borrowings under the Revolving Facility may not be available, and home sales revenue, which is accumulated daily for use in operations, including to fund costs of other direct and indirect subsidiaries, to pay debt service on outstanding debt and for other corporate purposes, may be diverted to pay costs other than the costs of the Developer’s activities within Improvement Area No. 1 at the discretion of the Developer management. Neither the Developer, nor its lenders, nor any of its related entities are under any legal obligation of any kind to expend funds for the development of and construction of homes on the Developer’s property in the Development. Any contributions by the Developer to fund the costs of such development and home construction are entirely voluntary. See “— The Development Plan.”

If and to the extent that internal funding, including but not limited to home sales revenues, and borrowings under the Revolving Facility are inadequate to pay the costs to complete the planned development by the Developer within the Development and other financing by the Developer is not put into place, there could be a shortfall in the funds required to complete the proposed development by the Developer of the Development and the remaining portions of the Development may not be developed.

Other development projects currently under development by the Developer’s San Diego Division include the projects shown in the following Table 9:

Table 9
Community Facilities District No. 2008-01 (Harmony Grove Village)
County of San Diego, State of California (Improvement Area No. 1)
Other Projects of the Developer’s San Diego Division

<u>Project Name</u>	<u>Location</u>	<u>No. of Lots/Units at Completion</u>	<u>Current/Estimated Base Sales Prices</u>
Veridian – Avery Point & Triton Square	City of San Diego	259	\$518,000 to \$693,000
Auberge	City of San Diego	206	\$635,000 to \$985,000
Sur 33	City of San Diego	95	\$738,000 to \$804,000
Tavara Ridge	City of San Diego	52	\$896,000 to \$934,000

Source: Developer.

SPECIAL RISK FACTORS

Investment in the Series 2018A Bonds involves risks which may not be appropriate for certain investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Series 2018A Bonds, which are

not rated by any municipal bond rating agency. This discussion does not purport to be comprehensive or definitive, and the risk factors listed are in no particular order of importance. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Improvement Area No. 1 to pay their Special Taxes when due. Such failure to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Series 2018A Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in Improvement Area No. 1.

Risks of Real Estate Secured Investments Generally

The Series 2018A Bond Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation: (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of Improvement Area No. 1, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; (iii) natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses; and (iv) increased delinquencies due to rising mortgage costs and other factors. No assurance can be given that the individual property owners will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See “—Bankruptcy and Foreclosure Delays” for a discussion of certain limitations on the District’s ability to pursue judicial proceedings with respect to delinquent parcels.

Limited Obligations

The Series 2018A Bonds and the interest thereon are not general obligations of or payable from the general funds of the County or the District. The Series 2018A Bonds are special obligations of the District, payable, as provided in the Indenture, solely from Net Special Tax Revenues and the other assets pledged therefor. Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Indenture), the County or the State, or any political subdivision thereof (other than the District), is pledged to the payment of the Series 2018A Bonds or the interest thereon and, except as provided in the Indenture, no Owner of the Series 2018A Bonds may compel the exercise of any taxing power by the District or the County or force the forfeiture of any District or County property. The principal of, premium, if any, and interest on the Series 2018A Bonds are not a debt of the County or a legal or equitable pledge, charge, lien or encumbrance upon any of the County’s or the District’s property or upon any of the County’s or the District’s income, receipts or revenues, except the Special Taxes and other amounts pledged under the Indenture. Special Tax proceeds could be insufficient to pay debt service on the Series 2018A Bonds as a result of delinquencies in the payment of Special Taxes or the insufficiency of proceeds derived from the sale of property following a delinquency in the payment of the applicable Special Taxes. The amount of annual installments of Special Taxes that are collected could be insufficient to pay principal of and interest on the Series 2018A Bonds due to non-payment of such Special Taxes levied or due to insufficient proceeds received from a judicial foreclosure sale of land following delinquency. The County’s and District’s legal obligations with respect to any delinquent Special Taxes are limited to: (1) payments from the Reserve Fund to the extent of funds on deposit therein; and (2) the institution of judicial foreclosure proceedings under certain circumstances with respect to any parcels for which Special Taxes are delinquent. See “Security for the Series 2018A Bonds – Covenant for Superior Court Foreclosure.” The Series 2018A Bonds cannot be accelerated in the event of any default. The obligation to pay Special Taxes does not constitute a personal obligation of the current or subsequent owners of the respective parcels which are subject to such liens. Enforcement of Special Tax payment obligations by the District is limited to judicial foreclosure in the County Superior Court. There is no assurance that any current or subsequent owner of a parcel subject to a Special Tax lien will

be able to pay the amounts due or that such owner will choose to pay such amounts even though financially able to do so.

Concentration of Ownership

As of December 1, 2017, 178 homes (excluding the two parcels for which the Special Tax has been prepaid) had been conveyed to individual homeowners, and according to the Special Tax Consultant, based on ownership as of December 1, 2017, parcels owned by individual homeowners would be responsible for 69% of the estimated Fiscal Year 2018-19 Special Tax A levy. Lack of diversity of ownership in Improvement Area No. 1, and, therefore, in the obligation to pay Special Taxes, presents a significant risk to Series 2018A Bondholders. Failure of the Developer or owners of the property within the District to pay the annual Special Taxes when due could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of property upon a foreclosure or otherwise. In that event, there could be a default in payments of the principal of, and interest on, the Series 2018A Bonds. See “Special Risk Factors – Insufficiency of Special Tax Revenues” below.

Failure to Develop Properties; Government Approvals

Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. Such approvals, once obtained, may still be challenged or subject to subsequent referendum, and issuance of additional building permits for the homes in the Development may be delayed. Revocation or challenge of any such agency approval could adversely affect the planned land development.

Except for individual building permits for the residential lots in Improvement Area No. 1 not yet under construction, the Developer has secured all of the discretionary County approvals and permits required for the Development, including final tract maps. See “The Development and the Developer – Land Use Approvals and Environmental Review.” Nevertheless, development within Improvement Area No. 1 is contingent upon the issuance by the County of building and other ministerial permits for homes to be constructed in Improvement Area No. 1. The failure to obtain any such permits in a timely manner could adversely affect land development within Improvement Area No. 1.

Development of land is also subject to economic considerations such as the strength of the regional economy and the resulting demand for land and homes. Another economic downturn, similar to the recent national recession, for example, could adversely impact the demand for homes and land development operations generally throughout the San Diego County area. See “Special Risk Factors – Failure to Achieve Market Projections.” Other factors out of the control of the Developer, such as weather conditions, may delay development.

In addition, while the Developer has substantially completed the infrastructure improvements in Improvement Area No. 1 required by the Acquisition and Funding Agreement and expects to complete construction of the homes within the Development and to self-fund the construction costs, no assurance can be given that construction will be completed and sales of homes in Improvement Area No. 1 will occur as expected. Also, the Developer may sell undeveloped lots in the Development, and no assurance can be given that if such sale occurs, the purchasing entity will complete the construction and sale of the homes on such lots.

Substantial delays in the completion of the Development may reduce the value of the property within Improvement Area No. 1 and increase the length of time during which Special Taxes will be

payable from Undeveloped Property, and may affect the willingness and ability of the owners of property within Improvement Area No. 1 to pay the Special Taxes when due. See “The District and Improvement Area No. 1 – Rate and Method of Apportionment of Special Tax.”

Bondowners should assume that any event that significantly impacts the ability to develop land in Improvement Area No. 1 could cause the property values within Improvement Area No. 1 to decrease from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within Improvement Area No. 1 to pay the Special Taxes when due. See “The Development and the Developer – The Development” for information regarding the status of development in the District.

Failure to Achieve Market Projections

The Appraisal took into consideration the Market Absorption Study, which assumes, based on economic and market factors and the Developer’s phasing schedule for home construction, that the final 11 home sales within Improvement Area No. 1 will close in 2022. There can be no assurance that such level of dwelling unit absorption can be obtained in the Development. Failure to achieve the projected absorption rate could result in property values that are lower than the Appraiser’s estimated value of the property in Improvement Area No. 1, could impair the economic viability of the Development and could reduce the ability or desire of the property owners to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Series 2018A Bonds. See Appendix D – “Market Absorption Study.” Prospective purchasers of the Series 2018A Bonds should not assume that the absorption of dwelling units will occur as projected and should review the Market Absorption Study in its entirety in order to make an informed decision whether to purchase the Series 2018A Bonds.

Competition

The housing market in the area in which the Development is located has other pending and proposed projects that may be competitive with the Development. This competition could impact the future value of the property and the rate at which homes are sold and absorbed. See the Appendix C – “Appraisal Report” and “Special Risk Factors – Failure to Achieve Market Projections.”

Land Value

The value of land within Improvement Area No. 1 is a critical factor in determining the investment quality of the Series 2018A Bonds. If a landowner defaults in the payment of a Special Tax, the District’s only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the delinquent Special Tax.

Prospective purchasers of the Series 2018A Bonds should not assume that the land within Improvement Area No. 1 could be sold for the appraised value described under the heading “Security for the Series 2018A Bonds – Appraised Value” at a foreclosure sale for delinquent Special Taxes. For example, it is unlikely that common ownership would be maintained through foreclosure sales of multiple delinquent parcels because at foreclosure each parcel must be sold separately for the Special Tax lien claims against it and multiple parcels may not be foreclosed in a single “bulk” foreclosure sale. See Appendix C – “Appraisal Report” for descriptions of other assumptions made by the Appraiser in determining its appraised values for the property in Improvement Area No. 1.

Additionally, reductions in land values within Improvement Area No. 1 could occur due to a downturn in the economy, physical events such as earthquakes or floods or other events, all of which will adversely impact the security underlying the Special Tax.

Local, State and Federal Land Use Regulations

There can be no assurance that land development operations within Improvement Area No. 1 will not be adversely affected by future government policies, including, but not limited to, governmental policies which directly or indirectly restrict or control development. During the past several years, citizens of a number of local communities in California have placed measures on the ballot designed to control the rate of future development. It is possible that future initiatives applicable to the County or the District could be enacted and could negatively impact the ability of the property owners to further develop their land. In addition, state or federal laws and regulations could be adopted which would have preemptive effect on local land use regulations.

During the past several years, state and federal regulatory agencies have significantly expanded their involvement in local land use matters through increased regulatory enforcement of various environmental laws, including the Endangered Species Act, the Clean Water Act and the Clean Air Act, among others. Such regulations can substantially impair the rate and amount of development without requiring just compensation unless the effect of the regulation is to deny all economic use of the affected property. While the Developer believes that it has obtained all relevant environmental approvals for the Development of the nature described in the second preceding sentence (see “The Development and the Developer – Land Use Approvals and Environmental Review”), Series 2018A Bondowners should assume that any event that significantly impacts the ability to develop land in Improvement Area No. 1 could cause the land values within Improvement Area No. 1 to decrease substantially and could affect the willingness and ability of the owners of land to pay the Special Taxes when due or to proceed with development of land in Improvement Area No. 1. See “– Failure to Develop Properties; Governmental Approvals” and “– Land Value” herein.

Maximum Annual Special Tax Rates

Within the limits of the Rate and Method, the District may adjust the Special Tax A levy on all property within Improvement Area No. 1 to provide the amount required each year to pay Annual Debt Service, to replenish the Reserve Fund to an amount equal to the Reserve Requirement and to pay Administrative Expenses. Pursuant to the Rate and Method, Special Tax A on Developed Property will always be levied at the maximum annual rates required to pay the Special Tax Requirement for Facilities. However, the amount of Special Tax A that may be levied against each category of Final Mapped Property and Undeveloped Property is subject to the maximum tax rate set forth in the Rate and Method. In the event of significant Special Tax delinquencies, there is no assurance that said maximum tax rates would be sufficient to pay the amounts required to be paid pursuant to the Indenture.

Furthermore, pursuant to the Rate and Method, and also pursuant to Section 53321(d) of the Government Code, the special tax levied against any Assessor’s parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor’s parcel within Improvement Area No. 1 by more than 10% above the amount that would have been levied in that Fiscal Year had there never been any such delinquencies or defaults. As a result, it is possible that the District may not be able to increase the tax levy to a level sufficient to collect Special Tax A in the amount specified in the Rate and Method in all years. However, subject to the limitations on the District’s ability to levy the necessary amount of Special Taxes as imposed by the Rate and Method and by Section 53321(d) of the Government Code, the District can levy Special Taxes on Undeveloped Property, Final Mapped Property, Taxable Public Property, and Taxable Homeowners Association Property (as defined in the Rate and Method) to make up all or a portion of any shortfall in the Special Tax levy. See “The District and Improvement Area No. 1 – Rate and Method of Apportionment of Special Tax” and Appendix E – “Rate and Method of Apportionment of Special Tax.”

Insufficiency of Special Tax Revenues

In order to pay debt service on the Series 2018A Bonds, it is necessary that the Special Taxes levied against land within Improvement Area No. 1 be paid in a timely manner. Should the Special Taxes not be paid on time, the Reserve Fund may provide funds to pay debt service on the Series 2018A Bonds to the extent other funds are not available therefore. Although the District may levy the Special Taxes in an amount sufficient to replenish the Reserve Fund, the levy would be subject to the maximum annual Special Tax A rates set forth in the Rate and Method and the limitation in the Act on increasing the Special Tax A levy on property in residential use by no more than ten percent (10%) as a consequence of delinquencies in the payment of Special Taxes. See “The District and Improvement Area No. 1 – Rate and Method of Apportionment of Special Tax.” As discussed below, Net Special Tax Revenues could be insufficient to pay the Series 2018A Bonds either due to nonpayment of the amounts levied or in the event that acreage within Improvement Area No. 1 were to become exempt from taxation due to title being transferred to a public agency.

The Act provides that, if any property within Improvement Area No. 1 not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. The Series 2018A Bondowners will be dependent on the ability and/or willingness of the public entity to pay the Special Tax levied on such property when due. 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 will be reallocated to the remaining taxable properties within Improvement Area No. 1, but in no case more than the maximum authorized Special Tax for such properties. If a substantial portion of land within Improvement Area No. 1 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 Series 2018A Bonds when due and a default may occur with respect to the payment of such principal and interest.

The District has covenanted to institute foreclosure proceedings under specified circumstances to sell property with delinquent Special Taxes in order to obtain funds to pay debt service on the Series 2018A Bonds. If foreclosure proceedings were ever instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of delinquent Special Taxes to protect its security interest. See “Security for the Series 2018A Bonds – Covenant for Superior Court Foreclosure” 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. In the event such superior court foreclosure or foreclosures are necessary, there could be a delay in payments to Bondowners pending prosecution of the foreclosure sale, if the Reserve Fund were depleted.

No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold, or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Taxes. 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 execution sale pursuant to the judgment in any such action if there is no other purchaser at such sale.

Special Tax Delinquencies

Special Tax A will be billed to properties within Improvement Area No. 1 on the ad valorem property tax bills sent to owners of such properties by the County. Such Special Tax A installments will be due and payable and bear the same penalties and interest for non-payment, as do ad valorem property tax installments.

Significant delinquencies in the payment of annual Special Tax installments, or delays in the prosecution of foreclosure proceedings to collect such Special Taxes, could result in the depletion of the Reserve Fund and default in payment of debt service on the Series 2018A Bonds. See “Security for the Series 2018A Bonds – Covenant for Superior Court Foreclosure,” for a discussion of the provisions that apply, and the procedures that the District is obligated to follow, under the Indenture in the event of delinquencies in the payment of Special Taxes. See “– Property Interest of Government Agencies; Federal Deposit Insurance Corporation” and “– Bankruptcy and Foreclosure Delays” for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and limitations on the District’s ability to foreclose on the lien of the Special Taxes in certain circumstances.

Other laws generally affecting creditors’ rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six month period after termination of such military service to redeem property sold to enforce the collection of a tax or assessment and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if the court concludes the ability to pay such taxes or assessments is materially affected by reason of such service.

Collection of One-Time Special Tax

The Developer does not anticipate that the One-Time Special Tax will ever be levied. However, were the One-Time Special Tax to be levied, the proceeds of such levy would be used to redeem Series 2018A Bonds in an amount sufficient to provide for a debt service coverage ratio of at least 110%. Failure of property owners to pay the One-Time Special Tax could result in a debt service coverage ratio below 110%. See, “Security for the Series 2018A Bonds – Pledge of Net Special Tax Revenues.” Delinquencies in the payment of the One-Time Special Tax are subject to the same procedures and penalties as delinquencies in payment of Special Tax A. See “– Special Tax Delinquencies” above.

Bankruptcy and Foreclosure Delays

The payment of 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 “Security for the Series 2018A Bonds – Covenant for Superior Court Foreclosure,” may be limited by bankruptcy, insolvency, or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a foreclosure could be delayed due to crowded local court calendars or legal delaying tactics.

The various legal opinions to be delivered concurrently with the delivery of the Series 2018A 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.

Regardless of the priority of the Special Taxes securing the Series 2018A Bonds over non-governmental liens on a parcel, 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, or anyone else who claims an interest in, 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 or the institution of bankruptcy proceedings may cause Special Tax collections to be insufficient to pay debt service on the Series 2018A Bonds.

Further, should remedies be exercised under the bankruptcy law against a parcel, 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.

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 property taxes. Pursuant to the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, P.L. 109-8, the lien for special taxes established after the filing of a petition in bankruptcy will be treated thereafter as a lien for ad valorem taxes. However, the amount of any such lien on property with 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. The amount of the delinquent Special Taxes in excess of the reduced lien would then be treated as an unsecured claim by the court.

Any prohibition of or delay in the enforcement of the Special Tax lien would increase the likelihood of a delay or default in payment of the principal of and interest on the Series 2018A Bonds. Because a substantial portion of the taxable property in Improvement Area No. 1 is initially owned by the Developer, the payment of Special Taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax could be substantially curtailed by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. No assurances can be given that any financial difficulties experienced by the Developer will not adversely affect the completion of the Development.

Direct and Overlapping Indebtedness

The ability of an owner of land within Improvement Area No. 1 to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon the property. In addition, other public agencies whose boundaries overlap those of Improvement Area No. 1 could, without the consent of the District, and in certain cases without the consent of the owners of the land within Improvement Area No. 1, impose additional taxes or assessment liens on the property within Improvement Area No. 1 in order to finance public improvements to be located inside of or outside of Improvement Area No. 1. The lien created on the property within Improvement Area No. 1 through the levy of such additional taxes or assessments may be on a parity with the lien of the Special Taxes.

Table 10 below sets forth the current direct and overlapping debt on the property in Improvement Area No. 1, as reported by the Special Tax Consultant, and assumes the issuance of the Series 2018A Bonds:

Table 10
Community Facilities District No. 2008-01 (Harmony Grove Village)
County of San Diego, State of California (Improvement Area No. 1)
Direct and Overlapping Debt

I. Appraised Value

Appraised Value as of September 10, 2017	\$150,908,682
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II. Secured Property Taxes

Description on Tax Bill	% Applicable	Debt 9/1/17
Metropolitan Water District General Obligation Bonds	0.004%	\$ 2,812
Palomar Community College District General Obligation Bonds	0.091%	560,313
Escondido Union High School District General Obligation Bonds	0.559%	493,832
Escondido Union School District General Obligation Bonds	0.579%	489,013
Palomar Pomerado Health System District General Obligation Bonds	0.132%	564,679
San Diego County Community Facilities District No. 2008-1, I.A. No. 1 Harmony Grove	100.000%	15,710,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$17,820,649

OVERLAPPING GENERAL FUND DEBT:

Outstanding Direct and Overlapping Bonded Debt	% Applicable	Debt 9/1/17
San Diego County General Fund Obligations	0.021%	\$ 89,037
San Diego County Pension Obligation Bonds	0.021%	170,785
San Diego County Superintendent of Schools Obligations	0.021%	3,504
Palomar Community College District Certificates of Participation	0.091%	4,289
Escondido Union High School District Certificates of Participation	0.559%	454,778
Escondido Union School District Certificates of Participation	0.579%	137,933
Escondido Union School District Benefit Obligation Bonds	0.579%	68,821
TOTAL OVERLAPPING GENERAL FUND DEBT		\$929,147

COMBINED TOTAL DEBT ⁽¹⁾ \$18,749,796

Ratios to 2017-18 Appraised Value

Direct Debt

Total Direct and Overlapping Tax and Assessment Debt	8.47:1
Combined Total Debt	8.05:1

⁽¹⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue bonds and non-bonded capital lease obligations.

Source: Willdan Financial Services.

Hazardous Materials

While government taxes, assessments and charges are a common claim against the value of a taxed parcel, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Tax is a claim with regard to a hazardous substance. In general, the owners and operators of a taxed parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal

Comprehensive Environmental Response, Compensation and Liability Act of 1989, sometimes referred to as “CERCLA” or “Superfund Act,” is one such law, but California laws with regard to hazardous substances are also stringent and somewhat similar. Under many of these laws, the owner (or operator) is obligated to remediate hazardous substances on, under or about the property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance; however, an owner (or operator) who is not at fault may seek recovery of its damages from the actual wrongdoer. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, may be to reduce the marketability and value of the parcel, because the purchaser, upon becoming an owner, may become obligated to remedy the condition just as is the seller.

Geologic, Topographic and Climatic Conditions

The market value of the land and improvements within Improvement Area No. 1 can be adversely affected by factors which may affect infrastructure and other public improvements in Improvement Area No. 1, and the private improvements to the parcels in Improvement Area No. 1 and the continued usability of such private improvements. These factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements) and climatic conditions (such as floods, droughts and fire hazard).

The Appraisal states that, per the California Department of Conservation, Improvement Area No. 1 is not located within an Alquist Priolo Earthquake Study Zone and is not within one-half mile of an active fault. Also according to the Appraisal, most of Improvement Area No. 1 is identified as within Zone X (areas of minimal flooding) and doesn't require flood insurance, but portions south of Harmony Grove Road and the area of Escondido Creek are designated X500 or AE that are within either the 100- or 500-year floodway.

However, like other areas of Southern California, property in Improvement Area No. 1 is subject to the risk of major earthquake damage. Known active faults that could cause significant ground shaking in Improvement Area No. 1 include, but are not limited to, the Elsinore and Rose Canyon faults. It should be assumed, therefore, that an earthquake or one or more of such other conditions may occur and may cause damage to improvements on parcels in Improvement Area No. 1 of varying seriousness, that such damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate usability or because other considerations may preclude such repair or replacement. Consequently, the occurrence of any of these conditions could result in a significant decrease in the market value of property in Improvement Area No. 1 or in such property becoming unmarketable.

In recent years, portions of Southern California, including the County and adjacent counties, have experienced wildfires that have burned thousands of acres and destroyed thousands of homes and structures. North San Diego County, in which Improvement Area No. 1 is located, has previously experienced large scale wildfires that resulted in the destruction of homes and businesses. In May 2014, the Cocos Fire burned over 2,000 acres and destroyed approximately 36 homes, including homes and structures located in the Harmony Grove Spiritual Center located immediately south of Improvement Area No. 1. In December 2017, the Lilac Fire, located near the community of Bonsall, approximately 17 miles northwest of Improvement Area No. 1, burned approximately 4,100 acres and destroyed over 150 structures. Improvement Area No. 1 is surrounded by open space areas, which could present a risk of wildfires. Property damage due to wildfire could result in a significant decrease in the market value of property in Improvement Area No. 1 and in the ability or willingness of property owners to pay Special Taxes.

Property Interest of Government Agencies; Federal Deposit Insurance Corporation

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 have or obtain an interest.

General. The supremacy clause of the United States Constitution reads as follows: "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding." The foregoing is generally interpreted to mean that, unless the United States Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within Improvement Area No. 1 but does not pay taxes and assessments levied on the parcel (including the Special Taxes), the applicable State and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments. Moreover, unless the United States Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. In *Rust v. Johnson* 597 F.2d 174 (9th Cir. 1979), the United States Court of Appeal, Ninth Circuit (the "Ninth Circuit"), held that the Federal National Mortgage Association ("FNMA") is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States.

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

FDIC. In the event that any financial institution making any loan which is secured by real property within Improvement Area No. 1 is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its proper tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

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

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to a parcel in which the FDIC has an interest, although prohibiting the lien of the FDIC to be foreclosed on at a judicial foreclosure sale would likely reduce the number of or eliminate the persons willing to purchase such a parcel at a foreclosure sale. Owners of the Series 2018A Bonds should assume that the District will be unable to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment of the Series 2018A Bonds. The District 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 Series 2018A Bonds are outstanding.

Disclosure to Future Property Owners or Lenders

The District has recorded a Notice of Special Tax Lien in the Office of the County Recorder. While title insurance and search companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider the Special Tax obligation imposed on parcels in Improvement Area No. 1 in the purchase of property or the lending of money thereon. Under the Act, the Developer will also have an obligation to disclose the existence of the Special Taxes to homebuyers. Failure to disclose the existence of the Special Tax may affect the willingness and ability of future owners of property within Improvement Area No. 1 to pay the Special Tax when due.

Non-Cash Payments of Special Taxes

Under the Act, the District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Tax applicable thereto by tendering a Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to any Series 2018A Bonds then outstanding; and, unless the practice was limited by the District, the Special Tax paid in cash could be insufficient to pay the debt service due with respect to the Series 2018A Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Bonds in payment of the Special Tax, the Indenture includes a covenant pursuant to which the District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of Bonds unless the District shall have first obtained a report of an Independent Financial Consultant certifying that doing so would not result in the District having insufficient Net Special Tax Revenues to pay the principal of and interest on all Outstanding Bonds when due.

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

An owner of a property is not personally obligated to pay the Special Tax. The Special Tax is an obligation which is secured only by a lien against the property on which it is levied. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the payment of the Special Tax, the District has no recourse against the owner. See “Special Risk Factors – Direct and Overlapping Indebtedness” for a table showing overlapping indebtedness payable from taxes to be levied on parcels in Improvement Area No. 1.

Limitations on Remedies

Remedies available to the owners of the Series 2018A Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Series 2018A Bonds or to preserve the tax-exempt status of the Series 2018A Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Series 2018A Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer, or other similar laws affecting creditors’ rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the Series 2018A Bonds.

Loss of Tax Exemption

As discussed under the caption “Concluding Information – Tax Matters” herein, interest on the Series 2018A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series 2018A Bonds were issued, as a result of future acts or omissions of the District in violation of its covenants in the Indenture. Should such an event of taxability occur, the Series 2018A Bonds are not subject to a special redemption and will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Indenture.

In addition, legislation affecting the tax exemption of interest on the Series 2018A Bonds may be considered by the United States Congress and the State legislature. Federal and state court proceedings and the outcome of such proceedings could also affect the tax exemption of interest on the Series 2018A Bonds. No assurance can be given that legislation enacted or proposed, or actions by a court, after the date of delivery of the Series 2018A Bonds will not have an adverse effect on the tax exemption of interest on the Series 2018A Bonds or the market value of the Series 2018A Bonds.

Proposition 218

An initiative measure commonly referred to as the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Articles XIIC and Article XIID to the State Constitution. According to the “Title and Summary” of the Initiative prepared by the State Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” The Initiative could potentially impact the Special Taxes available to the County to pay the principal of and interest on the Series 2018A Bonds as described below.

Among other things, Section 3 of Article XIII states that “... the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or

charge.” The Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Series 2018A Bonds.

It may be possible, however, for voters within Improvement Area No. 1 or the Board of Supervisors, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Series 2018A Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Series 2018A Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted not to initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Series 2018A Bonds. If an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Series 2018A Bonds, the District shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Series 2018A Bonds. No assurance can be given as to the enforceability of the foregoing covenants.

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

Secondary Markets and Prices

The Underwriters will not be obligated to repurchase any of the Series 2018A Bonds, and no representation is made concerning the existence of any secondary market for the Series 2018A Bonds. No assurance can be given that any secondary market will develop following the completion of the offering of the Series 2018A Bonds, and no assurance can be given that the initial offering prices for the Series 2018A Bonds will continue for any period of time.

Although the District and the Developer have committed to provide certain ongoing financial and operating information (see “Concluding Information – Continuing Disclosure”), there can be no assurance that such information will be available to owners of the Series 2018A Bonds on a timely basis. The failure

to provide the required information does not give rise to monetary damages but only an action for specific performance. Occasionally, because of general market conditions, lack of current information, or the absence of a credit rating for bonds, or because of adverse history or economic prospects associated with a particular bond issue, secondary marketing practices in connection with a bond issue are suspended or terminated. Also, prices of bond issues for which a market may be made will depend upon current circumstances, and could be substantially different from the original purchase price.

IRS Audit of Tax-Exempt Issues

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt issues, including both random and targeted audits. It is possible that the Series 2018A Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series 2018A Bonds might be affected as a result of such an audit of the Series 2018A Bonds (or by an audit of similar obligations). See “Concluding Information – Tax Matters.”

No Acceleration Provision

The Series 2018A Bonds do not contain a provision allowing for the acceleration of the unpaid principal of the Series 2018A Bonds in the event of a payment default or other default under the terms of the Series 2018A Bonds or the Indenture.

Funds Invested in the County Investment Pool

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county. Prior to distribution of the Special Taxes to the District, such funds may be invested in an account established on behalf of the County in the County investment pool. Amounts held by the Trustee under the Indenture may also be invested in the County investment pool. In the event of a petition of or the adjustment of County debts under Chapter 9 of the United States Bankruptcy Code, a court might hold that the Series 2018A Bond Owners do not have a valid and/or prior lien on the Special Taxes or debt service payments where such amounts are deposited in the County investment pool and may not provide the Series 2018A Bond Owners with a priority interest in such amounts. In that circumstance, unless the Series 2018A Bond Owners could “trace” the funds that have been deposited in the County investment pool, the Series 2018A Bond Owners would be unsecured (rather than secured) creditors of the County. There can be no assurance that the Series 2018A Bond Owners could successfully so trace the Special Taxes or debt service payments.

Potential Early Redemption of Series 2018A Bonds from Special Tax A Prepayments and One-Time Special Tax Payments.

Property owners within Improvement Area No. 1 are permitted to prepay their Special Tax A obligation at any time. The Rate and Method also provides for the levy of the One-Time Special Tax. Such payments and prepayments will result in a redemption of Series 2018A Bonds following the receipt of the payment or prepayment. See “The Series 2018A Bonds – Redemption – Mandatory Redemption from Special Tax A Prepayments and Payments of One-Time Special Tax.” There have been two prepayments of Special Tax A in Improvement Area No. 1 to date.

Ballot Initiatives

The Initiative was adopted pursuant to measures qualified for the ballot pursuant to the State's Constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. On March 6, 1995, in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by State voters or legislation enacted by the State Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the County or local districts to increase revenues or appropriations or on the ability of the property owners within Improvement Area No. 1 to complete the remaining proposed development. See “—Failure to Develop Properties; Government Approvals.”

Tax Cuts and Jobs Act

H.R. 1 of the 115th U.S. Congress, known as the “Tax Cuts and Jobs Act,” (Pub. L. No. 115-97 (2017)) (the “Tax Act”) was enacted into law on December 22, 2017. The Tax Act makes significant changes to many aspects of the Code. The Tax Act reduces the amount of mortgage interest expense and state and local income tax and property tax expense that individuals may deduct from their gross income for federal income tax purposes. Both of these limitations may have the effect of increasing the cost of home ownership within Improvement Area No. 1. The Tax Act provides that, in the case of taxable years beginning after December 31, 2017 and before January 1, 2026, a taxpayer may deduct interest expense on no more than \$750,000 in mortgage indebtedness incurred on or after December 15, 2017 on a qualifying home. Prior law allowed a deduction of interest expense on no more than \$1,000,000 in mortgage indebtedness, and \$100,000 in home equity indebtedness. The Tax Act suspends the mortgage interest deduction with respect to interest on home equity indebtedness for tax years beginning after December 31, 2017, and before January 1, 2026. Under prior law, individuals were permitted to deduct state and local income and property tax expense, or could elect to deduct sales tax expense in lieu of deducting income tax expense. The Tax Act limits the aggregate amount of state and local income and property taxes (or sales taxes) that may be deducted to \$10,000 for the tax years beginning after December 31, 2017 and before January 1, 2026. According to the Absorption Consultant, about six percent of homes in Improvement Area No. 1 are likely to have mortgages in excess of \$750,000 (assuming a ten percent down payment). The estimated annual property tax liability on the three home types sampled in Table 6 varies between \$9,745.11 and \$11,617.56. See “The District and Improvement Area No. 1 – Rate and Method of Apportionment of Special Tax – Estimated Sample Tax Bills.” The County and the District cannot predict what effect the Tax Act may have on the cost of home ownership or the price of homes in Improvement Area No. 1, or on the ability or willingness of homeowners to pay Special Taxes or property taxes.

CONCLUDING INFORMATION

Continuing Disclosure

The District, pursuant to the District Continuing Disclosure Agreement, and the Developer, pursuant to the Developer Continuing Disclosure Agreement, have each agreed to provide certain financial information and operating data on an annual basis, and to provide notices of the occurrence of certain enumerated events. In addition, the Developer has agreed to provide mid-year reports. See Appendix H – “Form of District Continuing Disclosure Agreement” and Appendix I – “Form of Developer Continuing Disclosure Agreement.” The covenants in the District Continuing Disclosure Agreement have been made by the District in order to assist the Underwriters in complying with the Rule.

The Underwriters do not consider the Developer to be an “obligated person” with respect to the Series 2018A Bonds for purposes of the Rule. The Developer Continuing Disclosure Agreement shall terminate at such time as the Developer and its Affiliates (as defined therein) are collectively responsible for less than 20% of the Special Taxes. In addition, the Developer’s Continuing Disclosure Agreement may terminate in certain other circumstances, as described in the Developer Continuing Disclosure Agreement.

A failure by the District or the Developer to comply with its respective continuing disclosure obligations will not constitute a default under the Indenture. However, the Continuing Disclosure Agreements provide that, in the event of a failure of the District or the Developer, as applicable, to comply with any provision of their respective Continuing Disclosure Agreement, any Series 2018A Bond owner, any Beneficial Owner, the Trustee or the Underwriters may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or the Developer to comply with its obligations under its respective Continuing Disclosure Agreement. The sole remedy under each Continuing Disclosure Agreement in the event of any failure of the District or the Developer to comply with its respective Continuing Disclosure Agreement is an action to compel performance.

The District has not had any prior continuing disclosure obligations under the Rule. The County will assist the District in preparing its continuing disclosure reports. Pursuant to the District Continuing Disclosure Agreement, Willdan Financial Services will serve as the initial dissemination agent, and the County intends to engage a third-party administrator to prepare the annual report required by the District Continuing Disclosure Agreement.

Neither the District nor the County has undertaken to determine whether the Developer is an obligated person under Rule 15c2-12. Neither the District nor the County has participated in the preparation, negotiation or implementation of the Developer Continuing Disclosure Agreement. Neither the District nor the County takes any responsibility for the adequacy of the Developer Continuing Disclosure Agreement for its intended purpose. None of the District, the County or the Trustee is a party to the Developer Continuing Disclosure Agreement, and none of the District, the County or the Trustee has any obligation or right to monitor or enforce compliance by the Developer with its obligations under the Developer Continuing Disclosure Agreement.

On October 1, 2015, the Developer merged with The Ryland Group, Inc., a Maryland corporation (“Ryland Group”), with the Developer being the surviving entity (the “Merger”). The Developer’s San Diego division is responsible for complying with the Developer’s obligations under the Developer Continuing Disclosure Agreement. Except as described in the next paragraph, for the past five years, the Developer has not failed to comply in all material respects with any previous continuing disclosure undertakings for which any of the Developer’s California divisions have been responsible. This representation does not include any continuing disclosure obligations entered into by other divisions of the Developer or by the Ryland Group or its subsidiaries prior to the Merger.

On September 30, 2013, the Developer filed a Semi-Annual Report pursuant to the Major Developer Continuing Disclosure Agreement, dated June 1, 2006 (the “2006 Disclosure Agreement”), in connection with the issuance of the Poway Unified School District Community Facilities District No. 14 (Del Sur) Improvement Area A 2006 Special Tax Bonds (the “2006 Bonds”). Pursuant to the terms of the 2006 Disclosure Agreement, the Developer was not required to file a Semi-Annual Report once property it owned was no longer responsible for payment of 15% or more of the special taxes securing the 2006 Bonds. Pursuant to the terms of the 2006 Disclosure Agreement, the Developer should have filed a Notice to Repositories of Termination of Reporting Obligations (the “Notice”) rather than a Semi-Annual Report. The Developer failed to file a Semi-Annual Report or Notice prior to the April 1, 2014 Report

Date. On May 22, 2014, the Developer filed the Notice and the Developer has no further obligations under the 2006 Disclosure Agreement.

Absence of Litigation

The District. At the time of delivery of and payment for the Series 2018A Bonds, the District will deliver a certificate to the effect that there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body, pending with respect to which the District has been served with process or known by the official of the District executing the Bond Purchase Agreement with the Underwriters for the Series 2018A Bonds to be threatened, which in any way questions the powers of the Board of Supervisors or the District with respect to the District entering into the Indenture or the Continuing Disclosure Agreement, or the issuance, sale and delivery of the Series 2018A Bonds, or the validity of any proceeding taken by the Board of Supervisors in connection with the issuance of the Series 2018A Bonds, or wherein an unfavorable decision, ruling or finding could materially adversely affect the transactions on the part of the District contemplated by any of such documents, or which, in any way, could adversely affect the validity or enforceability of the resolutions adopted by the Board of Supervisors with respect to the District and the ordinance levying Special Taxes in Improvement Area No. 1, the Indenture, the Series 2018A Bonds or the Bond Purchase Agreement or which in any way questions the exclusion from gross income of the recipients thereof of the interest on the Series 2018A Bonds for federal income tax purposes or in any other way questions the status of the interest on the Series 2018A Bonds under State tax law or regulations.

The Developer. At the time of delivery and payment for the Series 2018A Bonds, the Developer will deliver a certificate to the effect that to the Actual Knowledge of the Developer (as defined in such certificate), no action, suit, proceeding, inquiry or investigation at law or in equity, before or by any court, regulatory agency, public board or body is pending against the Developer (with proper service of process or proper notice to the Developer having been accomplished) or to the Actual Knowledge of the Developer, overtly threatened in writing against the Developer (a) which, if successful, is reasonably likely to materially and adversely affect the Developer's ability to complete the development and sale of the property owned by the Developer in Improvement Area No. 1 (the "Property") as described herein, or to pay its Special Taxes, or ordinary ad valorem property tax obligations related to the Property when due; or (b) which challenges or questions the validity or enforceability of the Series 2018A Bonds or the Continuing Disclosure Agreement to be executed by the Developer in connection with the issuance of the Series 2018A Bonds.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2018A Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Series 2018A Bonds is less than the amount to be paid at maturity of such Series 2018A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2018A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2018A Bonds which is excluded from gross income for federal income tax

purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2018A Bonds is the first price at which a substantial amount of such maturity of the Series 2018A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2018A Bonds accrues daily over the term to maturity of such Series 2018A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2018A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2018A Bonds. Beneficial Owners of the Series 2018A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2018A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2018A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2018A Bonds is sold to the public.

Series 2018A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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 Series 2018A Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2018A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2018A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2018A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and 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), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series 2018A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2018A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2018A Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2018A Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or

court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2018A Bonds. Prospective purchasers of the Series 2018A Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2018A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2018A Bonds ends with the issuance of the Series 2018A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Series 2018A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2018A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2018A Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

Legal Matters Incident to the Issuance of the Series 2018A Bonds

The validity of the Series 2018A Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, acting in its capacity as Bond Counsel to the District. See Appendix B – "Proposed Form of Opinion of Bond Counsel." Certain legal matters will be passed upon for the District by the County Counsel, and by Hawkins Delafield & Wood LLP, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Underwriters' Counsel. Payment of the fees and expenses of Bond Counsel, Disclosure Counsel and Underwriters' Counsel is contingent upon the sale and issuance of the Series 2018A Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2018A Bonds will be qualified as to enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Financial Advisor

The District has retained Public Resources Advisory Group, Los Angeles, California, as financial advisor (the "Financial Advisor") in connection with the preparation of this Official Statement and with respect to the issuance of the Series 2018A Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

APPENDIX A
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following summary discussion of selected provisions of the Indenture is made subject to all of the provisions of the Indenture. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Series 2018A Bonds are referred to the complete text of the Indenture, a copy of which is available upon request sent to the Trustee.

DEFINITIONS

Unless the context otherwise requires, the terms defined below shall for all purposes of the Indenture and of any certificate, opinion or other document mentioned in the Indenture, have the meanings specified below.

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

“Additional Bonds” means Bonds other than Series 2018A Bonds issued under the Indenture in accordance with the provisions thereof as summarized herein under the heading “ADDITIONAL BONDS.”

“Administrative Expense Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

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

“Annual Debt Service” means, for each Bond Year, the sum of: (a) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of mandatory sinking fund redemptions); and (b) the principal amount of the Outstanding Bonds due in such Bond Year (including any mandatory sinking fund redemptions due in such Bond Year).

“Appraised Value” means the value of all or any portion of the Taxable Property, as set forth in a Qualified Appraisal Report prepared by a Qualified Appraiser.

“Assessed Value” means, with respect to all or any portion of the Taxable Property, as of any date, the assessed value thereof, as such value is shown on the most recently equalized assessment roll.

“Auditor” means the Auditor/Controller of the County of San Diego.

“Authorized Denominations” means (a) with respect to the Series 2018A Bonds, \$5,000 and any integral multiple thereof, and (b) with respect to each Series of Additional Bonds, the authorized denominations for such Series of Additional Bonds specified in the Supplemental Indenture pursuant to which such Additional Bonds are issued.

“Authorized Representative” means, with respect to the Community Facilities District, each of the Chief Administrative Officer of the County, the Assistant Chief Administrative Officer/COO of the County, the DCAO/Auditor and Controller of the County, the Treasurer-Tax Collector of the County, the Chief Deputy Treasurer of the County, the Chief Investment Officer of the County, the Group Finance Director of the County, the Debt Finance Manager of the County, and any other Person designated as an Authorized Representative of the Community Facilities District in a Written Certificate of the Community Facilities District filed with the Trustee.

“Average Annual Debt Service” means the average of the Annual Debt Service for all remaining Bond Years, including the Bond Year in which the calculation is made.

“Board of Supervisors” means the Board of Supervisors of the County.

“Bond Counsel” means a firm of nationally recognized bond counsel selected by the Community Facilities District.

“Bond Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Bond Year” means each twelve-month period beginning on September 2 in each year and extending to the next succeeding September 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date and end on September 1, 2018.

“Bonds” means the Community Facilities District No. 2008-01 (Harmony Grove Village) of the County of San Diego, Improvement Area No. 1 Special Tax Bonds issued under the Indenture, and includes the Series 2018A Bonds and any Additional Bonds.

“Book-Entry Bonds” means the Bonds of a Series registered in the name of the nominee of DTC, or any successor securities depository for such Series of Bonds, as the registered owner thereof pursuant to the terms and provisions of the Indenture.

“Business Day” means a day which is not (a) a Saturday, Sunday, or legal holiday in the State of California, (b) a day on which banking institutions in the State of California, or in any state in which the Office of the Trustee is located, are required, or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.

“Cede & Co.” means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to a Series of Book-Entry Bonds.

“CFD Administrator” has the meaning ascribed thereto in the Rate and Method.

“Closing Date” means the date upon which the Series 2018A Bonds are delivered to the Original Purchaser.

“Code” means the Internal Revenue Code of 1986.

“Community Facilities District” means Community Facilities District No. 2008-01 (Harmony Grove Village), County of San Diego, State of California, a community facilities district comprising two mutually exclusive improvement areas designated “Improvement Area No. 1” or “IA No. 1” and “Improvement Area No. 2” or “IA No. 2,” organized and existing under and by virtue of the laws of the State of California, and any successor thereto.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Community Facilities District relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee, fees, charges and disbursements of attorneys, financial advisors, accounting firms, appraisers, consultants, and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, any premium for a bond insurance policy securing payment of the Bonds, any premium for a reserve facility and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“County” means the County of San Diego, a political subdivision organized and existing under and by virtue of the laws of the State of California.

“Developed Property” has the meaning ascribed thereto in the Rate and Method.

“Developer” means CalAtlantic Group, Inc., a Delaware corporation, and its successors or assigns.

“Developer Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of February 1, 2018, by the Developer and Willdan Financial Services, as dissemination agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“District Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of February 1, 2018, by the Community Facilities District and Willdan Financial Services, 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, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for any Series of Book-Entry Bonds, including any such successor appointed pursuant to the Indenture.

“Facilities” means those Improvement Area No. 1 facilities and governmental fees, as applicable, as defined and further described in Section 5 of the Resolution of Formation.

“Federal Securities” means (a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Final Mapped Property” has the meaning ascribed thereto in the Rate and Method.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Community Facilities District designated in a Written Certificate of the Community Facilities District delivered to the Trustee.

“Improvement Area No. 1” or “IA No. 1” means Improvement Area No. 1 of the Community Facilities District, as identified on the boundary map for the Community Facilities District and further set forth in the Resolution of Formation.

“Improvement Area No. 2” or “IA No. 2” means Improvement Area No. 2 of the Community Facilities District, as identified on the boundary map for the Community Facilities District and further set forth in the Resolution of Formation.

“Improvement Areas” means Improvement Area No. 1 and Improvement Area No. 2.

“Improvement Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Indenture” means the Indenture, as originally executed and as it may be amended or supplemented from time to time by any Supplemental Indenture.

“Independent Consultant” means any consultant or firm of such consultants selected by the Community Facilities District and who, or each of whom: (a) is generally recognized to be qualified in the financial consulting field; (b) is in fact independent and not under the domination of the Community Facilities District or the County; (c) does not have any substantial interest, direct or indirect, with or in the Community Facilities District or the County, or any owner of real property in the Community Facilities District, or any real property in the Community Facilities District; and (d) is not connected with the Community Facilities District or the County as an officer or employee thereof, but who may be regularly retained to make reports to the Community Facilities District or the County.

“Interest Account” means the account by that name within the Bond Fund established and held by the Trustee pursuant to the Indenture.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing September 1, 2018, so long as any Bonds remain Outstanding.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made.

“Maximum Special Tax A” has the meaning ascribed thereto in the Rate and Method.

“Moody’s” means Moody’s Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Community Facilities District.

“Net Special Tax Revenues” means Special Tax Revenues, less amounts required to pay Priority Administrative Expenses.

“Office of the Trustee” means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the Community Facilities District by the Trustee in writing.

“One-Time Special Tax” has the meaning ascribed thereto in the Rate and Method.

“Ordinance” means any ordinance adopted by the County levying the Special Taxes.

“Original Purchaser” means the original purchaser of the Series 2018A Bonds from the Community Facilities District.

“Other CFD Bonds” means, as of the date of determination, any and all bonds, notes or other evidences of indebtedness, other than the Bonds, then outstanding and issued by an Overlapping CFD under the Act and payable at least partially from special taxes to be levied on parcels of Taxable Property.

“Outstanding” means, when used as of any particular time with reference to Bonds, subject to the provisions of the Indenture as summarized herein under the heading “MISCELLANEOUS – Disqualified Bonds,” all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Community Facilities District shall have been discharged in accordance with the provisions of the Indenture as summarized herein under the heading “DEFEASANCE – Discharge of the Indenture,” including Bonds (or portions of Bonds) disqualified under the provisions of the Indenture as summarized herein under the heading “MISCELLANEOUS – Disqualified Bonds;” and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the provisions of the Indenture.

“Overlapping CFD” means a separate community facilities district established by the County or another local agency that includes all or a portion of the Taxable Property in the Community Facilities District and that levies special taxes pursuant to its own rate and method of apportionment on such property.

“Owner” means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.

“Participant” means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.

“Permitted Investments” means the following, to the extent that such securities are otherwise eligible legal investments of the Community Facilities District:

- (a) Federal Securities;

Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank;
- Rural Economic Community Development Administration;
- U.S. Maritime Administration;
- Small Business Administration;

- U.S. Department of Housing & Urban Development (PHAs);
 - Federal Housing Administration; and
 - Federal Financing Bank;
- (b) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC);
 - Obligations of the Resolution Funding Corporation (REFCORP);
 - Senior debt obligations of the Federal Home Loan Bank System; and
 - Senior debt obligations of other Government Sponsored Agencies approved by the Insurer;
- (c) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (d) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;
- (e) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;
- (f) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
- (1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or
 - (2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in clause (2) of the definition of "Defeasance Securities" contained in the Indenture, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (g) Municipal Obligations rated in the top two rating categories or higher by both Moody's and S&P;
- (h) Investment Agreements rated in the top two rating categories or higher by Moody's or S&P (supported, as may be required, by appropriate opinions of counsel);

- (i) Any investment authorized by California Government Code Section 53601;
- (j) The Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State of California and which is authorized to accept investments of moneys held in any of the funds or accounts established pursuant to the Indenture;
- (k) The San Diego County Investment Pool, managed by the Treasurer-Tax Collector of the County of San Diego, California; and
- (l) Other forms of investments rated in the top two rating categories or higher by Moody's or S&P (supported, as may be required, by appropriate opinions of counsel).

Any references to long-term rating categories in the definition of "Permitted Investments" shall not take into account any plus or minus sign or numerical modifiers.

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

"Principal Account" means the account by that name within the Bond Fund established and held by the Trustee pursuant to the Indenture.

"Priority Administrative Expenses" means \$42,000, as of Fiscal Year 2018-19 and escalating at 2% each subsequent fiscal year, in annual Administrative Expenses.

"Qualified Appraisal Report" means a real estate appraisal report which (a) has been prepared by a Qualified Appraiser, (b) uses a date of value that is no earlier than three months prior to the date on which the value reported in such appraisal report is used in accordance with the provisions of the Indenture, (c) is prepared in accordance with the applicable standards of the Appraisal Institute for such reports, and (d) is prepared in accordance with the applicable guidelines of the California Debt and Investment Advisory Commission for such reports, as such guidelines are in effect on the Closing Date.

"Qualified Appraiser" means a real estate appraiser selected by the Community Facilities District and having an "MAI" designation from the Appraisal Institute.

"Rate and Method" means the "Rate and Method of Apportionment for County of San Diego Community Facilities District No. 2008-01 Improvement Area No. 1 (Harmony Grove Village)," a copy of which was recorded on September 17, 2008 in the office of the San Diego County Clerk-Recorder as document number 2008-0493046, as clarified pursuant to Resolution No. 17-180, adopted by the Board of Supervisors of the County on December 5, 2017, and as amended by the "Certificate to Amend Special Tax A," a copy of which was recorded on December 20, 2017 in the office of the San Diego County Clerk-Recorder as document number 2017-0596427.

"Rebate Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Rebate Requirement" has the meaning ascribed thereto in the Tax Certificate.

"Record Date" means the 15th calendar day of the month preceding each Interest Payment Date, whether or not such day is a Business Day.

“Redemption Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Redemption Price” means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant to the Indenture.

“Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

“Representation Letter” means the Letter of Representations from the Community Facilities District to DTC, or any successor securities depository for any Series of Book-Entry Bonds, in which the Community Facilities District makes certain representations with respect to issues of its securities for deposit by DTC or such successor depository.

“Reserve Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Reserve Requirement” means, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds (excluding Bonds refunded with the proceeds of subsequently issued Bonds), (b) Maximum Annual Debt Service, (c) 125% of Average Annual Debt Service or (d) \$1,179,810.46 (such amount being equal to 125% of Average Annual Debt Service as of the Closing Date).

“Resolution of Formation” means the Resolution No. 08-113, adopted by the Board of Supervisors of the County on June 25, 2008, establishing and forming the Community Facilities District, as originally adopted and as it may be amended or supplemented from time to time.

“S&P” means S&P Global Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Community Facilities District.

“Series” means the initial series of Bonds executed, authenticated, and delivered on the date of initial issuance of the Bonds and identified pursuant to the Indenture as the Series 2018A Bonds, and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

“Series 2018A Bonds” means the Community Facilities District No. 2008-01 (Harmony Grove Village) of the County of San Diego, Improvement Area No. 1 Special Tax Bonds, Series 2018A issued under the Indenture.

“Special Tax A” has the meaning ascribed thereto in the Rate and Method.

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

“Special Tax Requirement for Facilities” has the meaning ascribed thereto in the Rate and Method.

“Special Tax Revenues” means the proceeds of the Special Taxes received by or on behalf of the Community Facilities District, including any prepayments thereof, interest and penalties thereon and

proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, which shall be limited to the amount of said lien and interest and penalties thereon.

“Special Taxes” means Special Tax A and the One-Time Special Tax levied within Improvement Area No. 1 pursuant to the Act, the Rate and Method, the Ordinance and the Indenture.

“Supplemental Indenture” means any supplemental indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Surplus Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Tax Certificate” means the Tax Certificate executed by the Community Facilities District at the time of issuance of the Series 2018A Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Taxable Property” has the meaning ascribed thereto in the Rate and Method.

“Trustee” means ZB, National Association dba Zions Bank, a national banking association organized and existing under the laws of the United States of America, or any successor thereto as Trustee under the Indenture, appointed as provided in the Indenture.

“Underwriter” has the meaning ascribed thereto in the Developer Continuing Disclosure Agreement.

“Written Certificate” and “Written Request” of the Community Facilities District mean, respectively, a written certificate or written request signed in the name of the Community Facilities District by an Authorized Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

CERTAIN PROVISIONS OF THE BONDS

Transfer and Exchange of Bonds. Any Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer, the Community Facilities District shall execute, and the Trustee shall authenticate and shall deliver, a new Bond or Bonds of the same Series and maturity in a like aggregate principal amount, in any Authorized Denomination. The Trustee shall require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same Series and maturity of other Authorized Denominations. The Trustee shall require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be obligated to make any transfer or exchange of Bonds of a Series pursuant to the provisions of the Indenture summarized herein under this heading (“-Transfer and Exchange of Bonds”) during the period established by the Trustee for the selection of Bonds of such Series for redemption, or with respect to any Bonds of such Series selected for redemption.

Temporary Bonds. The Bonds of a Series may be issued in temporary form exchangeable for definitive Bonds of such Series when ready for delivery. Any temporary Bonds may be printed, lithographed, or typewritten, shall be of such Authorized Denominations as may be determined by the Community Facilities District, shall be in fully registered form without coupons and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond shall be executed by the Community Facilities District and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Community Facilities District issues temporary Bonds of a Series it shall execute and deliver definitive Bonds of such Series as promptly thereafter as practicable, and thereupon the temporary Bonds of such Series may be surrendered, for cancellation, at the Office of the Trustee and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of such Series and maturities in Authorized Denominations. Until so exchanged, the temporary Bonds of such Series shall be entitled to the same benefits under the Indenture as definitive Bonds of such Series authenticated and delivered under the Indenture.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Community Facilities District, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and Series in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the Community Facilities District. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee shall be given, the Community Facilities District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and Series in lieu of and in replacement for the Bond so lost, destroyed, or stolen (or if any such Bond shall have matured or shall have been selected for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The Community Facilities District may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under the provisions of the Indenture summarized in this paragraph and of the expenses which may be incurred by the Community Facilities District and the Trustee. Any Bond of a Series issued under the provisions of the Indenture summarized in this paragraph in lieu of any Bond of such Series alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Community Facilities District whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Indenture with all other Bonds of such Series secured by the Indenture.

Book-Entry Bonds. (a) Prior to the issuance of a Series of Bonds, the Community Facilities District may provide that such Series of Bonds shall initially be issued as Book-Entry Bonds and, in such event, the Bonds of such Series for each maturity shall be in the form of a separate single fully registered Bond (which may be typewritten). The Series 2018A Bonds shall initially be issued as Book-Entry Bonds.

Except as provided in paragraph (c) below, the registered Owner of all of the Book-Entry Bonds shall be DTC and the Book-Entry Bonds shall be registered in the name of Cede & Co., as nominee of DTC. Notwithstanding anything to the contrary contained in the Indenture, payment of interest with respect to any Book-Entry Bond registered as of each Record Date in the name of Cede & Co. shall be made by wire transfer of same-day funds to the account of Cede & Co. on the payment date for the Book-Entry Bonds at the address indicated on the Record Date for Cede & Co. in the Registration Books or as otherwise provided in the Representation Letter.

(b) The Trustee and the Community Facilities District may treat DTC (or its nominee) as the sole and exclusive Owner of the Book-Entry Bonds registered in its name for the purposes of payment of the principal, premium, if any, or interest with respect to the Book-Entry Bonds, selecting the Book-Entry Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Owners

of Book-Entry Bonds under the Indenture, registering the transfer of Book-Entry Bonds, obtaining any consent or other action to be taken by Owners of Book-Entry Bonds and for all other purposes whatsoever, and neither the Trustee nor the Community Facilities District shall be affected by any notice to the contrary. Neither the Trustee nor the Community Facilities District shall have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Book-Entry Bonds under or through DTC or any Participant, or any other person which is not shown on the Registration Books as being an Owner, with respect to the accuracy of any records maintained by DTC or any Participant, the payment by DTC or any Participant of any amount in respect of the principal, premium, if any, or interest with respect to the Book-Entry Bonds, any notice which is permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Book-Entry Bonds, or any consent given or other action taken by DTC as Owner of Book-Entry Bonds. The Trustee shall pay all principal, premium, if any and interest with respect to the Book-Entry Bonds, only to DTC, and all such payments shall be valid and effective to fully satisfy and discharge the Community Facilities Districts obligations with respect to the principal, premium, if any, and interest with respect to the Book-Entry Bonds to the extent of the sum or sums so paid. Except under the conditions of paragraph (c) below, no person other than DTC shall receive an executed Book-Entry Bond for each separate stated maturity. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to record dates, the term "Cede & Co." in the Indenture shall refer to such new nominee of DTC.

(c) In the event (i) DTC, including any successor as securities depository for a Series of Bonds, determines not to continue to act as securities depository for such Series of Bonds, or (ii) the Community Facilities District determines that the incumbent securities depository shall no longer so act as securities depository for such Series of Bonds, and delivers a written certificate to the Trustee to that effect, then the Community Facilities District will discontinue the book-entry system with the incumbent securities depository for such Series of Bonds. If the Community Facilities District determines to replace the incumbent securities depository for such Series of Bonds with another qualified securities depository, the Community Facilities District shall prepare or direct the preparation of a new single, separate, fully registered Bond of such Series for the aggregate outstanding principal amount of Bonds of such Series of each maturity, registered in the name of such successor or substitute qualified securities depository, or its nominee, or make such other arrangement acceptable to the Community Facilities District, the Trustee and the successor securities depository for the Bonds of such Series as are not inconsistent with the terms of the Indenture. If the Community Facilities District fails to identify another qualified successor securities depository for such Series of Bonds to replace the incumbent securities depository, then the Bonds of such Series shall no longer be restricted to being registered in the Registration Books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository for such Series of Bonds, or its nominee, shall designate. In such event the Community Facilities District shall execute, and deliver to the Trustee, a sufficient quantity of Bonds of such Series to carry out the transfers and exchanges provided in the Indenture as summarized herein under the headings "CERTAIN PROVISIONS OF THE BONDS - Transfer and Exchange of Bonds," "—Temporary Bonds" and "—Bonds Mutilated, Lost, Destroyed or Stolen." All such Bonds of such Series shall be in fully registered form in denominations authorized by the Indenture.

(d) Notwithstanding any other provision of the Indenture to the contrary, so long as any Book-Entry Bond is registered in the name of DTC, or its nominee, all payments with respect to the principal, premium, if any, and interest with respect to such Book-Entry Bond and all notices with respect to such Book-Entry Bond shall be made and given, respectively, as provided in the Representation Letter.

(e) In connection with any notice or other communication to be provided to Owners of Book-Entry Bonds pursuant to the Indenture by the Community Facilities District or the Trustee with respect to

any consent or other action to be taken by Owners, the Community Facilities District or the Trustee, as the case may be, shall establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

ADDITIONAL BONDS

Conditions for the Issuance of Additional Bonds. The Community Facilities District may at any time issue one or more Series of Additional Bonds (in addition to the Series 2018A Bonds) payable from Net Special Tax Revenues as provided in the Indenture on a parity with all other Bonds theretofore issued under the Indenture, but only subject to the following conditions, which are made conditions precedent to the issuance of such Additional Bonds:

(a) upon the issuance of such Additional Bonds, no Event of Default shall have occurred and be continuing under the Indenture;

(b) the issuance of such Additional Bonds shall have been authorized under and pursuant to the Indenture and the Act and shall have been provided for by a Supplemental Indenture which shall specify the following:

(i) the purposes for which the proceeds of such Additional Bonds are to be applied, which purposes may only include one or more of (A) providing funds to pay costs of the Facilities, (B) providing funds to refund any Bonds previously issued under the Indenture, (C) providing funds to pay Costs of Issuance incurred in connection with the issuance of such Additional Bonds, (D) providing funds to capitalize interest on such Additional Bonds, and (E) providing funds to make any deposit to the Reserve Fund required pursuant to paragraph (vii) below;

(ii) the principal amount and designation of such Series of Additional Bonds and the interest rate to be borne by each maturity of such Additional Bonds;

(iii) that such Additional Bonds shall be payable as to interest on the Interest Payment Dates, except that the first installment of interest may be payable on either March 1 or September 1 and shall be for a period of not longer than twelve months;

(iv) the date, the maturity date or dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that each such maturity date and date on which a mandatory sinking fund redemption is to be made shall be a September 1 and, provided, further, that serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, shall be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates;

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

(vi) the form of such Additional Bonds;

(vii) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Fund; and

(viii) such other provisions that are appropriate or necessary and are not inconsistent with the provisions of the Indenture;

(c) The Community Facilities District shall have received a certificate from the CFD Administrator and/or an Independent Consultant which, taken together, certify that:

(i) for each Fiscal Year that Bonds will be Outstanding, the Maximum Special Tax A that may be levied in such Fiscal Year on Developed Property and Final Mapped Property that has been issued a building permit (treating such Final Mapped Property that has been issued a building permit as if it were Developed Property for purposes of calculating the Maximum Special Tax A that may be levied in such Fiscal Year for purposes of this paragraph (i)), less the Priority Administrative Expenses for such Fiscal Year, is not less than the sum of (A) one hundred ten percent (110%) of the Annual Debt Service for the Bond Year that begins in such Fiscal Year on all Bonds that will be Outstanding after the issuance of such Additional Bonds, plus (B) any other payments included in the Special Tax Requirement for Facilities; and

(ii) the sum of (A) the aggregate Appraised Value of all Developed Property and Final Mapped Property that has been issued a building permit for which a Qualified Appraisal Report has been provided, as such Appraised Value is shown in such Qualified Appraisal Report, plus (B) the aggregate Assessed Value of all Developed Property and Final Mapped Property that has been issued a building permit for which a Qualified Appraisal Report has not been provided, is not less than five (5) times the aggregate principal amount of all Bonds that will be Outstanding after the issuance of such Additional Bonds.

Notwithstanding the foregoing, if (i) such Additional Bonds are being issued to refund previously issued Bonds, and (ii) Annual Debt Service in each Bond Year, calculated for all Bonds that will be Outstanding after the issuance of such Additional Bonds, will be less than or equal to Annual Debt Service in such Bond Year, calculated for all Bonds which are Outstanding immediately prior to the issuance of such Additional Bonds, the receipt of the certificate described in paragraph (c), above, shall not be a condition precedent to the issuance of such Additional Bonds.

Nothing contained in the Indenture shall limit the issuance of any special tax bonds payable from Special Taxes if, after the issuance and delivery of such special tax bonds, none of the Bonds theretofore issued under the Indenture will be Outstanding.

Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, such Additional Bonds shall be executed by the Community Facilities District for issuance under the Indenture and shall be delivered to the Trustee and thereupon shall be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

(a) an executed copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(b) a Written Request of the Community Facilities District as to the delivery of such Additional Bonds;

(c) a Written Certificate of the Community Facilities District stating that the conditions precedent to the issuance of such Additional Bonds specified in the Indenture as summarized herein under the heading "ADDITIONAL BONDS - Conditions for the Issuance of Additional Bonds" have been satisfied;

(d) an opinion of Bond Counsel substantially to the effect that (i) the Indenture and all Supplemental Indentures have been duly authorized, executed and delivered by, and constitute the

valid and binding obligations of, the Community Facilities District (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State) and (ii) such Additional Bonds constitute valid and binding special obligations of the Community Facilities District (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State);

(e) the proceeds of the sale of such Additional Bonds; and

(f) such further documents or money as are required by the provisions of the Indenture or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.

Additional Bonds. So long as any of the Bonds remain Outstanding, the Community Facilities District shall not issue any Additional Bonds or obligations payable from Net Special Tax Revenues on a parity with the Bonds, except pursuant to the Indenture as summarized herein under the heading "ADDITIONAL BONDS." So long as any of the Bonds remain Outstanding, the Community Facilities District shall not issue any obligations payable from Net Special Tax Revenues on a basis senior to the Bonds. In addition, (i) the County may form Overlapping CFDs in the future, (ii) the special taxes levied in such Overlapping CFDs shall have the same lien priority in case of delinquency as the Special Taxes, (iii) nothing in the Indenture shall prohibit or limit in any way the issuance by the Overlapping CFDs of Other CFD Bonds, which may be issued without compliance with the provisions of the Indenture as summarized herein under the heading "ADDITIONAL BONDS" but will nonetheless be secured by other special taxes the lien of which would be co-equal to the lien of the Special Taxes, (iv) in the event that special taxes collected from property that is in both Improvement Area No. 1 and the Overlapping CFDs established by the County are less than the amounts levied on such property by the Community Facilities District and such Overlapping CFDs, the actual amount of special taxes collected shall be distributed pro rata to the Community Facilities District and such Overlapping CFDs based on the amounts levied by each of the Community Facilities District and such Overlapping CFDs on such property, and (v) in the event amounts collected in foreclosure proceedings from property that is in both Improvement Area No. 1 and the Overlapping CFDs established by the County are less than the amounts due from such property to both the Community Facilities District and such Overlapping CFDs, then the actual amounts collected from such property in foreclosure proceedings shall be distributed pro rata to the Community Facilities District and such Overlapping CFDs based on the amounts due from such property to each of the Community Facilities District and such Overlapping CFDs.

SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS

Pledge. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Net Special Tax Revenues and any other amounts (including proceeds of the sale of the Bonds) held in the Special Tax Fund, the Bond Fund, the Redemption Fund and the Reserve Fund are pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act. Said pledge shall constitute a first lien on such assets.

Special Tax Fund. (a) The Trustee shall establish and maintain a separate fund designated the "Special Tax Fund." As soon as practicable after the receipt by the Community Facilities District of any Special Tax Revenues, but in any event no later than the date ten Business Days prior to the Interest Payment

Date after such receipt, the Community Facilities District shall transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; provided, however, that for any prepayments of Special Taxes under the Rate and Method and for any payments of the One-Time Special Tax, any portion of any such prepayment that are to be applied to the payment of the Redemption Price of Bonds in accordance with the provisions of the Indenture and any such payment of the One-Time Special Tax to be applied to the payment of the Redemption Price of Bonds in accordance with the provisions of the Indenture shall be identified to the Trustee as such by the Community Facilities District and shall be deposited in the Redemption Fund.

(b) Upon receipt of a Written Request of the Community Facilities District, the Trustee shall withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the Priority Administrative Expenses specified in such Written Request of the Community Facilities District.

(c) On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer of the Priority Administrative Expenses to the Administrative Expense Fund, the Trustee shall withdraw from the Special Tax Fund Net Special Tax Revenues in an amount sufficient to enable the Trustee to make the following transfers in the following order of priority:

(i) Interest Account of the Bond Fund. To the Interest Account, the amount, if any, necessary to cause the amount on deposit in the Interest Account to be equal to the interest due on the Bonds on such Interest Payment Date;

(ii) Principal Account of the Bond Fund. To the Principal Account, the amount, if any, necessary to cause the amount on deposit in the Principal Account to be equal to the principal, if any, due on the Bonds on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds; and

(iii) Reserve Fund. To the Reserve Fund, the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

(d) On or after each September 2, after having made the transfers pursuant to the provisions of the Indenture as summarized herein under paragraph (c) above, the Trustee shall withdraw from the Special Tax Fund any Net Special Tax Revenues therein as of such September 2 to make the following transfers in the following order of priority:

(i) Administrative Expense Fund. To the Administrative Expense Fund, if upon receipt of a Written Request of the Community Facilities District for an amount greater than the Priority Administrative Expenses, the amount necessary to be transferred thereto in order to have sufficient amounts available therein to pay Administrative Expenses; and

(ii) Surplus Fund. To the Surplus Fund.

Bond Fund. (a) The Trustee shall establish and maintain a separate fund designated the "Bond Fund." Within the Bond Fund, the Trustee shall establish and maintain a separate account designated the "Principal Account" and a separate account designated the "Interest Account." The Trustee shall deposit in the Bond Fund from time to time the amounts required to be deposited therein from the Special Tax Fund pursuant to the provisions of the Indenture. The Trustee shall deposit in the Interest Account and the Principal Account from time to time the amounts required to be deposited therein from the Special Tax Fund pursuant to the provisions of the Indenture. There shall additionally be deposited in the Interest Account the portion, if any, of the proceeds of the sale of Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) In the event that, on the Business Day prior to an Interest Payment Date, amounts in the Interest Account are insufficient to pay the interest on the Bonds due and payable on such Interest Payment Date, the Trustee shall withdraw from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Interest Account.

(c) On each Interest Payment Date, the Trustee shall withdraw from the Interest Account for payment to the Owners of the Bonds the interest on the Bonds then due and payable.

(d) In the event that, on the Business Day prior to a September 1 on which principal of the Bonds is due and payable, including principal due and payable by reason of mandatory sinking fund redemption of the Bonds, amounts in the Principal Account are insufficient to pay such principal, after having withdrawn any amounts from the Reserve Fund required to be withdrawn therefrom on such date pursuant to the provisions of the Indenture as summarized herein under paragraph (b) above, the Trustee shall withdraw from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Principal Account.

(e) On each September 1 on which principal of the Bonds is due and payable, including principal due and payable by reason of mandatory sinking fund redemption of the Bonds, the Trustee shall withdraw from the Principal Account for payment to the Owners of the Bonds such principal then due and payable.

Redemption Fund. The Trustee shall establish and maintain a special fund designated the "Redemption Fund." As soon as practicable after the receipt by the Community Facilities District of prepaid Special Taxes or of One-Time Special Tax payments designated for redemption of Bonds, but in any event not later than ten Business Days after such receipt, the Community Facilities District shall transfer such prepaid Special Taxes and such One-Time Special Tax payments to the Trustee for deposit in the Redemption Fund. Additionally, the Trustee shall deposit in the Redemption Fund amounts received from the Community Facilities District in connection with the Community Facilities District's exercise of its rights to optionally redeem Series 2018A Bonds pursuant to the optional redemption provisions of the Indenture and any other amounts required to be deposited therein from the Reserve Fund pursuant to the provisions of the Indenture or pursuant to any Supplemental Indenture.

Amounts in the Redemption Fund shall be disbursed therefrom for the payment of the Redemption Price of Series 2018A Bonds redeemed pursuant to the optional redemption or mandatory redemption from Special Tax prepayment or One-Time Special Tax payment provisions of the Indenture and to pay the Redemption Price of Additional Bonds redeemed under the Supplemental Indenture pursuant to which such Additional Bonds are issued (other than mandatory sinking fund redemptions thereof).

Reserve Fund. (a) The Trustee shall establish and maintain a special fund designated the "Reserve Fund." The Trustee shall deposit in the Reserve Fund from time to time the amounts required to be deposited therein from the Special Tax Fund pursuant to the provisions of the Indenture. There shall additionally be deposited in the Reserve Fund, in connection with the issuance of Additional Bonds, the amount required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) Except as otherwise provided in the provisions of the Indenture summarized under this heading (" - Reserve Fund"), all amounts deposited in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of and interest on the Bonds or, in accordance with the provisions of the Indenture summarized under this heading (" - Reserve Fund"), for the purpose of redeeming Bonds. Transfers shall be made from the Reserve Fund to the Bond Fund in the event of a deficiency in the Bond Fund, in accordance with the provisions of the Indenture as

summarized herein under the heading “SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS – Bond Fund.”

So long as no Event of Default shall have occurred and be continuing, any amount in the Reserve Fund in excess of the Reserve Requirement on September 2 of each year shall be withdrawn from the Reserve Fund by the Trustee and shall, prior to the date on which a Written Certificate of the Community Facilities District is delivered to the Trustee pursuant to the provisions of the Indenture summarized herein under paragraph (c) of the heading “SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS – Improvement Fund,” be deposited in the Improvement Fund and, thereafter, shall be deposited in the Interest Account of the Bond Fund. Notwithstanding the foregoing, before any such deposit shall be made, such amount shall be available for the payment of any rebate that may be owed under the Code, as specified in a Written Request of the Community Facilities District delivered to the Trustee on or before September 2 of each year.

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Trustee shall, upon receipt of a Written Request of the Community Facilities District, transfer the amount in the Reserve Fund to the Bond Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds.

Whenever Bonds are to be redeemed pursuant to the optional redemption or mandatory redemption from Special Tax prepayment or One-Time Special Tax payment provisions of the Indenture or the corresponding provisions of a Supplemental Indenture, a proportionate share, determined as provided below, of the amount on deposit in the Reserve Fund shall, on the Business Day prior to the date on which such Bonds are to be redeemed, be transferred by the Trustee from the Reserve Fund to the Redemption Fund and shall be applied to the redemption of said Bonds; provided, however, that such amount shall be so transferred only if and to the extent that the amount remaining on deposit in the Reserve Fund will be at least equal to the Reserve Requirement (excluding from the calculation thereof said Bonds to be redeemed). Such proportionate share shall be equal to the largest integral multiple of the minimum Authorized Denomination for said Bonds that is not larger than the amount equal to the product of (i) the amount on deposit in the Reserve Fund on the date of such transfer, times (ii) a fraction, the numerator of which is the principal amount of Bonds to be so redeemed and the denominator of which is the principal amount of Bonds to be Outstanding on the day prior to the date on which such Bonds are to be so redeemed.

Rebate Fund. (a) The Trustee shall establish and maintain a special fund designated the “Rebate Fund” when and if needed. There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the Community Facilities District. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the provisions of the Indenture described under the heading “DEFEASANCE,” or anything to the contrary contained in the Indenture, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the provisions of the Indenture as summarized herein under this heading (“-Rebate Fund”) and by the Tax Certificate (which is incorporated in the Indenture by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Community Facilities District, and shall have no liability or responsibility to enforce compliance by the Community Facilities District with the terms of the Tax Certificate. The Trustee may conclusively rely upon the Community Facilities District’s determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Community Facilities District’s calculations.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in the provisions of the Indenture as summarized herein under this heading (“-Rebate Fund”), shall, upon receipt by the Trustee of a Written Request of the Community Facilities District, be withdrawn by the Trustee and remitted to the Community Facilities District.

Administrative Expense Fund. The Trustee shall establish and maintain a special fund designated the “Administrative Expense Fund.” The Trustee shall additionally deposit in the Administrative Expense Fund the amounts transferred from the Special Tax Fund and required to be deposited therein pursuant to the provisions of the Indenture.

(b) The moneys in the Administrative Expense Fund shall be used and withdrawn by the Trustee from time to time to pay the Administrative Expenses upon submission of a Written Request of the Community Facilities District stating: (a) the Person to whom payment is to be made; (b) the amount to be paid; (c) the purpose for which the obligation was incurred and that such purpose constitutes an Administrative Expense; (d) that such payment is a proper charge against the Administrative Expense Fund; and (e) that such amounts have not been the subject of a prior disbursement from the Administrative Expense Fund; in each case together with a statement or invoice for each amount requested thereunder.

Surplus Fund. The Trustee shall establish and maintain a special fund designated the “Surplus Fund.” The Trustee shall deposit in the Surplus Fund the amounts transferred from the Special Tax Fund and required to be deposited therein pursuant to the provisions of the Indenture. The moneys in the Surplus Fund shall be used and withdrawn by the Trustee from time to time, upon receipt of a Written Request of the Community Facilities District, directing the Trustee to transfer the amount so specified in such Written Request to: (i) the Redemption Fund to redeem Bonds; or (ii) transfer such amount to the Community Facilities District to be applied to the payment of costs of facilities authorized to be financed by the Community Facilities District pursuant to the Resolution of Formation.

Costs of Issuance Fund. The Trustee shall establish and maintain a separate fund designated the “Costs of Issuance Fund.”

The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the Community Facilities District stating: (a) the Person to whom payment is to be made; (b) the amount to be paid; (c) the purpose for which the obligation was incurred; (d) that such payment is a proper charge against the Costs of Issuance Fund; and (e) that such amounts have not been the subject of a prior disbursement from the Costs of Issuance Fund, in each case together with a statement or invoice for each amount requested thereunder. On the last Business Day that is no later than six months after the Closing Date, the Trustee shall transfer any amount remaining in the Costs of Issuance Fund to the Improvement Fund and, upon making such transfer, the Costs of Issuance Fund shall be closed.

If the Costs of Issuance Fund has been closed in accordance with the provisions of the Indenture, the Costs of Issuance Fund shall be reopened and reestablished by the Trustee in connection with the issuance of any Additional Bonds, if so provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Improvement Fund. (a) The Trustee shall establish and maintain a separate fund designated the “Improvement Fund.” Upon the issuance of Additional Bonds, the Trustee shall deposit in the Improvement Fund the portion, if any, of the proceeds of the sale of such Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued. The Trustee shall establish, as needed, separate subaccounts within the Improvement Fund to permit the separate accounting for amounts derived from Bond proceeds and from Special Taxes.

(b) The moneys in the Improvement Fund shall be used and withdrawn by the Trustee from time to time to pay the costs of the Facilities upon submission of a Written Request of the Community Facilities District stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment constitutes a cost of the Facilities and is a proper charge against the Improvement Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Improvement Fund.

(c) Upon the filing of a Written Certificate of the Community Facilities District stating (i) that the Facilities to be financed from the Improvement Fund have been completed and that all costs of such Facilities have been paid, or (ii) that the Facilities have been substantially completed and that all remaining costs of the Facilities have been determined and specifying the amount to be retained therefor, the Trustee shall (A) if the amount remaining in the Improvement Fund (less any such retention) is equal to or greater than \$25,000, transfer the portion of such amount equal to the largest integral multiple of \$5,000 that is not greater than such amount to the Redemption Fund, to be applied to the redemption of Bonds, and (B) after making the transfer, if any, required to be made pursuant to the preceding clause (A), transfer all of the amount remaining in the Improvement Fund (less any such retention) to the Interest Account of the Bond Fund, to be applied to the payment of interest on the Bonds.

Investment of Moneys. Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the Community Facilities District two Business Days prior to the making of such investment. Moneys in all funds and accounts held by the Trustee shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final maturity date of the Bonds; provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final maturity date of the Bonds. Absent timely written direction from the Community Facilities District, the Trustee shall invest any funds held by it in Permitted Investments described in clause (e) of the definition thereof.

Subject to the provisions of the Indenture as summarized herein under the heading "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS - Rebate Fund," all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture (other than the Reserve Fund) shall be retained therein. Subject to the provisions of the Indenture as summarized herein under the heading "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS - Rebate Fund," all interest, profits or other income received from the investment of moneys in the Reserve Fund shall, prior to the date on which a Written Certificate of the Community Facilities District is delivered to the Trustee pursuant to the provisions of the Indenture as summarized herein under paragraph (c) of the heading "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS - Improvement Fund," be transferred to the Improvement Fund and, thereafter, shall be transferred to the Interest Account of the Bond Fund; provided, however, that, notwithstanding the foregoing, any such transfer shall be made only if and to the extent that, after such transfer, the amount on deposit in the Reserve Fund is at least equal to the Reserve Requirement.

Permitted Investments acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. For the purpose of determining the amount in any fund or account, all Permitted Investments credited to such fund shall be valued by the Trustee at the market value thereof, such valuation to be performed not less frequently than semiannually on or before each February 15 and August 15. The Trustee may utilize and rely upon securities pricing services available to it for such valuations, including those available through the Trustee's accounting system.

The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the Community Facilities District, the Trustee shall sell or present for redemption any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to the provisions of the Indenture summarized herein under this heading (“ – Investment of Moneys”). For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

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

State Reporting. If at any time the Trustee fails to pay principal or interest due on any scheduled payment date for the Bonds, or if funds are withdrawn from the Reserve Fund to pay principal or interest on the Bonds, the Trustee shall notify the Community Facilities District in writing of such failure or withdrawal, and the Community Facilities District shall notify the California Debt and Investment Advisory Commission of such failure or withdrawal within 10 days of the failure to make such payment or the date of such withdrawal.

COVENANTS

Collection of Special Tax Revenues. The Community Facilities 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.

Prior to August 1 of each year, the Community Facilities District shall ascertain from the County Assessor 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 Community Facilities District shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 10 that the Bonds are Outstanding, or otherwise such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within Improvement Area No. 1 for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Community Facilities District 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 real property tax roll.

The Community Facilities District shall fix and levy the amount of Special Taxes within Improvement Area No. 1 in accordance with the Rate and Method and, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield the amount required for the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the Bond Year commencing in such Fiscal Year, the amount required for any necessary replenishment of the Reserve Fund and the amount estimated to be sufficient to pay the Administrative Expenses during such year, taking into account the balances in the funds and accounts established under the Indenture.

The Special Taxes shall be payable and be 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 time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property.

Foreclosure. Pursuant to Section 53356.1 of the Act, the Community Facilities District covenants with and for the benefit of the Owners of the Bonds that it will determine or cause to be determined, on or about October 1 of each year, whether or not any owners of property within Improvement Area No. 1 are delinquent in the payment of Special Taxes and, if such delinquencies exist, the Community Facilities District will send or cause to be sent a notice of delinquency and demand for payment thereof to the property owner within 45 days of such determination and if such delinquency remains uncured, order and cause to be commenced within 90 days of such determination of delinquency, and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due.

Notwithstanding the foregoing, however, the Community Facilities District shall not be required to order the commencement of foreclosure proceedings under the preceding paragraph, if (i) the total Special Tax delinquency in Improvement Area No. 1 for such Fiscal Year is less than 5% of the total Special Tax levied in such Fiscal Year, and (ii) no draw has been made on the Reserve Fund that has not been replenished. However, if the Community Facilities District determines that any single property owner in Improvement Area No. 1 is delinquent in excess of \$10,000 in the payment of the Special Tax, then the Community Facilities District will diligently institute, prosecute and pursue foreclosure proceedings against such property owner, notwithstanding the first sentence of this paragraph.

Punctual Payment. The Community Facilities District shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Special Tax Revenues and other assets pledged for such payment as provided in the Indenture and received by the Community Facilities District or the Trustee.

Extension of Payment of Bonds. The Community Facilities District shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the provisions of the Indenture summarized under this paragraph shall be deemed to limit the right of the Community Facilities District to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The Community Facilities District shall not create, or permit the creation of, any pledge, lien, charge, or other encumbrance upon the Special Tax Revenues and other assets pledged under the Indenture while any of the Bonds are Outstanding, except as permitted by the Indenture.

Power to Issue Bonds and Make Pledge. The Community Facilities District is duly authorized pursuant to the Act to issue the Bonds and to enter into the Indenture and to pledge the Net Special Tax Revenues and other assets pledged under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid, and binding special obligations of the Community Facilities District in accordance with their terms, and the Community Facilities District and the Trustee (subject to the provisions of the Indenture as summarized herein under the heading "TRUSTEE") shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of Net Special Tax Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all Persons whomsoever.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with prudent corporate trust industry standards, in which accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds, the Special Tax Revenues and all funds and accounts established by it pursuant to the Indenture. Such books of record and account shall be available for inspection by the Community Facilities District, during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the Community Facilities District a monthly accounting of the funds and accounts it holds under the Indenture; provided, however, that the Trustee shall not be obligated to deliver an accounting for any fund or account that (a) has a balance of zero, and (b) has not had any activity since the last reporting date.

Tax Covenants. (a) The Community Facilities District shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Series 2018A Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Community Facilities District shall comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth in the Indenture. The covenant summarized under this heading (“- Tax Covenants”) shall survive payment in full or defeasance of the Bonds.

(b) In the event that at any time the Community Facilities District is of the opinion that for purposes of the provisions of the Indenture summarized under this heading (“- Tax Covenants”) it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Indenture, the Community Facilities District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of the Indenture summarized under this heading (“- Tax Covenants”), if the Community Facilities District shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under such provisions of the Indenture is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2018A Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of such provisions of the Indenture and of the Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent.

Continuing Disclosure. (a) The Community Facilities District shall comply with and carry out all of the provisions of the District Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the Community Facilities District to comply with the District Continuing Disclosure Agreement shall not be considered an Event of Default; provided, however, that the Trustee may (and, at the written direction of any of the Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Series 2018A Bonds, and upon indemnification of the Trustee to its reasonable satisfaction, shall) or any holder or beneficial owner of the Series 2018A Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

(b) The Developer has agreed to enter into the Developer Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the Developer to comply with the Developer Continuing Disclosure Agreement shall not be considered an Event of Default; provided, however, that the Trustee may (and, at the written direction of any of the Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Series 2018A Bonds, and upon indemnification of the Trustee to its reasonable satisfaction, shall) or any holder or beneficial owner of the Series 2018A Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Annual Reports to the California Debt and Investment Advisory Commission. Not later than October 30 of each year, commencing October 30, 2018 and until the October 30 following the final maturity of the Bonds, the Community Facilities District shall supply to the California Debt and Investment Advisory Commission the information required to be provided thereto pursuant to Section 53359.5(b) of the Act. Such information shall be made available to any Owner upon written request to the Community Facilities District accompanied by a fee determined by the Community Facilities District to pay the costs of the Community Facilities District in connection therewith. The Community Facilities District shall in no event be liable to any Owner or any other person or entity in connection with any error in any such information.

Non-Cash Payments of Special Taxes. The Community Facilities District shall not authorize owners of taxable parcels within Improvement Area No. 1 to satisfy Special Tax obligations by the tender of Bonds unless the Community Facilities District shall have first obtained a report of an Independent Consultant certifying that doing so would not result in the Community Facilities District having insufficient Special Tax Revenues to pay the principal of and interest on all Outstanding Bonds when due.

Reduction in Special Taxes. The Community Facilities District shall not initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Bonds. If an initiative or referendum measure is proposed that purports to modify the Rate and Method in a manner that would adversely affect the security for the Bonds, the Community Facilities District shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Bonds.

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

EVENTS OF DEFAULT AND REMEDIES

Events of Default. The following events shall be Events of Default:

(a) 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.

(b) Failure to pay any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Failure by the Community Facilities District to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture 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 Community Facilities District by the Trustee or the Owners of not less than 5% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, if in the reasonable opinion of the Community Facilities 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 Community Facilities District within such 60 day period and the Community Facilities District shall thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The Community Facilities District or the County shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

Foreclosure. If any Event of Default shall occur under the provisions of the Indenture as summarized herein under paragraphs (a) or (b) under the heading "EVENTS OF DEFAULT AND REMEDIES - Events of Default" then, and in each and every such case during the continuance of such Event of Default, the Trustee may, or at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefor, shall, commence foreclosure against any parcels of land in Improvement Area No. 1 with delinquent Special Taxes, as provided in Section 53356.1 of the Act; provided, however, that the Trustee need not commence any such foreclosure if such foreclosure has been commenced by the Community Facilities District.

Other Remedies. If an Event of Default shall have occurred under the Indenture, the Trustee shall have the right:

(a) by mandamus, suit, action or proceeding, to compel the Community Facilities District and its officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Community Facilities District and the fulfillment of all duties imposed upon it by the Indenture and the Act;

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Trustee's or Bond Owner's rights; or

(c) by suit, action or proceeding in any court of competent jurisdiction, to require the Community Facilities District and its officers and employees to account as if it and they were the trustees of an express trust.

Application of Net Special Tax Revenues After Default. If an Event of Default shall occur and be continuing, all Net Special Tax Revenues and any other funds thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

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

(b) 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 Indenture, 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.

(c) Any remaining funds shall be transferred by the Trustee to the Special Tax Fund.

Power of Trustee to Enforce. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

Limitation on Bond Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bonds, unless: (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such suit, action or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb, or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation. Nothing in the provisions of the Indenture summarized under the heading ("EVENTS OF DEFAULTS AND REMEDIES - Limitation on Bond Owners' Right to Sue") above or in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the Community Facilities District, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Net Special Tax Revenues and other assets herein pledged therefor and received by the Community Facilities District or the Trustee, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the Community Facilities District, the Trustee and the Bond Owners, subject to any determination in such

proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Community Facilities District, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

TRUSTEE

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

(b) Removal of Trustee. The Community Facilities District may upon 30 days prior written notice remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the provisions of the Indenture summarized herein under paragraph (e) below, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation, or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon shall appoint a successor Trustee by an instrument in writing.

(c) Resignation of Trustee. The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the Community Facilities District, and to the Bond Owners at the respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the Community Facilities District shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

(d) Appointment of Successor Trustee. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that under any circumstances the successor Trustee shall be qualified as provided in the provisions of the Indenture summarized herein under paragraph (e) below. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of himself and all other Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem

proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Community Facilities District and to its predecessor Trustee a written acceptance thereof, and after payment by the Community Facilities District of all unpaid fees and expenses of the predecessor Trustee, then such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties, and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Written Request of the Community Facilities District or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign, and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Community Facilities District shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties, and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture as summarized herein under this paragraph, the Community Facilities District shall mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which then maintains a rating on the Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the Community Facilities District fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Community Facilities District.

(e) Qualifications of Trustee. The Trustee shall be a trust company or bank having trust powers in good standing in or incorporated under the laws of the United States or any state thereof, having (or if such bank or trust company is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state agency. 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 agency above referred to, then for the purpose of the Indenture as summarized herein under this paragraph the 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. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Indenture as summarized under this paragraph (e), the Trustee shall resign immediately in the manner and with the effect specified in the provisions of the Indenture as summarized herein under the heading "TRUSTEE - Duties and Liabilities of the Trustee."

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

Liability of Trustee. (a) The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the Community Facilities District, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture or of the Bonds or shall incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations herein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee makes no representations as to the validity or sufficiency of the Indenture or of any Bonds, or in respect of the security afforded by the Indenture and the

Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to the issuance of the Bonds for value, the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or the application of any moneys paid to the Community Facilities District or others in accordance with the Indenture. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) No provision of the Indenture shall require the Trustee to risk or advance its own funds. The Trustee may execute any of its powers or duties under the Indenture through attorneys, agents or receivers and shall not be answerable for the actions of such attorneys, agents, or receivers if selected by it with reasonable care.

(e) The Trustee shall not be deemed to have knowledge of an Event of Default under the Indenture unless it has actual knowledge thereof.

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

MODIFICATION OR AMENDMENT

Amendments Permitted. (a) The Indenture and the rights and obligations of the Community Facilities District, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Community Facilities District and the Trustee may enter into with the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, reduce the amount of principal thereof or the rate of interest thereon, alter the redemption provisions thereof or extend the time of payment thereof, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, without the consent of the Owners of all of the Bonds then Outstanding, or (iii) permit the creation of any lien on the Net Special Tax Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Net Special Tax Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners

to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

(b) The Indenture and the rights and obligations of the Community Facilities District, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Community Facilities District and the Trustee may enter into without the consent of any Bond Owners for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Community Facilities District in the Indenture contained other covenants and agreements thereafter to be observed, to pledge, or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Community Facilities District;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency, or omission, or of curing or correcting any defective provision contained in the Indenture;

(iii) to provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture as described herein under the heading "ISSUANCE OF BONDS; APPLICATION OF PROCEEDS; ADDITIONAL BONDS;"

(iv) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(v) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and

(vi) in any other respect whatsoever as the Community Facilities District may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners under the Indenture.

(c) Promptly after the execution by the Community Facilities District and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the Community Facilities District), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the provisions of the Indenture described herein under the heading "MODIFICATION OR AMENDMENT," the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties, and obligations under the Indenture of the Community Facilities District, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised, and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture as described herein under the heading "MODIFICATION

OR AMENDMENT," may, and if the Community Facilities District so determines shall, bear a notation by endorsement or otherwise in form approved by the Community Facilities District and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Community Facilities District and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Community Facilities District and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same interest rate and maturity.

Amendment of Particular Bonds. The provisions of the Indenture as summarized herein under the heading "MODIFICATION OR AMENDMENT" shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

DEFEASANCE

Discharge of Indenture. If the Community Facilities District shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the principal thereof and the interest and premium, if any, thereon at the times and in the manner stipulated in the Indenture and therein, then the Owners of such Bonds shall cease to be entitled to the pledge of the Net Special Tax Revenues and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Community Facilities District to the Owners of such Bonds under the Indenture shall thereupon cease, terminate, and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Community Facilities District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Community Facilities District all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of and interest and premium, if any, on such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds shall have been paid and if, at the time of such payment, the Community Facilities District shall have kept, performed and observed all of the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Community Facilities District or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Community Facilities District under shall cease, terminate become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners of the Bonds and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of and interest and premium, if any, on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the compensation of the Trustee shall remain in effect and shall be binding upon the Trustee and the Community Facilities District.

Bonds Deemed To Have Been Paid. If moneys shall have been set aside and held by the Trustee for the payment or redemption of any Bonds and the interest thereon at the maturity or redemption date thereof, such Bonds shall be deemed to have been paid within the meaning and with the effect provided in the Indenture as summarized herein under the heading "DEFEASANCE - Discharge of Indenture." Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the Indenture as summarized herein under the heading "DEFEASANCE - Discharge of Indenture" if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Community Facilities District shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture, (b) there shall have been deposited with the Trustee either (i) money in an amount which shall be sufficient, or (ii) Federal Securities that are not subject to redemption other than at the option of the holder thereof, the interest on and principal of which when paid will provide money which, together with the money, if any deposited with the Trustee at the same time, shall, as verified by an independent certified public accountant, be sufficient to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and premium, if any, on such Bonds, which sufficiency shall be verified in a report of an independent firm of nationally recognized certified public accountants, and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Community Facilities District shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the owners of such Bonds that the deposit required by clause (b) above has been made with the Trustee and that such Bonds, are deemed to have been paid in accordance with the provisions of the Indenture as summarized herein under this paragraph and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and premium, if any, on such Bonds.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, to the extent permitted by law, any moneys held by the Trustee in trust for the payment of the principal of, or premium or interest on, any Bonds and remaining unclaimed for two years after the date of deposit of such moneys, shall be repaid to the Community Facilities District free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Community Facilities District as aforesaid, the Trustee may (at the cost of the Community Facilities District) first mail, by first class mail postage prepaid, to the Owners of Bonds which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Community Facilities District of the moneys held for the payment thereof.

MISCELLANEOUS

Special Obligations. All obligations of the Community Facilities District under the Indenture shall be special obligations of the Community Facilities District, payable solely from Special Tax Revenues and the other assets pledged therefor under the Indenture; provided, however, that all obligations of the Community Facilities District under the Bonds shall be special obligations of the Community Facilities District, payable solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Community Facilities District (except to the limited extent set forth in the Indenture), the County, or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the Community Facilities District or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture

contained by or on behalf of the Community Facilities District or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights. Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Trustee, the Community Facilities District and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or in the Indenture contained, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Trustee, the Community Facilities District and the Owners of the Bonds.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Community Facilities District of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality, or unenforceability shall not affect any other provision of the Indenture, and the Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained in the Indenture. The Community Facilities District hereby declares that it would have entered into the Indenture and each and every other Section, subsection, paragraph, sentence, clause or phrase of the Indenture and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, subsections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Rights of Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond Owners in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the Community Facilities District if made in the manner provided in the provisions of the Indenture summarized herein under this paragraph. The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer. The ownership of Bonds shall be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Community Facilities District in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture,

Bonds which are known by the Trustee to be owned or held by or for the account of the Community Facilities District, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Community Facilities District or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the provisions of the Indenture summarized under this paragraph if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Community Facilities District or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Indenture as summarized herein under the heading "DEFEASANCE - Payment of Bonds After Discharge of Indenture" but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with prudent corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish any such additional funds or accounts as it deems necessary to perform its obligations under the Indenture.

Payment on Non-Business Days. In the event any payment is required to be made under the Indenture on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such non-Business Day.

Waiver of Personal Liability. No member, trustee, officer, agent or employee of the Community Facilities District or the County shall be individually or personally liable for the payment of the principal of or premium or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture shall relieve any such member, trustee, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

Conflict with Act. In the event of any conflict between any provision of the Indenture and any provision of the Act, the provision of the Act shall prevail over the provision of the Indenture.

Conclusive Evidence of Regularity. Bonds issued pursuant to the Indenture shall constitute evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the Special Taxes.

Governing Laws. The Indenture shall be governed by and construed in accordance with the laws of the State of California.

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APPENDIX B
PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon the delivery of the Series 2018A Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Series 2018A Bonds in substantially the following form:

[Date of Delivery]

Community Facilities District No. 2008-01
(Harmony Grove Village), County of San
Diego, State of California
San Diego, California

Community Facilities District No. 2008-01
(Harmony Grove Village) of the County of San Diego
Improvement Area No. 1
Special Tax Bonds, Series 2018A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Community Facilities District No. 2008-01 (Harmony Grove Village), County of San Diego, State of California (the "Community Facilities District") in connection with the issuance of \$15,710,000 aggregate principal amount of Community Facilities District No. 2008-01 (Harmony Grove Village) of the County of San Diego, Improvement Area No. 1 Special Tax Bonds, Series 2018A (the "Series 2018A Bonds"), issued pursuant to an Indenture, dated as of February 1, 2018 (the "Indenture"), by and between the Community Facilities District and ZB, National Association dba Zions Bank, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate, opinions of counsel to the Community Facilities District and the Trustee, certificates of the Community Facilities District, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2018A Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Community Facilities District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and

agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2018A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 2018A Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities such as the Community Facilities District in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the plans, specifications, maps, reports or other engineering or financial details of the proceedings, or upon the Rate and Method or the validity of the Special Taxes levied upon any individual parcel. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2018A Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2018A Bonds constitute valid and binding special obligations of the Community Facilities District, payable, as provided in the Indenture, solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture.
2. The Indenture has been duly executed and delivered by, and constitutes a valid and binding obligation of, the Community Facilities District.
3. Interest on the Series 2018A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series 2018A Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2018A Bonds.

Faithfully yours,

**APPENDIX C
APPRAISAL REPORT**

**Appendix C-1
Appraisal Report dated September 30, 2017**

**Appendix C-2
Supplemental Appraisal Report dated December 8, 2017**

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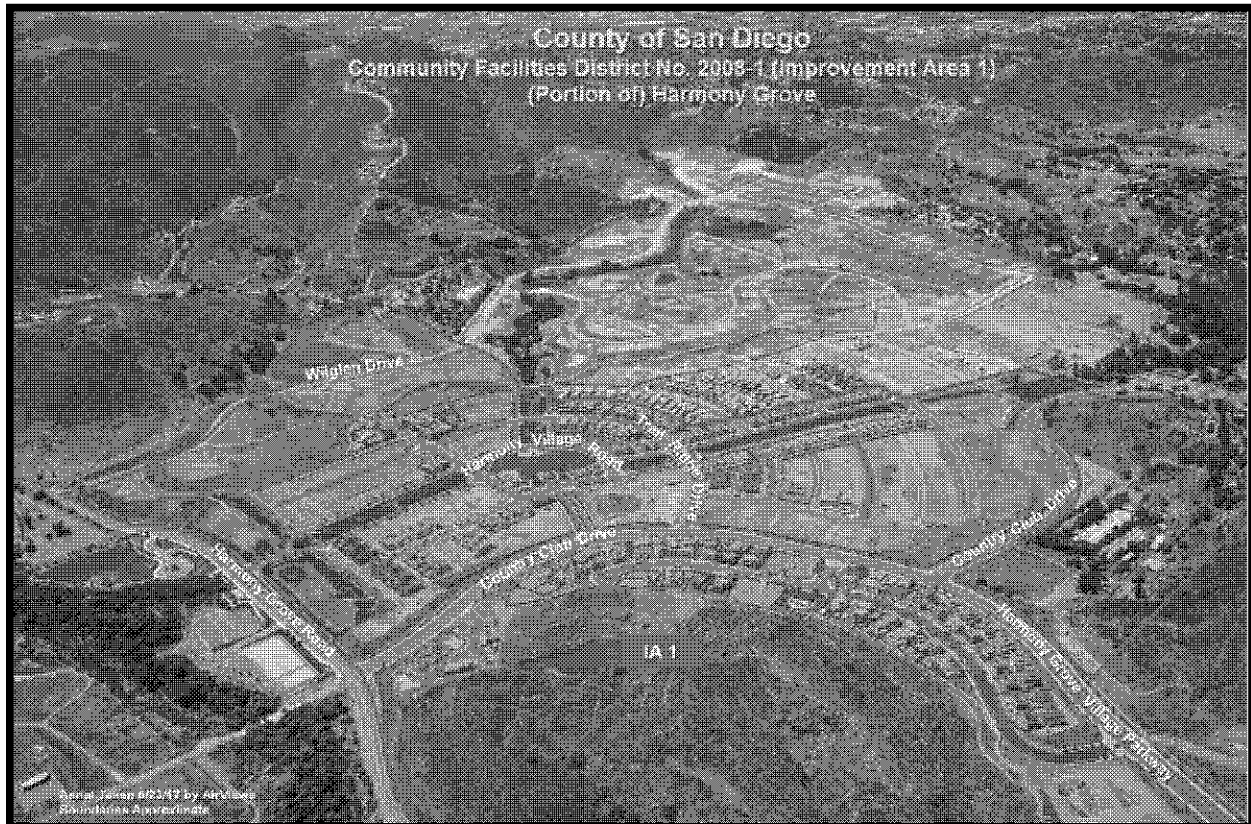
Appendix C-1
Appraisal Report dated September 30, 2017

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APPRAISAL REPORT

COMMUNITY FACILITIES DISTRICT 2008-1 IMPROVEMENT AREA No. 1 COUNTY OF SAN DIEGO (Portion of) HARMONY GROVE VILLAGE by CalAtlantic

San Diego County, California
(Appraisers' File No. 2017-1164)



Prepared For
County of San Diego
1600 Pacific Coast Highway, Room 164 & 166
San Diego, California 92101

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

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

October 30, 2017

Michele Crichlow, Debt Finance Manager
Finance and General Government
County of San Diego
1600 Pacific Coast Highway, Room 164 & 166
San Diego, California 92101

Reference: Appraisal Report
Community Facilities District No. 2008-1
Improvement Area No. 1
(Portion of) Harmony Grove Village
North of Harmony Grove Road at
Country Club Drive
Unincorporated San Diego County, California

Dear Ms. Crichlow:

At the request and authorization of the County of San Diego, we have completed an updated Appraisal Report of Improvement Area No. 1 of Community Facilities District No. 2008-1 of the County of San Diego ("CFD No. 2008-1 IA 1) which consists of a portion of the residential neighborhoods and commercial land known as Harmony Grove Village by CalAtlantic Homes. We completed an appraisal of the property in June, 2017 however due to time elapse, an updated report has been requested by the client. Harmony Grove Village is proposed for a total of approximately 736 homes and two neighborhood serving commercial sites. Improvement Area No. 1, which is the subject of this appraisal, consists of 442 proposed homes 148 of which have closed to individuals, with the remaining lands ranging from builder-owned model homes and standing inventory to homes under construction to finished lots. In addition, there are two commercial sites.

The valuation methods used in this report is the Sales Comparison Approach, a Subdivision Development Method and/or a Discounted Cash Flow Analysis along with a mass appraisal technique for the existing homes as defined within this report. The fee simple estate of the subject property has been valued subject to the lien of CFD No. 2008-1 IA 1. This report is written with the special assumption that the subject properties are enhanced by the improvements and/or fee credits to be funded by the Special Tax Bonds of CFD No. 2008-1 IA1.

Ms. Michele Crichlow
County of San Diego
October 30, 2017
Page Two

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

(Portion of) Harmony Grove by CalAtlantic Homes:

CalAtlantic Homes Ownership	\$ 70,382,200
Individually Owned Homes Minimum Market Value	<u>\$ 80,526,482</u>
Aggregate Value for CFD No. 2008-1 IA 1	<u>\$150,908,682</u>

The values are stated subject to the Assumptions and Limiting Conditions of this report, the Appraiser's Certification and as of September 10, 2017.

Some supporting documentation concerning the data, reasoning and analyses may be retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. This Appraisal Report is intended to comply with both the Uniform Standards of Professional Appraisal Practice ("USPAP" January 2016) and with the Appraisal Standards of the California Debt and Investment Advisory Commission ("CDIAC"). The appraiser is not responsible for unauthorized use of this report.

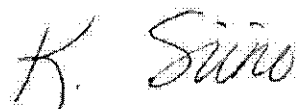
This letter of transmittal is part of the attached report, which sets forth the data and analyses upon which our opinion of value is, in part, predicated.

Respectfully submitted,

KITTY SIINO & ASSOCIATES, INC.



Larry W. Heglars, MAI



Kitty S. Siino, MAI
California State Certified General
Real Estate Appraiser (AG 004793)

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Tract Map Nos. 15888, 15889, 15890, 15893 and 15894	
APN Listing	
Land Development Discounted Cash Flow Analysis	
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Finished Lot Land Sales Map and Summary Chart	
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Improved Residential Sales Map and Summary Chart	
Appraisers' Qualifications	

ASSUMPTIONS AND LIMITING CONDITIONS

1. This report might not include full discussions of the data, reasoning and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Some supporting documentation concerning the data, reasoning and analyses may be retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
3. It is assumed that the subject property is subject to the special tax lien of CFD No. 2008-1 IA 1.
4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
5. The information furnished by others is believed to be reliable; however, no warranty is given for its accuracy.
6. All engineering is assumed to be correct. Any plot plans and illustrative material used in this report are included only to assist the reader in visualizing the property and may not be to scale.
7. It is assumed that there are no hidden or unapparent conditions of either property, subsoil or structures that would render them more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
8. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in this report.
9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined and considered in this appraisal report.
10. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
11. Any sketch or photograph included in this report may show approximate dimensions and is included only to assist the reader in visualizing the properties. Maps, photographs and exhibits found in this report are provided for reader reference

purposes only. No guarantee regarding accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.

12. It is assumed that the utilization of the land and improvements (if any) are within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
13. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert relating to asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials that may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
14. Proposed improvements, if any, are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
15. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings, if any, must not be used in conjunction with any other appraisal and are invalid if so used.
16. The Americans with Disabilities Act ("ADA") became effective on January 26, 1992 and has been updated several times since then. The appraiser has made no specific compliance survey and analysis of the property to determine whether they conform to the various detailed requirements of the ADA, nor is the appraiser a qualified expert regarding the requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the ADA. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, a possible noncompliance with requirements of the ADA in estimating the value has not been considered.
17. It is assumed there are no environmental concerns that would slow or thwart development of the subject properties and that the soils are adequate to support the highest and best use conclusions.

18. It is assumed that the sales information provided by CalAtlantic Homes is true and accurate. We have reviewed and analyzed the sales along with checking samples on various public record documents and the information appears to be correct.
19. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with proper qualification and only in its entirety. Permission is given for this appraisal to be published as a part of the Official Statement or similar document for the San Diego County CFD No. 2008-1 IA 1 Special Tax Bonds.

HYPOTHETICAL CONDITION

1. It is assumed that all improvements and benefits to the subject properties, which are to be funded by the San Diego County CFD No. 2008-1 IA 1 Special Tax Bond proceeds, are completed and in place.

EXTRAORDINARY ASSUMPTION

1. It is assumed that the remaining costs to develop the subject property are true and correct. We have received detailed remaining costs provided by CalAtlantic Homes, the master developer. We have reviewed these costs and they appear reasonable, however, we are not experts in the cost estimating field and are relying on these costs in the valuation. If actual remaining costs differ, it will change the value conclusions.

County of San Diego
Community Facilities District No. 2008-1 (Improvement Area 1)
(Portion of) Harmony Grove



PURPOSE OF THE APPRAISAL

The purpose of this appraisal report is to estimate the value of the fee simple interest of the subject property, subject to the special tax lien of the San Diego County CFD No. 2008-1 IA 1 Special Tax Bonds.

THE SUBJECT PROPERTY

The subject property consists of 442 homes and lots within the Harmony Grove area of San Diego County located at Harmony Grove Road and Country Club Drive. The property is being marketed as a portion of Harmony Grove Village and consists of various residential product lines along with two commercial sites. It encompasses Tract Maps 15888, 15889, 15890, 15893 and 15894. The ownership and condition of the lands is detailed below.

Description	No. Lots	Ownership	Condition/Status
Canteridge			
Lots 2-16; 25-31, 33-38, 40-44, 46-59 and 64-71 of Tract 15888	55	Individuals	Completed Houses /Closed
Lots 17-20 of Tract 15888	4	CalAtlantic	Model Homes
Lots 39 and 45 of Tract 15888	2	CalAtlantic	Homes over 95% complete (0 in escrow)
Lots 21-24 and 60-63 of Tract 15888	8	CalAtlantic	Homes U,C (8 in escrow)
Subtotal Canteridge	<u>69</u>		
Seabreeze			
Lots 1-9, 11-18 and 20-24 of Tract 15890; Lots 1-5, 35-40, 46-53 and 55 of Tract 15889	42	Individuals	Complete Houses /Closed
Lots 42-44 of Tract 15890	3	CalAtlantic	Model Homes
Lot 10 and 19 of Tract 15890; Lot 41-45, 54 and 56-61 of Tract 15589	14	CalAtlantic	Homes over 95% complete (12 in escrow)
Lots 31-34 of Tract 15889 and Lots 65-68, 78-81 and 98-105 of Tract 15890	20	CalAtlantic	Homes U,C (18 in escrow)
Lots 36-41, 45-50 and 56-64 and 69-77 of Tract 15890	<u>30</u>	CalAtlantic	Finished Lots (3 in escrow)
Subtotal Seabreeze	<u>109</u>		
Lusitano			
Lots 1-18, 46-52, 54-63 and 78-91 of Tract 15894; Lots 34 & 35 of Tract 15890	51	Individuals	Completed Houses /Closed
Lots 82-84 of Tract 15890	3	CalAtlantic	Model Homes
Lots 53 and 92-99 of Tract 15894	9	CalAtlantic	Homes over 95% complete (9 in escrow)
Lots 19-30 and 62-70 of Tract 15889; Lots 91-97 of Tract 15890	28	CalAtlantic	Homes U,C (19 in escrow)

Lots 85-90 of Tract 15890	<u>6</u>	CalAtlantic	Finished Lots (0 in escrow)
Subtotal Lusitano	<u>97</u>		
Andalucia			
Lots 6-8 of Tract 15893	3	CalAtlantic	Model Homes
Lots 1-5 of Tract 15893 and Lots 19-45, 64-77 of Tract 15984	<u>46</u>	CalAtlantic	Finished Lots
Subtotal Andalucia	<u>49</u>		
LiveWork			
Lots 6-18 of Tract 15889 and Lots 25-33 and 51-55 of Tract 15890	27	CalAtlantic	Finished Lots
Total LiveWork	<u>27</u>		
Hillside Farmhouse			
Lots 72-73 of Tract 15889; Lots 102, 103, 105-108 of Tract 15894; Lots 9-19, 36-39 and 48-51 of Tract 15893	<u>27</u>	CalAtlantic	Finished Lots
Total Hillside Farmhouse	<u>27</u>		
Hillside Compound			
Lots 20-35 and 40-47 of Tract 15893	<u>24</u>	CalAtlantic	Superpads
Total Hillside Compound	<u>24</u>		
Village Court			
Lot 53 of Tract 15893 and 100, 101, 104 and 109 of Tract 15894	<u>5/40*</u>	CalAtlantic	Superpads
Total Village Court	<u>40</u>		
Commercial Parcels			
Lots 74 and 75 of Tract 15889	<u>2</u>	CalAtlantic	Superpads
Total Commercial Parcels	<u>2</u>		
Total Lots	444		

*Each of these five lots will be subdivided into 8 units for a total of 40 Village Court Units

Lot 1 and Lot 32 of Tract 15888 have prepaid their special assessment and are exempt from the CFD. In addition, Lot 52 of Tract 15893 has an existing house on the site and is not included in CFD No. 2008-IA1. These three lots are exempt from the CFD No. 2008-IA1 lien and thus, not included in this appraisal.

INTENDED USE OF THE REPORT

It is the appraiser's understanding that the client, the County of San Diego, will utilize this report in disclosure documents related to the sale of the Special Tax Bonds of CFD No. 2008-1 IA 1. This report may be included in the Official Statement or similar document to be distributed in connection with the marketing and offering of the bonds. It is the appraiser's understanding that there are no other intended uses of this report.

DEFINITIONS

Market Value

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

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

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

Inherent in the Market Value definition is exposure time or the time the subject property would have been exposed on the open market prior to the appraisal in order to sell at the concluded values. In the case at hand and considering current market conditions the exposure time for each individually owned property or the entire developer owned property in a bulk sale is less than one year.

Aggregate Retail Proceeds

As used in the Discounted Cash Flow Analysis, Aggregate Retail Proceeds is defined:

"The sum of the appraised values of the individual units, as if all of the units were completed and available for retail sale, at date of value. The sum includes an allowance for lot premiums, when applicable. This is not the market value of the project in bulk."

Bulk Value

Bulk Value is defined as:

¹ The Appraisal of Real Estate, 13th Edition

The value of a group of lots, parcels, or homes to a single purchaser, on a specified date, under the terms and conditions of the definition of market value.

Discounted Cash Flow (DCF) Analysis

A Discounted Cash Flow Analysis is:

The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams as well as the quantity and timing of the reversion and discounts each to its present value at a specified yield rate.

Subdivision Development Method

The Subdivision Development Method is:

A method of estimating land value when subdivision and development are the highest and best use of the parcel of land being appraised. When all direct and indirect costs and entrepreneurial incentive are deducted from an estimate of the anticipated gross sales price of the finished lots, the resultant net sales proceeds are then discounted to present value at a market-derived rate over the development and absorption period to indicate the value of the raw land.

Exposure Time

The Definition of Exposure Time within this report is:

The time a property remains on the market. It is the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.

Finished Lot

The term "Finished Lot" is defined as:

"A parcel which has legal entitlements created by a recorded subdivision map, whose physical characteristics are a fine graded level pad per lot with infrastructure contiguous to each individual lot, asphalt paved roads and the necessary utilities. This term assumes the payment of all applicable development fees with the exception of building permit and plan check fees."

Gross Site Area

Gross Site Area is defined as:

The area that typically includes the entire boundary of a parcel, including future dedication, slopes and easements. Sometimes includes to the centerline of adjacent public roadways even though purchase of the parcel may be to the sidelines.

Minimum Market Value

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

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

Mass Appraisal

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

“The process of valuing a universe of properties as of a given date using standard methodology employing common data and allowing for statistical testing”²

In the case at hand, the statistical testing included reviewing all original builder sales and reviewing the Multiple Listing Service (“MLS”) for any re-sales and/or listings of each plan type. In addition, we have determined the actual range of sales prices for each plan type which will be utilized in the valuation process. The search of the MLS resulted in one current listing and no re-sales within the subject property other than builder listings.

Super Pad

A superpad is defined within this report as:

A mass graded pad which is created in order to create earthwork balances within future subdivision parcels. Requires additional grading prior to building construction, may require additional mapping and may require additional entitlements. A rough-graded site with roads and utility lines extended to the boundary of the parcel.

² USPAP 2014-2015 Edition

Hypothetical Condition

The Term “Hypothetical Condition” is defined by USPAP as:

“That which is contrary to what exists but is supposed for the purpose of the analysis”

The Hypothetical Condition within this report is that subject property is enhanced by the improvements and/or fee credits to be funded by bonds issued by CFD No. 2008-1 IA 1.

Extraordinary Assumption

The term “extraordinary assumption” is defined by USPAP as:

“An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusion”

The extraordinary assumption in this report is that the reported remaining costs as received from the developer are true and accurate. We have reviewed the costs and they appear reasonable, however, we are not experts in the field of cost estimating. It should be noted that these costs were relied upon in the valuation of the subject property.

PROPERTY RIGHTS APPRAISED

The property rights being appraised are of a fee simple estate interest, subject to easements of record and subject to CFD No. 2008-1 IA 1. The definition of “fee simple estate” is defined as:

“absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”³

EFFECTIVE DATE OF VALUE

The subject properties are valued as of September 10, 2017.

³ The Appraisal of Real Estate, 13th Edition

DATE OF REPORT

The date of this report is October 30, 2017.

SCOPE OF APPRAISAL

As previously stated, the purpose of this appraisal is to report the appraiser's best estimate of the market value for the subject property, CFD No. 2008-1 IA 1, which is known as a portion of Harmony Grove Village. Harmony Grove Village is being developed by CalAtlantic Homes with various, well segmented, residential product types and two commercial sites. There are 148 homes closed to individuals, 13 model homes owned by the builder, 25 builder-owned production homes over 95 percent complete (21 in escrow), 56 homes under construction (45 which are in escrow), 200 finished lots or superpads (three in escrow) and two commercial sites in a superpad condition. This appraisal will be presented in the following format:

- County of San Diego Description
- Harmony Grove Description
- Immediate Surroundings Description
- Brief Description of County of San Diego CFD No. 2008-1
- Subject Property Description
- San Diego County Residential Market Analysis
- Highest and Best Use Analysis
- Valuation Procedure, Analysis and Conclusion
- Appraisal Report Summary

In valuing the subject property, the value estimates will be based upon the highest and best use conclusion using the Sales Comparison Approach along with a Development Analysis (also known as Subdivision Development Method). The Sales Comparison Approach to value is defined as:

“...a set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, then applying appropriate units of comparison and making adjustments to the sales prices of the comparables based on the elements of comparison. The Sales Comparison Approach may be used to value improved properties, vacant land or land being considered as though vacant; it is the most common and preferred

method of land valuation when an adequate supply of comparable sales is available.”⁴

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

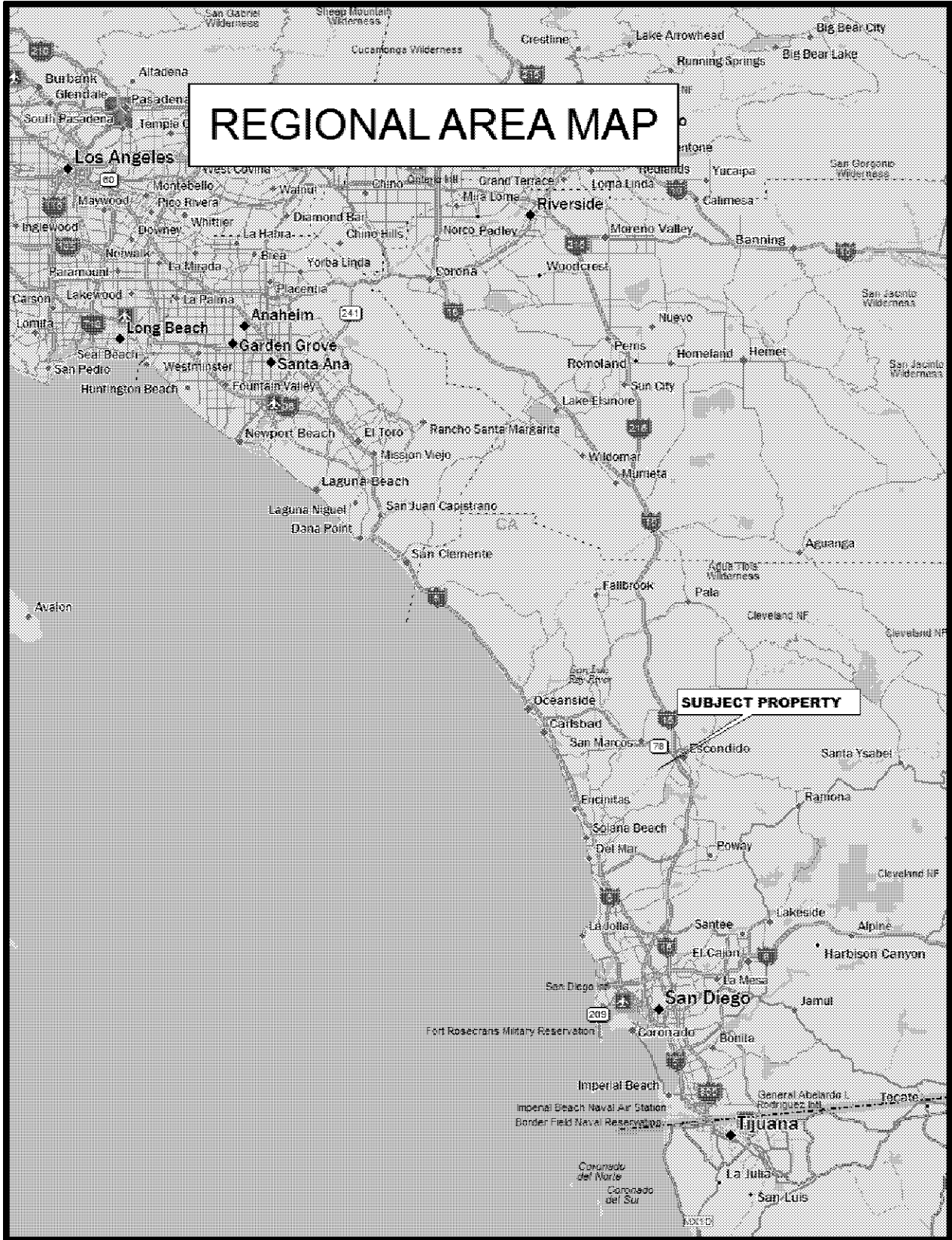
As the master developer owns 294 residential lots and two small commercial parcels within the subject property, a Subdivision Development Method was also utilized. The Subdivision Development Method includes a Discounted Cash Flow Analysis. Finally, we will also utilize a mass appraisal technique which included reviewing all builder sales and searching the MLS for any re-sales and/or listings.

The due diligence of this appraisal report included the following:

1. Compiled demographic information and related that data to the subject properties to perform a feasibility/demand analysis.
2. Gathered and analyzed information on the subject marketplace, reviewed several real estate brokerage publications on historical and projected growth in the subject market and researched the micro and macro-economic outlook within San Diego County and the Harmony Grove area.
3. Inspected the subject properties between September 1, 2017 and September 10, 2017.
4. Had the site flown by an aerial photographer on June 22, 2017.
5. Interviewed representatives and or consultants from CalAtlantic Homes in order to obtain project information.
6. Reviewed the Elfin Forest Harmony Grove San Dieguito Community Plan.
7. Reviewed the Harmony Grove Village Specific Plan.
8. Reviewed a sample Title Report on the subject property.
9. Reviewed a Final EIR for the subject property.

⁴ Dictionary of Real Estate Appraisal, Fourth Edition, 2002

10. Searched the area for relevant comparable residential land sales, inspected and verified each sale with a buyer or seller or broker familiar with the transaction.
11. Searched the area for relevant comparable commercial land sales, inspected and verified each sale with a buyer or seller or broker familiar with the transaction.
12. Searched the area for relevant comparable new home residential projects, including sales prices and concessions and interviewed representatives from each comparable project.
13. Reviewed sales brochures on the subject neighborhoods.
14. Reviewed developer sales information on each home.
15. Reviewed Multiple Listing Service information to determine if there are any re-sales, pending sales or listings of existing homes.



COUNTY OF SAN DIEGO AREA DESCRIPTION

General Surroundings

The subject property is located in the northern portion of the County of San Diego (the "County"). The County is located in the southwest corner of the State of California bordering Mexico on the south, Imperial County to the east, and Riverside and Orange Counties to the north. The Pacific Ocean is its western border. The County has approximately 4,525 square miles (325 square miles of which is water) and includes terrain from ocean beaches to foothills to mountains and deserts. San Diego County has 70 miles of coastline and the climate ranges from Mediterranean to semi-arid.

Population

The San Diego region experienced faster growth rates than most of California during the past several decades. In 2009 the County had a larger population than 20 of the 50 states. The County has experienced an increasing growth pattern for the past fifty years. Between January 1990 and January 2000, the population grew from 2,480,072 to 2,813,833 or an annual average growth of approximately 1.15 percent per year. According to the California Department of Finance, the January 2017 population count for the County is estimated at 3,316,192 suggesting an average annual increase of 0.97 percent for these seventeen years, which displays a slightly slower rate of population growth than the previous 10 years. The slowdown in growth appears to be due to the recession which began in the mid-2000s. Current projections from San Diego Association of Governments (SANDAG) estimate the county population will increase to 3,375,687 by 2020 (a 0.9 percent annual increase over the next three years), and 3,589,951 by 2030 (a 0.7 percent annual increase over the next thirteen years).

Transportation

Four major interstate freeways bisect the County: Interstate 5, Interstate 15, Interstate 8 and Interstate 805. Interstate 5 is the major north/south arterial throughout the State of California. It generally follows the coastal route in the San Diego County area. Interstate 15 is also a north/south arterial; however, it is located inland through the more

mountainous regions of the County. Interstate 8 provides east/west access through the southern portion of the County, while Interstate 805 generally parallels Interstate 5 beginning near Del Mar providing a third north/south route between I-15 and I-5.

The County is well served with train service by Amtrak, Metrolink and the Coaster. In addition, downtown San Diego has a trolley which provides access around the downtown area and to the Mexican border. Air service is provided by San Diego International Airport (approximately 26 miles southwest), John Wayne Airport in Orange County (approximately 65 miles northwest), and Palomar Airport in Carlsbad (approximately 10 miles west).

Economy

As with the rest of the nation, San Diego County experienced a strong multi-year recession, now referred to as the Great Recession, between 2006 and 2012. The County, which had strong employment over the ten previous years saw unemployment rates increase significantly between December 2006 and early 2010 at which time a leveling off occurred followed by continued decreases which began in July 2011.

The unemployment rate for the County was estimated at 4.7 percent (per the Employment Development Department – August 2017), which reflects an increase from December 2006 (low-point prior to the recession) when the rate was 3.7 percent, however a significant decrease from the peak during the recession of 11.0 percent in 2010. The current unemployment rate for the County of 4.7 percent is lower than the California rate of 5.4 percent and similar to the August 2017 national rate of 4.5 percent. Below is a table depicting San Diego County in relationship to unemployment rates of the surrounding counties:

<u>Jurisdiction</u>	<u>As of</u>	<u>Unemployment Rate</u>
Los Angeles County	8/17	5.4%
Riverside County	8/17	6.5%
San Bernardino County	8/17	5.8%
Orange County	8/17	4.2%
San Diego County	8/17	4.7%

Source: State of California E.D.D.

Over the past 20 years, the San Diego County economy has had significant cycles with home prices almost doubling from 1995 to 2005, then falling by over 50 percent during the Great Recession taking prices back to 2002/03 levels. Home values appeared to hit bottom in 2009 then remained essentially flat for two to three years with the majority of the San Diego County housing market seeing an improvement beginning in mid-2012 with 2013 showing significant appreciation in both the number of sales and pricing. In 2014, 2015, 2016 and thus far in 2017 the San Diego County housing market saw a slowdown in the double-digit growth seen in 2013 with sales of homes appearing to stabilize while prices of homes are still enjoying growth within the County, however at more normal rates in the annual single-digit range.

The Federal Government attempted to correct the struggling economy by implementing several economic stimulus packages during the Great Recession. The Federal Reserve Board ("Board") has kept interest rates below historical averages, dropping rates to zero in December 2008 until the December 2015 Board meeting, when interest rates were raised one quarter of a percent, followed by a quarter percent rate hike in December 2016 and March 2017. In June of 2017, the Board continued its 2017 pattern and increased its benchmark interest rate to 1.25 percent with more increases anticipated in late 2017. This signifies the possibility for robust growth nationally. Unlike the 2008 to 2015 decisions to maintain the rates at zero, hikes are anticipated for the foreseeable future depending on the economy. While the U.S. economy has been growing, concerns of global weakness have emerged. The European Central Bank began its own quantitative easing in the summer of 2015; while growth in China had been slowing for a couple years with a correction in China's stock market of 40 percent, followed by a devaluation of their currency, also in summer of 2015. The summer of 2016 brought BREXIT (Britain's exit of the European Union) which, while too soon to know the extent of its influence on the US economy, created some volatility in the stock market. In addition, oil prices plunged over the past 30 months. While lower oil prices give U.S. consumers more money, the lower prices affect U.S. oil companies and their workers along with other oil dependent countries. In November 2016, the U.S. Election voted in a new Administration. While the new Administration is suggesting there will be immediate economic changes, time will tell

how quick these changes occur. Until these global concerns stabilize, it appears the Board will be conservative and not raise interest rates to more normal levels.

The 2017 Election of Donald Trump into the United States Presidency is anticipated to have a profound effect on the economy. While the Trump Administration aims to boost the national economy with plans to roll back financial regulations, implement tax cuts, enact new taxes on imports, and increase infrastructure spending, the national and international skepticism of the new administration's economic policy has been abundant. As of the second quarter of 2017, Federal Reserve Policymakers have noted possible upsides and downside risks to the economy with these policies. Despite the anticipation of regular rate hikes to come, there is still a level of uncertainty due to the Trump Administration's future economic policies.

California's labor markets make it easy to understand why the mid-2000s downturn is being called the Great Recession. After peaking at 15.454 million non-farm jobs in June 2007, the State shed over 1.33 million non-farm positions by February 2010. Since hitting bottom, California has now added back 2.66 million jobs for a total of 16.784 million non-farm jobs as of July 2017, per the California Employment Development Department. This well surpasses the previous peak, however, there are a high number of part-time jobs included in this number.

According to the most recent UCLA Anderson Forecast ("Forecast" – June 13, 2017), the U.S. economy will have continued modest growth. The Forecast states the president and Congress need to figure out how to get the economy back into the three percent GDP growth corridor in order to further improve the economy. They believe GDP growth will be a little over two percent in 2018 and under two percent in 2019. The factors that are contributing to the slow rate of growth include a decline in manufacturing jobs, a weaker auto sector, a decline in the growth rate of the working population and a decline in total hours worked. The Forecast states that in order to "Make America Great Again", we need to solve three problems: (1) how to increase the rate of growth of the working age population; (2) how to increase the rate of growth of hours by making more of the new

jobs full-time and not part-time; and (3) how to increase the rate of growth of productivity in the nation.

In discussing the National Housing Outlook, the Forecast notes that the housing industry continues to slowly grind higher as it has since the cyclical bottom in 2009. This mid-year Forecast upped the total number of units to be built forecasted from 1.27 million to 1.34 million in 2017 and 1.37 million units in 2018 and 2019. This level of activity remains below the 1.4 to 1.5 million units per year we estimate to be consistent with long-run demand. The puzzling thing about the under-building is that it is occurring against a backdrop of modest economic and employment growth and a sustained period of very low mortgage interest rates. Explanations for the long, slow recovery in housing include slow income growth, much tighter credit standards and the millennial generation's reluctance to making long-term commitments. In addition, regressive zoning and environmental regulations have played a role in reducing the overall supply of housing. The Forecast anticipated household formations averaged 1.2 million per year from 2012 to 2017, and are forecast to accelerate to about 1.5 million in 2018 and 2019, well above the forecast of the number of units.

The UCLA California Forecast for June 2017 states the current forecast is slightly lower and extends further into the future than the previous one due to the difficulties that the Trump administration is having in getting its stimulus packages passed. The current estimate for total employment growth is 1.4 percent in 2017, 1.0 percent in 2018 and 0.9 percent in 2019. The Forecast states that homebuilding in California will continue at about 118,000 units per year. Los Angeles' increasingly expensive and unaffordable home prices (particularly for first-home buyers in the Bay Area and Los Angeles) is making it tough for both buyers and renters. Housing market research suggests that limited supply is one of the major causes of high home prices in coastal California. According to the Forecast, despite its stronger economic recovery, California has relatively limited housing supply because of its stringent regulations (such as CEQA - California Environmental Quality Act as well as a NIMBY (not in my back yard) culture).

Brad Kemp, Beacon Economics' Director of Regional Research says Southern California was hit harder during the Great Recession due to the impact of housing. Median housing prices (all types) increased over 100 percent in San Diego County changing from \$250,000 in 1997 to \$517,500 in November 2005. Now median existing single family home sale prices have surpassed the pre-recession high and are \$613,000 for July 2017 per the California Association of Realtors. Foreclosures, which played a big part in housing sales during the great recession, are no longer playing a noticeable part in the San Diego real estate market.

Commercial real estate appears to have hit bottom in 2010 with local absorption levels returning to positive territory in 2012 and generally growth since that time. Office vacancy rates appear to have stabilized in 2012 with rents rising since 2013. Retail vacancies which grew during the Great Recession have generally leased up with retail construction occurring once again. This is evidenced in the three master planned communities in the area along with multi-family and commercial development around California State University, San Marco which is two miles northwest of the subject site.

Conclusion

Population in the County has increased over the past 30 years with predictions for continued population growth. The nation's economy stalled starting in 2006 due to the housing downturn, unemployment and the credit crisis. The housing market saw a resurgence beginning the second half of 2012 with prices and sales increasing by double digits thru 2013 with pricing growth slowing to more normal levels and sales essentially flat until 2017 when both sales and prices began increasing substantially once again. The economy typically has cycles and most signs are suggesting the U.S. economy is on an upswing. However, unlike previous recovering economies housing growth has been slow to come back. While the new Administration is suggesting there will be changes in the economy, time will tell how fast the changes actually occur. The year 2017 has brought a new optimism from economists in terms of Southern California's housing market. In conclusion, the County is expected to continue to grow in population due to its Southern California location and the availability of land.

HARMONY GROVE AREA DESCRIPTION

General Area

The subject property is located in the northern portion of unincorporated San Diego County between the cities of Escondido and San Marcos. Geographically, Harmony Grove is situated south of State Route 78 Freeway and west of Interstate 15 (Escondido) Freeway. It is to the west of the western edge of Escondido, north of the Del Dios Highway and Rancho Santa Fe and to the east of the Elfin Forest. It is bordered by Eden Valley and Escondido to the north and San Marcos to the west. The Harmony Grove/Elfin Forest Community Planning Area has a total of 2,065 acres. The Harmony Grove/Elfin Forest Community Plan lies within the San Dieguito Community Plan which encompasses 6,793 acres.

The general area is rural in character with Escondido Creek extending from the eastern edge of Harmony Grove through Elfin Forest to the northern edge of Rancho Santa Fe. Harmony Grove has gently sloping hill areas with sharp granitic escarpments. Local topography tends to separate the area from the adjacent, more urbanized communities. It includes sensitive riparian wetlands, oak woodlands, native grasslands, chaparral and coastal sage scrub. The Escondido Creek wildlife corridor runs through the center of Harmony Grove. Most of the existing development in the area consists of rural residential homes and estate lots located on hillsides. Historically agricultural/livestock types of uses have predominated the area.

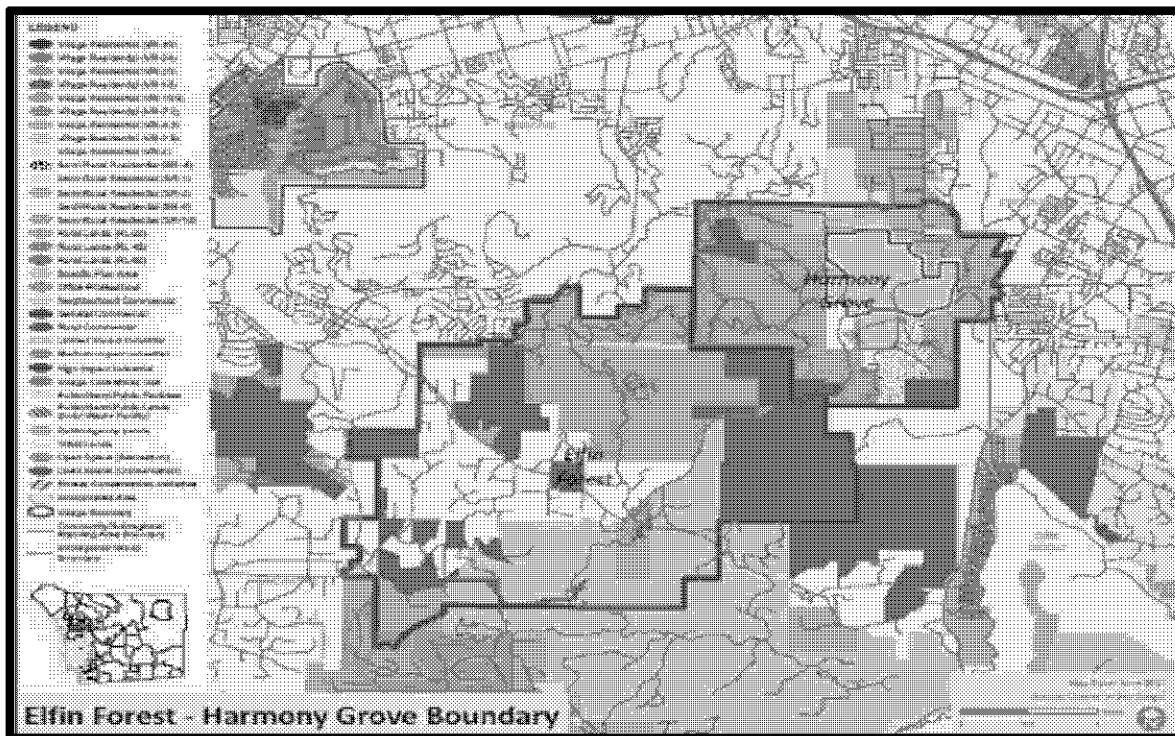
There are three main roadways that serve Harmony Grove. Country Club Drive extends primarily in a north/south direction running the length of the community providing access from near State Route 78. Kauana Loa Drive begins at Country Club Drive going east then curves south to Harmony Grove Road. Harmony Grove Road runs from Escondido in a southeasterly direction through the community providing access to I-15 via Citracado Parkway.

History

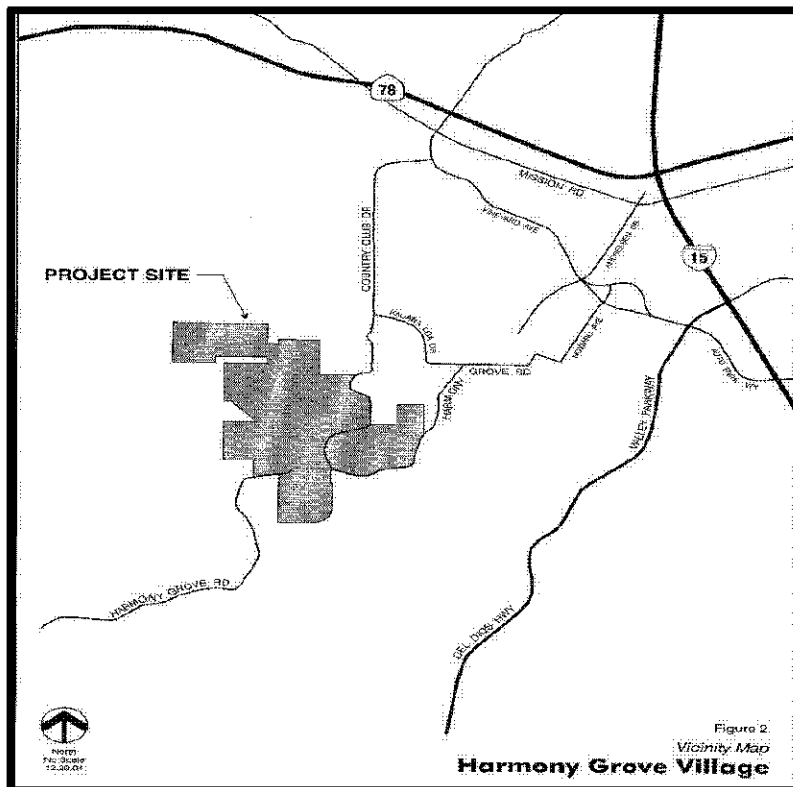
Harmony Grove is the oldest of the San Dieguito communities having been named that in 1896 by the Spiritualist Association that built many buildings and residences in the area, some which are still standing. The area was first developed primarily as agricultural lands. It is believed that the area may have housed the prehistoric villages of Japatul as there is evidence of Luiseno and Diegueno Indian occupation. Prehistoric resources include petroglyphs, pictographs, some habitation sites and bedrock milling sites.

Housing/Development

The Harmony Grove Village Specific Plan (“Specific Plan”), which encompasses the subject property and additional lands, is located within the overall Elfin Forest and Harmony Grove, San Dieguito Community Plan and is used in conjunction with the General Plan for San Diego County. Community plans provide a framework to address critical concerns within specific communities that are not reflected in the broader policies of the County’s General Plan. The Elfin Forest or Harmony Grove Community Plan was adopted in August, 2011 and amended in June, 2014. This community plan is depicted on the following map.



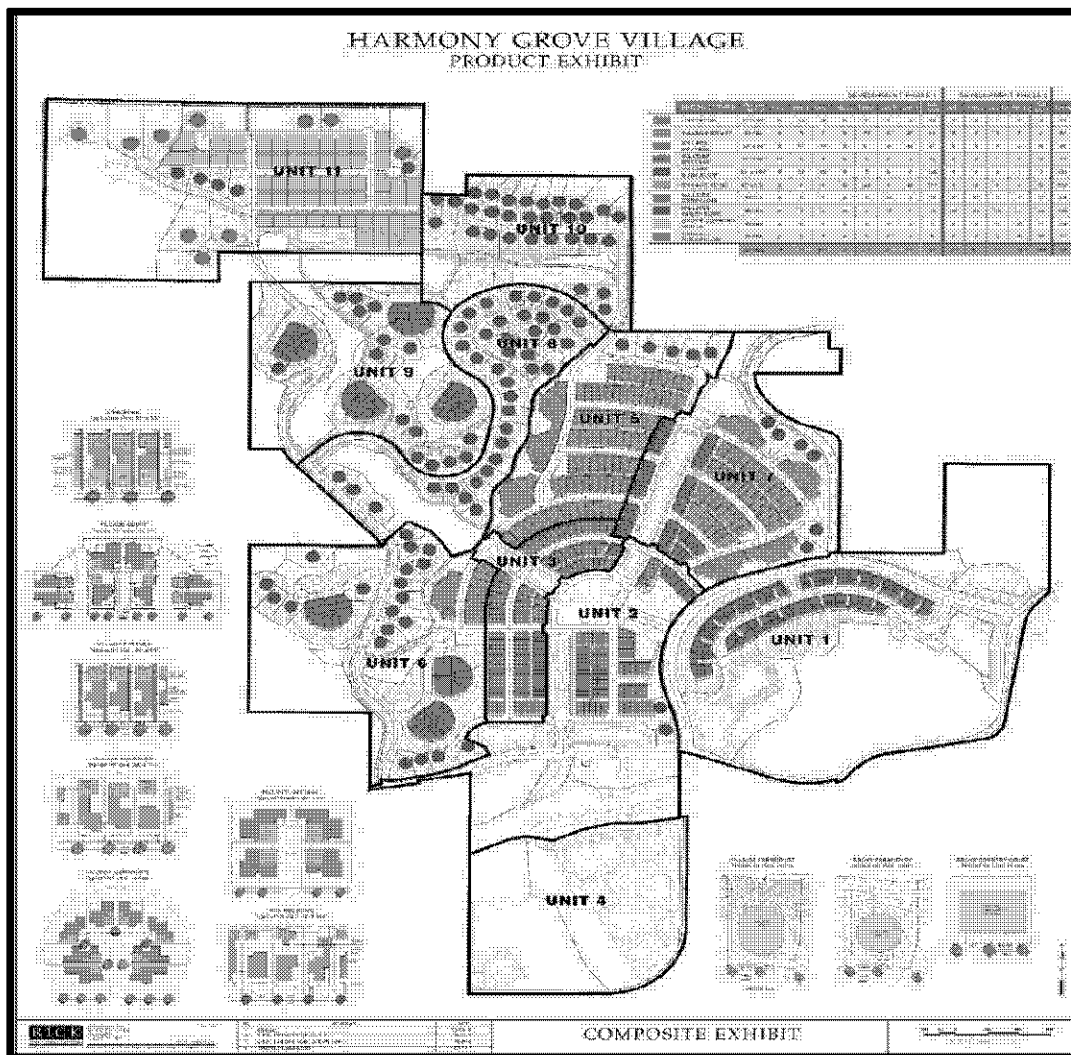
The original Harmony Grove Village Specific Plan (“Specific Plan”) and General Plan Amendment was submitted to the San Diego County Department of Planning and Land Use in January, 2007. This plan provided for a maximum of 742 residential units on 468 acres of which, CFD 2008-1 IA1 is a part. Overall the plan provides for 189 acres or 40% of the Specific Plan to be in permanent open space. Less than one percent of the area will be devoted to commercial land uses.



As shown above, the Harmony Grove Specific Plan is an irregular shaped parcel. The topography includes a relatively flat valley floor and more rugged topography to the east and west. Adjacent hills have gentle to moderately steep slopes. More than half the property has less than 15% slope and almost three quarters have less than 25% slope. Elevations range from 570 feet to about 800 feet above mean sea level.

Historically the area of the Specific Plan was devoted to mainly agricultural uses. These included two egg ranches, a dairy, avocado groves, citrus groves and an abandoned rock quarry. There were also scattered single family homes on the property.

The current Specific Plan is approved for 742 proposed residential units and two commercial parcels which are planned to, at build-out, total 20,000 square feet of commercial space. In addition, there are two institutional parcels and a wastewater reclamation facility and a proposed equestrian facility (outside of CFD No. 2008-1 IA 1). It should be noted that while the two institutional parcels are located within the boundaries of CFD No. 2008-1 IA 1, they will not be taxed, thus are not included in this appraisal. The community includes a community clubhouse and pool along with a central park and a trail system throughout the majority of the community. The residential products range from about 1/2-acre minimum lots to small detached lots ranging from 2,500 to 5,500 square feet and some cluster products with shared alley/driveways. Below is the product exhibit for the entire Harmony Grove Village with the subject property (CFD 2008-1 IA 1) generally being Units 1, 2, 3, 6 and 7.



Summary

As described, the Harmony Grove area over the years has been a rural, agricultural area with low density development. The Specific Plan provides for development density and intensity to diminish with distance away from the mixed-use core. There will likely be horse keeping opportunities along portions of the perimeter of the plan. This concept is designed to be compatible with the existing more rural community yet be near the more urbanized areas in the overall north San Diego County area providing housing with proximity to jobs, shopping and recreational facilities.

IMMEDIATE SURROUNDINGS

As described, Harmony Grove Village is a master planned community in a bucolic setting but close to the amenities of more urbanized areas. The community is accessible to the wider area via Country Club Drive and Harmony Grove Road/Citracado Parkway.

Adjacent to the north are rural residential areas with more conventional single family detached residential neighborhoods beyond. Hidden Hills is a residential community one mile north. The new Palomar Medical Center is just over one mile to the northeast. Industrial development is about two miles north running generally along the south side of State Route 78 Freeway. California State University, San Marcos is less than two miles northwest just south of the freeway. North of the freeway is a regional retail center anchored by Costco and a Walmart along with in-line retail shops. Residential neighborhoods in San Marcos and Escondido are further north including the Escondido Country Club. The Riverside County boundary is twenty-two miles to the north.

East of Harmony Grove Village is vacant, rural land. Single family detached neighborhoods are within a mile east surrounding the intersection of West Valley and Citracado Parkways in Escondido. The Escondido Promenade and other retail development runs adjacent to the Interstate 15 Freeway, two miles east. Major retailers in this area include Target, Dick's Sporting Goods, GNC, Cost Plus, Staples, Home Depot, Big Lots, Bank of America, Wells Fargo Bank and Starbucks. Several automobile dealerships are along the east side of the freeway. Further east beyond the freeway are older residential neighborhoods with commercial developments along major arterials including "Old 395." This was once the major north/south highway through Escondido prior to construction of Interstate 15. San Diego Zoo Safari is about six miles east with mountainous areas of San Diego County beyond. The rural community of Ramona is ten miles east.

Vacant land with rural residential uses are immediately south of the subject area. Olivenhain Dam is about two miles south and Lake Hodges just over two miles southeast.

Lake Hodges has residential neighborhoods along its westerly shore adjacent to Del Dios Highway. The exclusive communities of Rancho Santa Fe and Fairbanks Ranch are approximately four miles southwest and downtown San Diego is about thirty miles south.

West of the subject again is rural and vacant land with topography slopping up to Mt. Whitney, the highest geographical feature in the area. As mentioned earlier, the City of San Marcos is west of Harmony Grove Village less than a mile. The master planned community of San Elijo Hills is in San Marcos and San Marcos Lake, in unincorporated San Diego County territory, is surrounded by the city. The City of Vista is adjacent east of San Marcos. The coastal cities of Carlsbad, Encinitas and Oceanside are further to the west with the Pacific Ocean twelve miles west. Adjacent on the northside of Oceanside and Vista is the Camp Pendleton Marine Corps base. This is a large military facility that runs along the ocean all the way north to Orange County, more than thirty miles northwest.

San Diego County CFD No. 2008-1 was formed on May 14, 2008 when, following a public hearing, the Board of Supervisors (the "Board") of the County adopted Resolution No. 08-084 (entitled Resolution of the Board of Supervisors of the County of San Diego) to incur bonded indebtedness to finance the acquisition and construction of certain public facilities in order to mitigate the impacts of development within the CFD No. 2008-01 (Harmony Grove Village). At this time the Community Facilities District Report ("Report") dated June 25, 2008 was prepared by David Taussig & Associates, Inc., CFD No. 2008-1 was estimated to consist of approximately 737 residential dwelling units and about 15.2 acres of non-residential property. Per the Report, CFD No. 2008-1 will be bifurcated into two improvement areas with Improvement Area No. 1 consisting of an estimated 417 dwelling units (at time of CFD Report) and the non-residential lands and Improvement Area No. 2 consisting of an estimated 320 residential units. This appraisal is for Improvement Area No. 1 only which now includes 442 total proposed residential units and commercial lands. The proposed types of public facilities that may be financed through the issuance and sale of CFD No. 2008-1, Special Tax A Bonds are as follows:

Facilities:

- Street improvements, including grading, paving, curbs and gutters, sidewalks, street signalization and signage, street lights and parkway and landscaping related thereto;
- Storm drains; water quality devices to ensure regional permit compliance;
- Public utilities (including but not limited to water, reclaimed water, sewer, electric, gas and telephone);
- Public parks, open space and recreations facilities;
- Fire protection and emergency response facilities;
- Land, rights-of-way and easements necessary for any of such facilities;
- Equipment, apparatus facilities or fixtures with an expected useful life of 5 years or longer necessary for any of the foregoing or necessary to provide any of the services described below:
- The aforementioned public facilities shall include the costs of design and engineering, surveys or reports, the cost of traffic-related environmental mitigation and any required landscaping and irrigation, soils testing, permits, plan check and

inspection fees, insurance, construction management and any other costs or appurtenances related to any of the foregoing.

Impact/Development Fees:

The types of fees proposed to be financed by CFD No. 2008-01 are related to traffic, fire, open space, park and other fees related to public facilities and services.

Services:

The types of services proposed to be financed by CFD No. 2008-01 Special Tax B Bonds are fire protection services, ambulance and paramedic services, maintenance of parks, parkways and open space, and flood and storm protection services.

The CFD Report states estimated costs of improvements for facilities to be funded, in part, by the proceeds of CFD No. 2008-01 bonds and serviced by Special Tax A to be \$76,250,000. In addition, CFD No. 2008-01 is expected to finance the annual costs to provide public services (street lights, park maintenance, storm drain maintenance, multi-use trail maintenance, mitigation land maintenance and fire services) to be serviced by Special Tax B to be \$628,594. Special Tax B for each improvement area within CFD No. 2008-01 is estimated at \$845 per residential unit per year and about \$0.30 per square foot of non-residential floor area per year. These amounts are subject to change based on the actual need that arises as development progresses within CFD No. 2008-01 and is subject to an annual increase based on the percentage change in the Consumer Price Index. The amount of the proposed bonded indebtedness to be incurred to finance the acquisition and construction of the public facilities shall not exceed \$32,000,000 for Improvement Area No. 1 and shall not exceed \$35,000,000 for Improvement Area No. 2. The boundary map showing CFD No. 2008-1, both Improvement Area Nos. 1 and 2, is shown in the Addenda. Per the current sources and uses (dated October 20, 2017) the estimated facilities to be funded by CFD No. 2008-1 IA 1 is \$13,664,277 plus a reserve fund of \$1,179,125. Including cost of issuance, underwriter's discount and the issue discount the total bond amount is estimated at \$14,210,000 (all amounts subject to change).

SUBJECT PROPERTY DESCRIPTION

The subject property consists of a portion of the community known as Harmony Grove Village by CalAtlantic Homes. There were originally a total of 444 proposed homes in eight product lines along with two commercial parcels within CFD No. 2008-1 IA 1 (subject property). However, two homes have pre-paid their Special Taxes leaving 442 proposed homes and the two commercial sites as the subject property of this appraisal. A total of 148 units are complete and have closed to individuals. While there are two institutional designated parcels located within CFD No. 2008-1 IA 1, it is the appraisers' understanding that they will not be taxed, and thus are not included in this appraisal. The subject property is described below.

Location: Generally north of Harmony Grove Road on both sides of Country Club Drive, Harmony Grove, Unincorporated San Diego County.

Legal Property Description:

Tract No.	Lot Nos.
5365-1 / 15888	2-31 and 33-71 (Lots 1 and 32 NAP)
5365-2 / 15889	1-70, 72-75
5365-3 / 15890	1-105
5365-6 / 15893	1-51 and 53 (Lot 52 is NAP)
5365-7 / 15894	1-109

Thomas Guide: San Diego 1129 - C5, C6, D5 & D6.

Property Owner: CalAtlantic Group, Inc., a Delaware corporation (formerly known as Standard Pacific Corp., a Delaware corporation) as to 296 of the lots. Individual owners as to the remainder of the lots. Please refer to the Subject Property listing on page 1 and 2 of this report for details of ownership on a per lot basis

Assessors

Parcel Nos.: A listing of the Assessor Parcel Numbers is located in the Addenda. The APN Pages include 235-56, 235-57, 235-58, 235-60 and 235-61.

Property Taxes: We have reviewed the 2016/2017 property tax invoice on a sample house within the Canteridge neighborhood which relates to APN No. 235-561-01-00 which pertains to a 2,075-square foot house. Per the County of San Diego Tax Assessor's Office, the parcel has an assessed value of \$607,210 less a \$7,000 homeowner's exemption. The parcel has a 2016/17 total tax bill of \$10,566.38. This tax

amount includes general levy taxes of \$6,002.09 and special assessments and fixed charges of \$4,564.29 including \$2,529.60 for CFD 2008-01 IA 1, \$512.28 for CFD No. 2008-01 B Fire, \$394.52 for CFD No. 2008-1 B, (Other Maintenance LLMD) and \$85.22 in CFD 2008-1 B Flood. In addition to the subject CFD, there is \$1,042.67 in miscellaneous items including General Bond Prop A, E and K and CSA 107 Fire Protection.

Three-Year
Sales History:

CalAtlantic Homes, Inc. (as Standard Pacific Homes) purchased the subject property approximately ten years ago from New Urban West, Inc. It is the appraiser's understanding that, included in the transaction was an option agreement for New Urban West, Inc. to purchase back the commercial parcels for \$20,000 each. It is the appraisers' understanding that this option is being exercised in November 2017. It should be noted this was an option which was tied to the overall purchase agreement of the entire Harmony Grove and does not represent market value. Per CalAtlantic Homes representatives, this agreement is not recorded and is not tied to the land in any way.

Size and Shape:

The subject property is irregular in shape and contains 234.026 gross acres per Tract Map 15888, 15889, 15890, 15893 and 15894. This gross area includes two commercial sites totaling 2.890 acres. For purposes of this appraisal, we will use the gross acreage per the Tract Maps of 234.026 acres.

Zoning:

The subject property is designated Harmony Grove Village Specific Plan per the County of San Diego. According to the Specific Plan, Harmony Grove Village is proposed to have a total of 742 dwelling units on approximately 468 acres. This suggests an overall density of 1.59 dwelling units per gross acre which is within the allowed land use and zoning designation. Improvement Area No. 1 has a total area of 234.026 acres encompassing 442 dwelling units indicating an overall density of 1.9 dwelling units per acre.

Entitlements:

The subject property is encompassed by Tract Map Nos. 15888, 15889, 15890, 15893 and 15894 which were recorded January 18, 2013 and subdivides the property into 444 single family detached lots (442 considered in the subject property) and two commercial parcels. Lot 74 of Tract Map No. 15889 consists of 1.274 acres however there is a historical house located on a portion of the site leaving 1.03 usable acres and Lot 75 of same tract has 1.616 acres.

Topography:

The subject property has gently rolling topography with much of the land in a shallow bowl area sloping gently up on three sides. Drainage appears to be within an in-street storm drain system including green belt areas used as retention basins.

Soils Condition: Several geotechnical reports were reviewed by Geocon, Incorporated dated between April 4, 2014 and November 10, 2016 relating to Harmony Grove Village, Phase 1, Units 1, 2, 3, 5, 6, 7 and Park Sites. These reports support development of the subject property. Most infrastructure is completed through the community and many homes are constructed. There do not appear to be any visible signs of soils issues based on our field inspection; however, we are not trained in geology.

It is an assumption of this report that the soils are adequate to support the highest and best use conclusion and that all recommendations made relating to soil conditions within the reports were adhered to during construction. This is evidenced by County inspectors on site throughout construction as well as Certificates of Occupancy permits being obtained on site.

Seismic Information: Per the California Department of Conservation, the subject property is not located within an Alquist Priolo Earthquake Study Zone and is not within ½ mile of an active fault.

Environmental Concerns: We have reviewed the “Final Environmental Impact Report” (FEIR) on Harmony Grove Village, dated February 7, 2007, prepared by HELIX Environmental Planning, Inc. At time of the report the subject property consisted of rural residential uses and over the years had been used for farming including avocado groves, citrus groves, dairy use, egg farms and an abandoned rock quarry. Most biological resources have been degraded over the years as a result of farming activities. However, the FEIR includes mitigation measures designed to reduce and/or avoid environment effects with standard environmental design measures.

It is an assumption of this report that the subject property is free and clear of any environmental issues which would slow or thwart development of the site and that all recommendations contained in the FEIR were adhered to. This is suggested by (1) the developer obtaining all required construction permits and (2) County inspectors on site throughout construction as well as Certificate of Occupancy permits being obtained on closed homes.

Flood Information: Per the RealQuest, Flood Map Report, most of the subject property is identified as within Zone X (areas of minimal flooding) and doesn't require flood insurance. Portions southerly of Harmony Grove Road and the area of Escondido Creek are designated X500 or AE that are either within the 100 or 500-year floodway. Per FEMA the subject is shown on Panel 060284-06073C dated May 16, 2012.

Easements and
Encumbrances:

We have reviewed a sample Preliminary Title Report prepared by First American Title Company dated April 28, 2017 which covers 21464 Trail Blazer Lane, a property still owned by CalAtlantic Group. The exceptions are as follows:

Items Nos. 1, 2, 3 and 4 pertain to general and special taxes including supplemental taxes on the site. Item Nos. 5 thru 15 refer to various easements for utilities and access purposes. Item No. 16 refers to a "Declaration of Covenant for Landscape Maintenance Improvements." Items No. 17, 18 and 19 pertain to utility easements in favor of San Diego Gas & Electric Company. Item Nos. 20 and 21 refer to documents entitled "Joint Use Agreement HOA/DPW /DPR" or "Joint Use Agreement DPW /DPR." Item No. 22 pertains to covenants, conditions, restrictions, easements, assessment liens, charges, terms and provisions which provide that a violation thereof shall not defeat or render invalid the lien of any first mortgage or deed of trust but deleting any matters pertaining to non-discrimination against race, color, religion, sex, sexual orientation, familial status, disability, handicap, national origin, genetic information, gender, gender identity, gender expression, source of income or ancestry. Item No. 23 refers to unsecured property taxes. Item No. 24 relates to any easements and/or servitudes affecting "parcel(s) 2 herein described." Item No. 25 water rights, claims or title to water, whether or not shown by the public records. Finally, Item No. 26 states that "this transaction may be subject to the FinCEN Geographic Targeting Order affecting residential sale transactions."

It is an assumption of this appraisal report that the subject lands are free and clear of any liens and/or encumbrances other than CFD 2008-1 IA 1. The appraisers are not title experts and it is recommended that any concerns relating to title should be addressed to the appropriate experts.

Utilities:

All normal utilities serve or will serve the subject property by the following companies:

Electrical:	San Diego Gas & Electric Company
Natural Gas:	San Diego Gas & Electric Company
Sewer/Water:	County of San Diego
Schools:	Escondido Union School District

Streets/Access:

Access to the subject project is via I-15 to West Valley Parkway, west to Citricado Parkway, north to Harmony Grove Village Parkway. Additional access is via State Route 78 to Auto Park Way, south to Country Club Drive and south approximately one mile to the subject property.

I-15 is a major north/south California freeway providing access to international borders both north and south.

State Route 78 is an east/west freeway connecting with I-5 and the beach cities to the west and terminating in Escondido.

Current Condition: The total Harmony Grove project is being developed into a master-planned community with a total of up to 742 proposed single-family detached lots, two commercial sites, parks, greenbelts and permanent open space. Ten residential products/neighborhoods are currently proposed for the community with eight products located within Improvement Area No. 1 which encompasses the subject property. The entire site has been mass graded and the subject property has been developed into generally finished lots with streets, curbs, sidewalks and landscaping all installed with utilities stubbed to each lot. Some of the finished lots have rocks stock-piled on them and may need some finish grading. Per owner representatives, this cost is included in the remaining development costs.

Costs to Complete: The subject property has been developed into 442 residential finished lots and two commercial parcels as of the date of value. There are some remaining development costs to construct the property to a true finished lot condition. Per the builder, the remaining development costs were estimated as of September 7, 2017 at \$4,416,704 for items including erosion control, a water storage contribution fee, the final street lifts, final grading of lots, if needed, and a reserve for street repairs. These remaining costs are associated with all of the builder owned property as the individual homeowners are not responsible for the land development costs. CalAtlantic Group owns 38 homes over 95 percent complete (including 13 model homes) and 256 remaining lots (56 with homes under construction). Dividing the \$4,416,704 remaining hard costs by the 294 builder-owned residential parcels suggests there are \$15,023 remaining costs per each of the 294 builder-owned residential lots/homes. In addition, there are remaining school fees associated with the 200 remaining finished lots that have not yet begun construction. The average school fee is \$8,700 per unit which equates to \$1,740,000 in remaining school fees (200 lots x \$8,700).

The above remaining costs will be taken into consideration in the final valuations later within this report.

HOA: The Harmony Grove Village Master Community Association dues range from \$110 to \$200 per month and are estimated to be in the \$200 per month range at build-out. The dues include payment for maintenance of the community parks, pool, landscaping and

Improvement
Description:

maintenance of common grounds, slopes and open space throughout the community.

As earlier described, Harmony Grove Village is a master-planned community that is being developed with numerous, well segmented, residential product types. All are single family detached homes with the higher density neighborhoods focused around the community core and lower density neighborhoods around the perimeter, compatible with adjacent, existing land uses. The community will have a maximum of 742 homes pursuant to the Specific Plan on 468 acres indicating a total unit yield of 1.6 dwelling units per acre. The subject of this appraisal is Improvement Area No. 1 which consists of 442 dwelling units and two small commercial parcels on 234.026 acres for a unit yield of 1.9 dwelling units per acre.

As currently planned there will be a total of ten product types in the entire community with eight of the ten located within Improvement Area No. 1. Of the eight proposed residential products in CFD No. 2008-1 IA 1, four have models open with neighborhoods currently selling. The following chart shows a detail breakout for each plan within each neighborhood along with ownership.

Plan	Room Count	Floors/ OB Parking	Sq. Ft.	Ind. Owned	Bldr. Owned
Canteridge (Hillside Cottages – 30' x 85' Lots – 2,550 SF)					
1	3 / 2.5	2 / 2	1,920	6	1*
2	3 / 3	2 / 2	1,922	21	2*
3	4 / 3	2 / 2	2,075	14	2*
3X	4 / 3	2 / 2	2,136	<u>14</u>	<u>1*</u>
Subtotal Canteridge				55	6
Seabreeze – (Village Bungalow – 36' x 100' Lots – 3,600 SF)					
1	4 / 3	2 / 2	2,185	17	6*
2	4 / 3	2 / 2	2,519	12	7*
3	4 / 3.5	2 / 2	2,783	13	4*
4	4 / 3	2 / 2	2,277	<u>0</u>	<u>0</u>
Subtotal Seabreeze				42	17
Lusitano – (Village Cottages – 30' x 86' Lots – 2,580 SF)					
1	3 / 2.5	2 / 2	1,684	16	4*
2	3 / 2.5	2 / 2	1,875	17	5*
3	4 / 3	2 / 2	2,018	<u>18</u>	<u>3*</u>
Subtotal Lusitano				51	12
Andalucia – (Village Home – 42' x 130' Lots – 5,460 SF)					
1	4 / 4.5	2 / 2	3,027	0	1*
2	4 / 4.5	2 / 2	3,182	0	1*
3	5 / 4.5	2 / 3	3,640	0	1*
4	4 / 3.5	2 / 2	2,980	<u>0</u>	<u>0</u>
Subtotal Andalucia				0	3
Total				148	38

*One of each of these plans is a model home.

In addition to the above shown houses, there are 56 houses under construction (under 95 percent complete) and 200 finished lots along with two commercial parcels.

It should be noted the Andalucia neighborhood is currently selling homes within Improvement Area No. 2 with the models located within Improvement Area No. 1. Upon our physical inspection and our search of the MLS, there is one active listing and no homes which have resold at this time.

All home plans are of a Cottage, Traditional, Monterey, Farmhouse or Craftsman influenced architectural style. The home exteriors include concrete roof tiles, dual glazed vinyl windows, side and rear block walls, rain gutters, fully dry-walled 2 or 3-car garages with roll up sectional garage doors, tankless water heaters and selected homes have solar. Interiors include ceramic tile flooring at entry, kitchen, nook, laundry, and baths, upgraded baseboards and casings, raised panel doors, great room, precast surround and mantel, maple cabinets and bull-nose drywall corners. The master suites include spacious walk-in closets and a master bath. Gourmet kitchens include Whirlpool stainless steel appliances, maple or white Thermafoil cabinetry, islands and granite countertops. Valuable advantages include prewire for cable, phone and high-speed wiring for data in most rooms, combo plugs and USB chargers in kitchens and a gas stubs in the rear yards for BBQ hookup.

SAN DIEGO COUNTY HOUSING MARKET

In reviewing the County’s housing market, a study of population and economic growth needs to be conducted. As of January 1, 2017, the County had a population of 3,316,192, which indicates an annual growth rate of 0.9 percent over the past year and an average rate of 0.97 percent over the past 15 years. It should be noted this includes the slowdown during the Great Recession. Projections are for the County to continue at an annual 0.9 percent growth rate for the next five years.

Over the past twenty years the County has seen a rocky cycle in the housing market as with most of Southern California. The recession of the early 1990s impacted San Diego County; however, the recovery was quicker than inland areas due to the coastal influence. Median housing prices (all types) in the County increased over 100 percent (from \$250,000 in 1997 to \$517,500 in November 2005) then decreased over 50 percent to the July 2009 low of \$290,000. Since bottoming out the market has seen significant increases to the current median home price of \$537,750 (per CoreLogic as of July 2017), above the pre-recession high.

Economic growth in the San Diego area had been strong between 2000 and 2007 with job losses occurring during the Great Recession in 2008 through 2010 with an upturn beginning in 2011. Below is a table depicting job growth in the County over this time period.

<u>San Diego Job Growth</u>			
Year	Employment	Increase	% Increase
2017*	1,503,400	5,400	—
2016	1,498,000	12,100	0.81%
2015	1,485,900	22,700	1.55%
2015	1,463,200	16,100	1.11%
2014	1,447,100	21,300	1.49%
2013	1,425,800	22,200	1.58%
2012	1,403,600	34,900	2.55%
2011	1,368,700	15,600	1.15%
2010	1,353,100	(55,200)	(3.92%)
2009	1,408,300	(44,500)	(3.06%)
2008	1,452,800	6,500	0.45%
2007	1,446,300	9,500	0.66%

2006	1,436,800	11,100	0.78%
2005	1,425,700	16,800	1.19%
2004	1,408,900	26,600	1.92%
2003	1,382,300	13,100	0.96%
2002	1,369,200	19,700	1.46%
2001	1,349,500	26,300	1.99%
2000	1,323,200	N/A	N/A

*Based on Preliminary August 2017 numbers per EDD

The unemployment rate for the County was 4.7 percent in August 2017, well below the high of 11 percent in early 2010 and lower than the current California unemployment rate of 5.4 percent.

The housing market was a significant factor in increasing the impact of the Great Recession. Due to increased interest rates and rising home prices between June 2004 and mid-2006, the mortgage lender reaction was to create non-conventional financing alternatives such as sub-prime and non-conventional mortgages to artificially maintain the boom housing market of 2004 and 2005. In 2007 the housing market saw a shake-up due to the problems in the sub-prime and non-conventional mortgage markets. In March 2007 the Federal Government initiated efforts to stop or limit sub-prime mortgages. Unfortunately the damage had already been done with sub-prime mortgages playing a role in the 2008 shake out of the housing market and contributing significantly to the U.S. economic downturn. Due to stricter income verification on new loans and the lack of available credit, coupled with job losses and declining home prices, sales of both new and existing homes slowed for the next few years. With the exception of a small increase in 2010, primarily due to government offered homebuyer credits, prices/sales essentially remained flat until mid-2012 when prices began a steady climb with double-digit increases into 2013 and a slower appreciation since that time. Overall home prices in Escondido have increased an average of 5.1 percent on a year over year basis while in San Marcos overall home prices have increased 7.2 percent on a year over year basis.

There were several factors aiding the recent price appreciation which include limited supply and constrained lending. The main factor in prices rising is an imbalance in supply and demand. Near the bottom of this past real estate cycle it was not financially feasible to develop land and build a house in portions of San Diego County. Thus land

development slowed, significantly restricting new housing supply. In addition to limited supply, home ownership across the U.S. declined to 63.7 percent (Second Quarter 2017, Census.gov) from a high of 69.2 percent in 2004. This downward trend in home ownership was anticipated to continue to decrease until stabilization which was estimated to occur at 63 percent. It appears the downward trend of home ownership may be stabilizing as home ownership was 62.9 percent in 2nd quarter 2016 and has increased slightly since then.

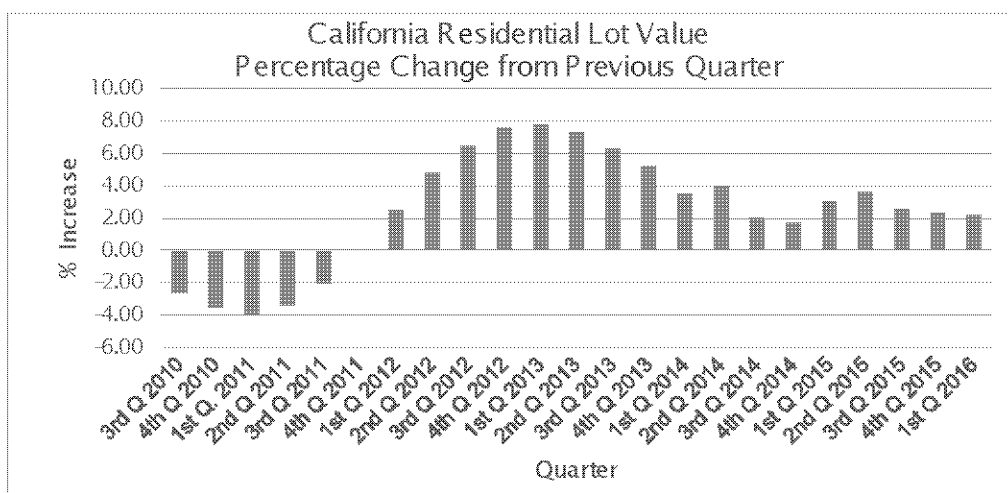
Home loan mortgage rates have been playing a large part in the housing market. The Federal Reserve had held mortgage rates at all-time lows for the past few years in an attempt to assist the housing market. Low rates appeared to help for quite a while, however first time buyers are now having an extremely hard time entering the housing market. The Board has kept interest rates below historical averages dropping rates to zero in December 2008 until the December 2015 Board meeting when interest rates were raised one quarter of a percent. Future rate hikes are anticipated to be gradual and will depend on how the U.S. economy and global growth is occurring. With December 2016, March 2017, and June 2017 rate hikes, the current interest rate is 1.25 percent. This signifies the possibility for robust growth nationally. Unlike the 2008 to 2015 decisions to maintain the rates at zero, regular hikes are anticipated for the foreseeable future, likely making it more difficult for first-time home buyers. However, the discussion of increasing rates by the Board appears to have spurred sales of homes. The small increases in loan rates do not yet appear to be stopping buyers from entering the market if the home is priced at the right price point.

Residential Land Development

While there had been little land development going on in most of San Diego County during the years 2008-2011, the second half of 2012 saw a resurgence. This was visible in Harmony Grove where planning and land construction began again with the first home sales occurring in 2015. The increase in housing prices coupled with the limited availability of supply made land development feasible once again for homebuilders. San

Diego saw land development in 2012 and 2013 with a bit of a lull in 2014 with development beginning again in 2015 and 2016.

On a national front, it appears the slowdown in home sales in 2014 may have curbed the growth of residential lot prices. Per the Lincoln Institute of Land Policy, prices for residential lots in California began having a slower growth in 2nd quarter 2013 with a sort of stabilization occurring around 3 percent in 2014 and 2015. The California average of finished lot price increases (and decreases) are shown on the chart below.



Source: Lincoln Institute of Land Policy

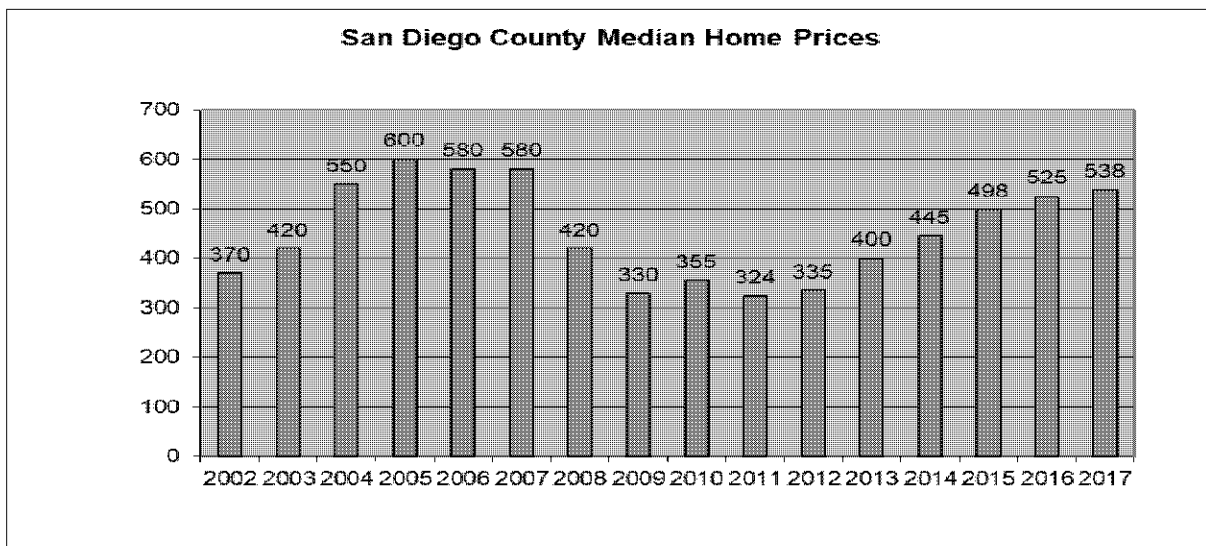
In early 2017 Governor Jerry Brown addressed the critical shortage of homes within California in the 2017 Budget Plan for the state. According to the Budget Plan, California needs to build 180,000 residential units per year over the next decade in order to meet the state’s population demands. Since 2006 the state has averaged less than 80,000 residential units annually which has resulted in higher rents and home prices, longer commutes and rising homelessness in the state. The Budget Plan states homebuilding has been hampered by high building costs and fees and by the reluctance of local governments to approve housing. Local factors that drive up costs include permitting and impact fees and delays in approvals. The new Budget Plan states the Governor’s office will seek policies to streamline construction and lower the cost of homebuilding through reduced fees along with creating incentives for local governments to approve more housing. As the 2017 Budget Plan came out earlier this year (January 10, 2017) it is too

early to tell if this will have an impact on San Diego County housing in the near future. However, the fact the government is addressing this issue is a positive step forward for the future California real estate market.

Inland North San Diego County has three areas with master planned communities developing. These include Harmony Grove Village (subject property), Rancho Tesoro in San Marcos by Brookfield Homes and Heritage Bluffs by CalAtlantic Homes in the Del Sur area in Carmel Valley. Harmony Grove has four products currently selling on lots from 2,500 to 5,500 square feet. Rancho Tesoro is located about two miles northwest and has four products selling with similar sized lots. Heritage Bluffs is located about five miles south and includes three products with lot sizes from 4,700 to 6,200 square feet.

Home Sales and Pricing

The housing market in San Diego County appears to be on the upswing of a cycle. San Diego has seen either flatness or increases in home values since January 2012 per the Case-Shiller index. Below is a chart showing median home prices in the County including both new and existing homes (both detached and attached) over the past decade. With the current median home price at \$537,750 (per Corelogic as of July 2017), the increases are continuing.



According to CoreLogic, within Southern California (Los Angeles, Riverside, San Diego, Ventura, San Bernardino and Orange counties) the median price paid for a home (both new and existing) in July 2017 (\$501,000) is up 7.7 percent from one-year prior. The current median existing home price is less than 1.0 percent below the peak in mid-2007 when the median price was \$505,000 and up more than 100 percent from the low point of the cycle which was a \$247,000 median price in April 2009. Home sales in Southern California were down 2.3 percent overall in Southern California in July 2017 based on a year-over-year change. Per CoreLogic the drop off in activity suggests that late-spring homebuyers burned through a sizeable chunk of an already tight inventory of homes for sale which then constrained July sales. Shown below is a table comparing July 2016 to July 2017 for both new and existing home sales and pricing in Southern California by county and for Southern California as a whole.

Southern California (New and Used) Home Sales						
County	No. Sold July 16	No. Sold July 17	Percent Change	Median July 16	Median July 17	Percent Change
Los Angeles	7,290	6,946	-4.7%	\$532,000	\$575,000	8.1%
Orange	3,299	3,278	-0.6%	\$639,500	\$690,000	7.9%
Riverside	3,474	3,527	1.5%	\$335,000	\$365,000	9.0%
San Bernardino	2,601	2,699	3.8%	\$285,000	\$305,000	7.0%
San Diego	3,861	3,728	-3.4%	\$495,000	\$537,750	8.6%
Ventura	1,032	887	-14.1%	\$523,000	\$554,500	6.0%
SoCal	21,557	21,065	-2.3%	\$465,000	\$501,000	7.7%

Source: CoreLogic July 2017 Data Brief

Based on July 2017 median new and existing homes prices, in comparison to the majority of the surrounding counties, San Diego County is higher than the Inland Empire and lower than Ventura, Orange and Los Angeles Counties with a median home price of \$537,750 reflecting an 8.6 percent year over year increase.

In a separate attempt to capture the increase in home prices, the resale activity of existing homes in the subject area (per CoreLogic) has been reviewed. The number of sales and sale prices of existing homes within zip codes in the immediate area of the subject are shown in the table shown below.

Community Name	ZIP Code	Border To Subject	Sales of SFD Homes July 2017	July 2017 Price Median SFD	July 2017 Median Price/ Sq. Ft.	Price % Change from July 2016
Elfin Forest / Harmony Grove	92029	Subject	29	\$738,000	\$312	0.7%
San Marcos	92078	North	38	\$735,000	\$293	16.7%
Carlsbad	92009	Northwest	40	\$914,000	\$371	-1.6%
Rancho Santa Fe	92067	Southwest	27	\$2,399,000	\$455	0.6%
Del Sur / Rancho Bernardo	92127	South	67	\$1,099,000	\$337	24.5%
Escondido	92025	East	33	\$550,000	\$277	-1.1%
Escondido	92026	Northeast	64	\$533,000	\$280	14.4%
San Marcos	92069	North	32	\$565,000	\$301	18.0%

Source: CoreLogic July 2017

The table above depicts price changes over the past year on existing single-family detached home sales prices. The above price increases relate to CoreLogic's overall San Diego County increase of 8.6 percent increase year over year.

Our search for comparable new home projects within the Inland North San Diego County market resulted in eleven new home projects currently selling in the subject market area. Four of the eleven projects are the subject projects in Harmony Grove, three are located in the master planned community of Rancho Tesoro in San Marcos and one is in the community of Canyon Grove in Escondido. The remaining sales are essentially in-fill sites located in San Marcos and Escondido.

In summary, although both San Diego County and the subject submarket saw decreases in housing pricing and sales during the recession, prices have now been increasing over the past 60+ months with substantial appreciation over this time period. While home price growth slowed between 2013 and 2015, the past 12-18 months has seen an increase in prices once again. The economy appears to be on an upswing and the subject submarket is attracting both homebuyers and land developers. There are three master planned communities selling within five miles of the subject, all with average to good sales rates. In conclusion although there is still some uncertainty clouding the current economy, the housing market in South San Diego County appears to be growing at a sustainable rate. Population is predicted to continue to increase, thus housing growth will continue.

HIGHEST AND BEST USE ANALYSIS

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

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

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

"As If Vacant"

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

Physically Possible Uses

Harmony Grove Village has the physical characteristics suitable for a master-planned community. The site's topography is generally level at the central core of the property and forms a gentle bowl with higher density product generally planned for the more level portions of the central bowl and lower density product around the perimeter where the land gently slopes upward. The property was previously used for agriculture use with portions utilized as an egg ranch, a dairy farm and as orchards.

⁵ The Appraisal of Real Estate, 11th Edition

CFD No. 2008-1 IA 1 is being developed into 442 single family detached homes with two small service commercial sites. We have reviewed Geotechnical Reports which cover the subject property and it appears soil conditions are satisfactory for development. This is suggested by development on some of the lands. We have reviewed the final Environmental Impact Report on the site which concludes that the property is feasible to develop from an environmental standpoint. It is an assumption of this report that the soils are adequate to support the highest and best use conclusion, that any environmental concerns have been mitigated as recommended by technical reports, and that there are no environmental issues which would slow or thwart development of the site. This is evidenced by County approvals along with County inspectors on site during construction.

While the Escondido Creek Wildlife Corridor runs through Harmony Grove Village, the homes have been designed to alleviate any disruption of the corridor and it is the appraisers' understanding that all environmental issues with the corridor have been mitigated. An engineered drainage system has been designed into a street drainage system to alleviate any potential flooding problems and to control project water runoff. All standard utilities serve the subject property. The site has good access from I-15 and State Route 78.

Based on the physical analysis, the size, access and topography make the subject property physically suited for numerous types of development; however, the grading and development that has occurred on the site suggests a master-planned community.

Legality of Use

The subject property is located in the Harmony Grove area of the County of San Diego. Pursuant to the Harmony Grove Village Specific Plan and General Plan Amendment, the overall community is allowed up to 742 residential units of which 444 (442 included in subject property) are being developed within CFD No. 2008-1 IA 1 on 234.026 acres. This yields 1.9 dwelling units per acre. In addition, there are two commercial sites within the development along with a swimming area and clubhouse, numerous parks, greenbelts and other community level land uses. In addition, Tract Map Nos. 15888, 15889, 15890,

15893 and 15894 are recorded on the subject property allowing for 444 residential lots (442 included in subject property) and two commercial parcels. Based on the legality of use analysis, the type of development for which the subject property can be utilized is narrowed to residential use with supporting commercial. This is consistent with the findings of the physically possible uses.

Feasibility of Development

The third and fourth considerations in the highest and best use analysis are economic in nature, i.e., the use that can be expected to be most profitable. As discussed under the San Diego County Housing Market section earlier within this report, the North San Diego market showed improved absorption and increases in pricing over the past twelve months.

According to the Market Absorption Study for CFD 2008-1, Improvement Area No. 1, by Empire Economics, Inc., dated June 15, 2017, home prices basically stabilized and are expected to increase as jobs are anticipated to increase at a moderate rate in the near term. Sales numbers appear to have stabilized although they are still below historical averages. The foreclosure market which had affected the new home market in San Diego County has worked through the issues and there are limited short sales or foreclosure homes on the market in the immediate area. Population growth is still occurring in the area and will continue to create the need for housing. Most importantly job growth, the primary driver of growth in the new home market, appears to be gaining strength both in San Diego County as well as the more local employment center in Escondido. County-wide unemployment is reported at about 4.7%.

There are currently four active, new home communities within Harmony Grove Village, all having opened for sale in June, 2015. Homes within these neighborhoods consist of all detached product and range from 1,651 to 3,640 square feet. Base prices range from \$534,900 to \$876,900. Since opening, average sales rates have ranged from about 1.8 to 2.75 sales per project per month with sales increasing more recently. All four neighborhoods have been well received in the marketplace. Sales have increased in 2017 suggesting absorption may increase.

Based on the above analysis, the highest and best use for the subject property appears to be for development into a master-planned community.

Maximum Productivity

The current housing market has stabilized and is forecasted to improve in both sales prices and pace of sales. Job growth is relatively strong with unemployment at a rate comparable to prior to the Great Recession. While home sales are still below historic rates, prices are rising. High prices, limited financing choices and limited credit availability are making it hard for first time buyers to enter the housing market. However the limited availability of homes for sale, population growth and low interest rates all point to demand for new housing in the subject area with upward pressure still being placed on prices. Based on the current active projects in the area coupled with population growth projected in the subject marketplace, it is our opinion that the subject property is feasible for residential development.

Highest and Best Use Conclusion - "As If Vacant"

The final determinant of highest and best use, as vacant, is the interaction of the previously discussed factors (i.e., physical, legal, financial feasibility and maximum productivity considerations). Based upon the foregoing analysis, it is our opinion that the highest and best use for the subject property "As if Vacant" is for master-planned development with an array of well segmented, residential neighborhoods with some commercial use to service the community.

Highest and Best Use - "As Improved"

As earlier detailed, the subject property consists of four residential neighborhoods that are currently being marketed with model homes open. CalAtlantic Group, under the Standard Pacific brand opened sales within Harmony Grove Village in June 2015 with 217 homes sold (148 closed to individuals) within CFD No. 2008-I IA 1. Including the sales and closings in Improvement Area 2 (Andalucia has sold 39 homes including 24 closed) the average sales rate within the overall Harmony Grove Village is 9.48 homes

per month which equates to an average of 2.37 sales per month per project, considered an average to good sales rate for homes in the Inland North San Diego County. Our search of the local MLS revealed there is one current listing and no re-sales within the subject property. The homes appear in excellent condition with no physical depreciation of structures visually apparent. The sales rates within the subject and competitive projects in the immediate area suggests there is demand for new homes in the market at the right price points with current financing rates. This is confirmed by the Empire Economics absorption study. All of the homes are of good design and appear to be of good quality workmanship. Based on the subject neighborhood's sales rates, it is our conclusion that the highest and best use for the subject property is for the continued use, as improved.

VALUATION ANALYSES AND CONCLUSIONS

The Sales Comparison Approach will be the primary approach used to value the subject property. This approach compares similar properties that have recently sold or are in escrow. In determining the value for the property, a unit of comparison needs to be addressed. For detached single-family lots, the lots are typically sold on a finished lot basis. That is, the sales price is determined by a finished lot value and then the remaining costs to develop the property to a finished lot condition are taken into account in the sales price. Therefore, in determining a current market value for the lands, the current condition of the lots will be considered. In the case of the existing home valuations, a single new-home sale is the unit of comparison. Our search will include all new home projects within the subject Harmony Grove Village and the surrounding market area of north San Diego County to find comparable new homes for sale. In determining the value for each house, a base value will be concluded for each plan which will be considered a minimum market value as most buyers typically purchase some premiums, upgrades or options which increase the price of the home.

In addition to the Sales Comparison Approach, a Subdivision Development Analysis will also be conducted. This is a common approach used by developers of master planned communities for large land parcels with various components. The approach estimates revenues for various land uses, deducts development costs and discounts net revenues to present value using a Discounted Cash Flow Analysis in order to arrive at a "bulk" value for the property. Finally, an investigation will be made into sales of commercially zoned lands in Orange County to estimate the potential revenue that could be obtained from selling the "Village Retail" sites to a commercial developer.

The Subdivision Development Analysis for the master developer-owned lands will be presented as follows. First, a discussion of the single-family detached lot market data will be given. Each of the comparable market data (on a finished lot basis) will be detailed along with a comparison discussion of their relationship to the subject property. A retail lot value will be concluded for each product. The remaining construction costs and fees

will then be taken into consideration. A DCF analysis will then be utilized. The DCF analysis will take into consideration the retail lot values, the remaining costs, the absorption time associated with selling off the lots and a discount rate which takes into consideration the time value of money, the risk associated with the development and a profit due to the developer. This analysis will conclude on a bulk-value for the builder owned lots. Houses which are under construction (under 95 percent complete) will be valued on the basis of a finished lot rather than attribute value to a partially complete improvement.

In the case of the completed (over 95 percent complete) builder-owned models and production units, the homes will be valued using the Sales Comparison Approach to value to conclude on a retail value for each plan, followed by a Discounted Cash Flow ("DCF") Analysis due to the single ownership for each neighborhood. The DCF will take into account the fair market value of the completed homes (utilizing the Sales Comparison Approach), remaining development costs (if any), the marketing and carrying costs associated with selling off the homes, a profit due to the developer of the homes, and a discount rate reflecting both the risk associated with selling off the homes along with the time value of money during the estimated absorption period. In the case of the individually owned homes, a concluded base value will be used for each plan and a mass appraisal technique will be addressed. In determining the concluded base value, new home sales in the area will be reviewed and compared with sales of the subject completed homes using standard methodology and statistical testing. All of the value conclusions will take into consideration improvements funded by the CFD No. 2008-1 IA 1, Special Tax Bonds and their lien. A summary of the final value conclusions will be reported at the end of this valuation section.

Market Data Discussion – Detached Residential Lots

Within CFD No. 2008-1 IA 1 there are 200 finished lots of various sizes and 56 homes under construction (under 95 percent complete) which we will consider as finished lots rather than attribute value to a partially complete improvement. Therefore, this analysis will consider 256 residential lots.

We have searched the area and found the thirteen transactions summarized in the Addenda to be most comparable to the subject property. The sales are reported both on a purchase price basis (when available) and on a finished lot basis. The actual purchase price is typically less, depending on the condition of the land (lots) at the time the property was acquired. Although some sales refer to “finished lots”, they are typically physically finished lots with some fees remaining to be paid in order to be considered true finished lots. Below are the details of each of the comparable land sales along with a discussion of each transaction in relationship to the subject lands.

Land Sale No. 1 refers to the current escrow of a 3.84 acre in-fill parcel located on Buena Vista Way in Carlsbad about twelve miles northwest of the subject property. Per brokers familiar with the transaction the property is in escrow for \$4,850,000 for 12 lots with a 9,500-square foot minimum based on a finished lot price of \$620,000. The site is adjacent to Land Sale No. 3, which Shea is under construction on. The site is across the street from a Jehovah Church and surrounded by an existing neighborhood. The site has existing old greenhouses which will need to be demolished but is otherwise level with all surrounding streets in place. It is the appraiser’s understanding that there is no CFD proposed on this parcel. In comparison to the subject property this location is considered to be superior in Carlsbad. In addition, this transaction is considered to be superior due to its lower overall tax rate due to no CFD.

Land Sale No. 2 pertains to the Lennar purchase of a 4.83-acre parcel located in Oceanside in the master planned community of El Corazon about 12.5 miles northwest of the subject property. The parcel is located at the current terminus of Ocean Ranch Boulevard and Rancho Del Oro Road. The site has an approved tentative tract map for 70 townhomes (3 story) with plans ranging from 1,708 to 2,215 square feet. In addition, the purchase included land for two small retail buildings totaling 2,950 square feet. The property sold by Shopoff Land Fund to Lennar on July 11, 2017 for \$7,500,000 based on a \$215,000 per unit finished price. This site has a small sliver which is located within an industrial CFD which covers some adjacent property, however for purposes of this report,

we are assuming no CFD on the site. This parcel has an overall density of 14.5 dwelling units per acre. Higher density sales typically sell for a lower price per unit. In comparison to the subject property, this site is considered to be superior in overall tax rate and location as it is essentially an in-fill parcel. However, it is across Ranch del Oro Road from an industrial center housing Genentech and Coca Cola among other property owners which is considered to be inferior to the subject.

Land Sale No. 3 pertains to the sale of a 3.09 acre-parcel located adjacent to Land Sale No. 1 on Buena Vista Way in Carlsbad about twelve miles northwest of the subject property. Shea Homes purchased the site from the Robert Miles Living Trust on April 7, 2017 for \$4,000,000. The site had a tentative approved map at time of sale allowing for 10 residential lots with a 9,500-square foot minimum. The sales price was based on a reported \$550,000 finished lot. There is no CFD on this parcel. The site has surrounding streets in place and is currently under construction with grading underway. In comparison to the subject property this location is considered to be superior in Carlsbad and also superior on overall tax rate.

Land Sale No. 4 refers to the purchase of a 3.14-acre parcel with a tentative map approved to allow for 47 dwelling units on the site located in Vista on Melrose Drive about eight miles northwest of the subject property. Warrington optioned the site from the Christian Science Church for \$2,500,000, mapped and commenced engineering and architectural plans for 47, 3-story townhomes on the site. Warrington then sold the site to Lennar Homes for \$4,300,000 based on a reported finished unit price of \$230,000. The site has an overall density of 14.97 dwelling units per acre which is a higher density when compared to the subject neighborhoods. Higher density sales typically sell for a lower price per unit. It is the appraisers' understanding that there is no CFD on the site. Plans were in final plan check at time of closing. In comparison to the subject property the overall tax rate and the Vista location is considered to be superior as it is an in-fill parcel, however the immediate location (adjacent to a 7-11 Gas Station and Burger King) is considered to be inferior.

Land Sale No. 5 refers to the purchase of a 6.3-acre site located in Oceanside approximately 15 miles west of the subject. City Ventures Homebuilding purchased the site for \$6,405,000 in January 2017 which equates to \$1,016,666 per acre and \$110,431 per unit. There are 58 townhomes proposed for the site suggesting a density of 9.2 dwelling units per acre. It is the appraisers' understanding that there is no CFD on the site. The site was a previously graded superpad with surrounding infrastructure in place, across the street from an existing motel, a gas station and adjacent to a vacant Fresh and Easy Market. It is just west of Interstate 5 with access at Oceanside Boulevard. Per a broker knowledgeable of the transaction, the price was based on a \$230,000 finished lot. In relation to the subject property this sale is comparable in density to product around the village core even though this project is proposed for townhomes and the subject core is detached product. The location of this sale is considered slightly better compared to the subject because of freeway and ocean proximity along with being superior due to a lower overall tax rate. However, it is not located in a master-planned community with the amenities that are offered in Harmony Grove Village.

Land Sale No. 6 pertains to the current negotiation of 115 lots located in Horse Creek Ridge about 15 miles north of the subject and adjacent along the easterly side of the Interstate 15 Freeway. Horse Creek Ridge is a master-planned community by D.R. Horton who is building out the majority of the community however selling this one tract to a guest builder. The lots are a minimum of 5,000 square feet and average 6,885 square feet. These are the largest lots within the community and planned for the largest product from 3,205 to 3,719 square feet. Lots are to be delivered in a blue-top condition by October 2017. The final map has been recorded and all regulatory permits have been secured. While negotiations are still ongoing, per brokers familiar with the transaction the finished lot is estimated to be slightly above \$250,000. San Diego County has a CFD (2013-01) for County maintenance and the seller is working with the Rainbow Municipal Water District to form a CFD to include fees and facilities. Total tax rate is currently proposed to be 1.63%. The community is planned for a total of 741 homes on 396 acres indicating a total unit yield similar to Harmony Grove Village of 1.9 dwelling units per acre. Also similar to the subject, this development will have well segmented product including 230 detached condominium units as well as 511 conventional detached lots in seven neighborhoods.

The community will have a sports park, recreation center, community pools, public trails on open space areas along with an equestrian staging area. Relative to Harmony Grove Village this development has better freeway access and visibility but is further away from Escondido and the major employment centers in San Diego. The lot size and density is similar to the mid-range product within the Harmony Grove Village development.

Land Sale No. 7 refers to a relatively small infill site consisting of 19 lots on 4.88 acres located in San Marcos about four miles northwest of Harmony Grove Village. CalAtlantic Group purchased the site based on a reported \$296,000 finished lot in December 2016. The lots have a minimum lot size of 6,000 square feet and the property had an approved tentative map at time of purchase. Two home plans are being developed on the site of 3,050 and 3,450 square feet which are being marketed out of the CalAtlantic models in the Toscana product located in the Del Sur area about twelve miles southeast of this property. The current price of the homes are from \$790,900 to \$813,900. Because of the size of the development at only 19 lots, there is no CFD encumbering the project which is considered superior to the subject. In addition, compared to the subject this is a more visible and accessible location. However, it is not in a master-planned community and is adjacent to industrial uses, both considered inferior to the subject property. The lot sizes are more typical of the mid-range of subject product.

Land Sale No. 8 pertains to another property in San Marcos about three miles northwest of the subject, south of State Route 78 in the master-planned community of known as Rancho Tesoro. It is near the campus of California State University at San Marcos. Three other detached neighborhoods are being developed in this community at the present time. California West Communities purchased 71 graded, mapped lots from Brookfield Rancho Coronado, LLC on the basis of \$320,000 per finished lot. The buyer indicated that the sale is a "quasi" joint venture in that they (California West Communities) brought the original deal to Brookfield who purchased the property, entitled it and then sold one of the residential product lines back to California West. The lots are a minimum of 7,200 square feet, larger than the majority of the subject lots. This site is located within a CFD, similar to the subject. The product is being marketed as Westerly at Rancho Tesoro with homes ranging from 2,801 to 3,521 square feet with prices ranging from about \$750,000 to over

\$800,000. Compared to the subject this sale is better located because of the San Marcos address, university influence and proximity to the freeway.

Land Sale Nos. 9, 10 & 11 pertain to three sets of lots purchased by CalAtlantic Group in the Del Sur area located approximately eight miles to the south of the subject property. The three products are located in the community known as Heritage Bluffs. This is a location within proximity to a number of master-planned communities that are either now developing or have recently been developed. The products consist of Corzano (Land Sale No. 9) on 4,700 square foot lots with home sizes from 2,724 to 2,924 square feet with prices from about \$950,000 to \$965,000. The allocated finished lot price for these lots is about \$311,400 per lot. The Toscana product (Land Sale No. 10) is on 5,200 square foot lots. Homes range from 3,024 to 3,449 square feet with prices from about \$1,050,000 to \$1,100,000. Allocated finished lot price is about \$302,000 per lot. The third product is being marketed as Castello (Land Sale No. 11) on 6,200 square foot lots. These homes range from 3,677 square feet to, with options, over 4,200 square feet. Pricing ranges from about \$1,240,000 to over \$1,375,000. The allocated finished lot price for these lots is about \$384,000 per lot. It is important to note that, although all of these lots closed in late 2016, the price was negotiated in mid-2013 with some up-swing in pricing since that time. This site is located within a CFD similar to the subject. This location is considered superior to Harmony Grove Village as it is in the coveted Carmel Valley.

Land Sale No. 12 refers to a sale located in Oceanside approximately 15 miles northwest of Harmony Grove Village. This property was originally purchased by Rutter Development from a bank that foreclosed on the property with another developer who entitled the property with a map to develop 73 small lots. Rutter processed a new map creating 6,400 square foot lots and instead of building out the project decided to sell the lots to the luxury division of D.R. Horton. This transaction closed in November 2016 for \$5,000,000 or \$227,273 per lot. According to Rutter the cost to complete was just over \$200,000 per lot indicating a finished lot of about \$432,000 per lot. Emerald Homes, a division of D.R. Horton is building the product marketed as Summerset Estates. Homes range from 2,487 to 3,307 square feet and base prices are from the mid-\$700,000 to the mid-\$900,000 range. Six of the 22 homes have sold and premiums are as high as \$50,000 for good

views to the north/northwest. Assuming average premiums of about \$40,000 the indicated finished lot is just under \$400,000 for non-premium lots. There is no CFD on this property. This location is considered superior to the subject because of the coastal influence and views. The average lot size is larger than most of the subject lots but the sale provides a good overall indication of finished lot value.

Land Sale No. 13 is a proposed large lot subdivision located less than two miles southwest of the subject. These lots were purchased by Shea Homes in January 2015 and have a minimum size of just under one acre with the largest lot at 1.5 acres. The lots are located within the City of Encinitas, in the area known as Olivenhain, an upscale area of Encinitas. The property sold for \$10,650,000 or \$380,357 per lot based on a reported finished lot price of \$735,000. There is no CFD on this property. Shea Homes is planning on building nine different floor plans on the lots with homes ranging from 4,120 to 5,882 square feet and prices starting at \$2 million. Many of the home sites will have distant ocean views. Assuming view premiums in the \$100,000 range, the finished lot cost, without premiums is in a range of the low \$600,000s per lot. Compared to the subject property, this sale relates to the larger lots within Harmony Grove Village, although this Land Sale's lots are considered superior in terms of size, location and views.

The chart on the following page summarizes the considerations used in adjusting the market data to the subject property.

Data No.	Location	Date of Sale	Lot Size	Finished Lot Price	Comparison to Subject
1	Carlsbad	Escrow	9,500	\$610,000	Superior – Location, Tax rate Inferior – not in MPC
2	Oceanside	7/17	Attached 14.5 DU/ac	\$215,000	Superior – Tax rate Inferior – Location
3	Carlsbad	4/17	9,500	\$550,000	Superior – Location & tax rate Inferior – not in MPC
4	Vista	3/17	Attached 14.97 DU/ac	\$230,000	Superior – Tax rate
5	Oceanside	1/17	Attached 9.2 DU/Ac	\$230,000	Superior – Location & tax rate Inferior-Not in MPC
6	North San Diego County	Offers	5,000	\$250,000+	Inferior – Location
7	San Marcos	1/17	6,000	\$296,000	Superior – Location & tax rate Inferior-Not in MPC
8	San Marcos	12/16	7,200	\$320,000	Superior – Location
9	Del Sur	4/14	4,700	\$311,4000	Superior – Location Inferior – Sale Date
10	Del Sur	4/14	5,000	\$302,000	Superior – Location Inferior – Sale Date
11	Del Sur	4/14	6,200	\$384,000	Superior – Location & lot size Inferior – Sale Date
12	Oceanside	11/16	6,400	\$432,000	Superior-Location, views, tax rate and lot size
13	Encinitas	1/15	1 Acre	\$735,000	Superior-Location, size, views & tax rate

Harmony Grove Village is being developed with a wide range of well segmented, single family detached product. The smallest lots at about 2,550 square feet in size are most similar to Data Nos. 2, 4 and 5. While these market data are proposed for attached product, Data No. 5 is similar in density to the subject's smaller lots (Canteridge and Lusitano). Data Nos. 6, 9 and 10 are most comparable to the subject's traditional small lots (Seabreeze). Data Nos. 7, 8, , 11 and 12 are the most comparable in lot sizes for the

mid-size subject product (Andalucia) while Data Nos. 1, 3 and 13 are most comparable to the subject's larger sized lots.

Premiums

As reflected in many of the market data items above, premiums for view and/or lot size is relatively common for many new developments in north San Diego County. Many of the homes sold and closed in Harmony Grove Village have obtained premiums and, in some cases, relatively strong premiums. Canterridge, also known as Hillside Cottage product, has received premiums that range from \$2,300 to over \$75,000 and average just over \$31,000. This product has the best view orientation of any of the Harmony Grove Village product that is currently available for sale. Lucitano is located more in the bowl of the core of the village with less ability to have view premiums although end lots and other conditions create premiums for size. Premiums for this product range from a negative \$12,000 to almost \$40,000 with an average premium of \$9,952 for homes closed. Premiums for the Seabreeze product ranges from negative \$6,750 to almost \$30,500 and average \$9,645 for the homes that have sold and closed escrow. Homes in Andalucia are all within Improvement Area No. 2 with premiums (mostly size and location) from \$5,500 to \$27,350 and an average of \$12,590 per lot.

Many of the homes not yet built within Harmony Grove Village will be on hillside locations providing view potential along with being on larger lots due to the lower density product. These products should garner higher premiums than the current selling products as summarized above.

Premiums are a component of the purchase price of the home that can make a significant impact on the revenues produced for the builder. In a strong market, premiums can accelerate rapidly. However, in a soft market, premiums are typically the first component that the builder reduces. Even though consideration is made in our estimation of finished lot values for the subject lots, premiums have only been considered as they relate to the ranges of market data indicators in the land sale data.

Retail Finished Lot Value Conclusions

Canteridge (aka, "Hillside Cottage") has a typical minimum lot size of 2,550 square feet (30' x 85'). Homes in this neighborhood are a cluster/courtyard concept, typically with four homes per cluster. As the product name suggests, the project is located along a ridge-line with a total 24 homes having views to the north. Eight lots are under construction and will be treated in this analysis as finished lots with two of the lots along the ridge-line enjoying the view. Land Sale No. 5 is the data item most similar to Canteridge however Data Nos. 2 and 4 are also considered to be relevant. Data No. 5 has a better location with a coastal influence and freeway access but does not have any view potential, is not in a master-planned community and has adjacent land uses that are not as attractive as that surrounding Canteridge. We have estimated finished lot values for Canteridge on the basis of \$240,000 per finished lot.

Lusitano (aka, "Village Cottage") is also a product on minimum lot sizes of 2,550 square feet (30' x 85') but in more of a conventional configuration with "alley-loaded" garage access. Land Sale No. 5 is most similar because of density/lot size to this subject product, however Land Sales No. 2 and 4 are also considered to be relevant. Even though this product has experienced premiums averaging over \$9,900 per home of homes sold, we have estimated the finished lot value for these lots at the low end of value indicators at \$230,000 per finished lot.

Seabreeze (aka, "Village Bungalow") is also a relatively small lot program with a typical minimum lot size of 3,600 square feet (36' x 100'). It is also an "alley-loaded" product with homes a bit larger than the Lusitano product. Again, even though premiums average over \$9,600, we have estimated finished lot value without specific premiums. Land Sale No. 6 is the best indication for these subject lots and we have estimated the finished lot values on the basis of \$265,000 per lot.

Andalucia (aka, "Village Home") consists of conventional lots typically with a 5,460-square foot minimum lot size (42' x 130'). Model homes and finished lots for this product are located within Improvement Area No. 1 with production homes for the product currently

under construction and being sold within Improvement Area No. 2. Andalusia lots are most similar to the lots in Land Sale Nos. 6 and 7, as well as the 5,200-square foot lots in Land Sale No. 10. The value for these finished lots are estimated on the basis of \$300,000 per lot.

Martingale (aka, "Live-Work") is located in the central core of the village and also consists of lots with a minimum of 2,550 square feet (30' x 85'). Product within this neighborhood is proposed to average about 2,256 square feet. Land Sale No. 1 is most comparable to this product. The finished lot value has been estimated on the basis of \$230,000 per lot.

"Village Court" is a program that, as of the date of value, does not have a marketing name and the lots need to be further subdivided for the product. There are five pads for this product within Improvement Area No. 1 that are approximately one acre each with eight courtyard units planned for each pad. This suggests a density of about 7.8 dwelling units per acre which is most comparable with Land Sale No. 5. These units will generally not have the same view characteristics as the Canteridge product and consequently we have estimated the finished lot value for these lots at \$220,000 per lot.

"Hillside Compound" is another cluster/courtyard program that has a similar density to the "Village Court" product. Pads for this program are more elevated however with many of the units having views. Lots for this product have been subdivided on semi-circular basis for the purpose of maximizing the view potential. The product, similar to "Village Court," also has eight units per pad. These pads are slightly larger at 1.26 acres indicating a density of 6.3 dwelling units per acre. Land Sale No. 5 is also most comparable to this product and, similar to the Canteridge product, this finished lot value has been estimated on the basis of \$230,000 per lot.

Whittingham (aka, "Hillside Farmhouse") is the largest product proposed for Harmony Grove Village with lots that range from 0.4 acres (17,424 square feet) to almost 1.2 acres (52,572 square feet). Land Sale No. 7 is most comparable to these subject lots. We have estimated revenues for these lots on the basis of \$425,000 per finished lot.

The following chart summarizes revenues as estimated for the residential finished lots within Harmony Grove Village.

<u>Product</u>	<u>Minimum Lot Size</u>	<u>No. Lots / Units</u>	<u>Finished Lot Value</u>	<u>Total Revenue</u>
Canteridge	2,550 S F	8	\$240,000	\$1,920,000
Lucitano	2,550 S F	34	\$230,000	\$7,820,000
Seabreeze	3,600 S F	50	\$265,000	\$13,250,000
Andalucia	5,460 S F	46	\$300,000	\$13,800,000
Martingale	2,550 S F	27	\$230,000	\$6,210,000
Village Court	SFD Condo	40	\$220,000	\$8,800,000
Hillside Compound	SFD Condo	24	\$230,000	\$5,520,000
Whittingham	One Acre	<u>27</u>	<u>\$425,000</u>	<u>\$11,475,000</u>
	Totals /Avg.	256	\$268,730	\$68,795,000

Commercial Land Value

In addition to revenues generated from finished residential lots, there are two small commercial sites located within the central core area of Harmony Grove Village. One of the sites is home to a historical house which may be incorporated into the commercial use. The house encompasses approximately 6,500 square feet of land resulting in the remaining commercial parcel being a minimum of 45,000 square feet or 1.03 acres. Research was conducted in the Inland North San Diego County area to find sales of commercial land to compare to these sites. Sales considered in estimating revenue for this component of the project are summarized on the chart below.

<u>Data No.</u>	<u>Location</u>	<u>Commercial Land Sale Summary</u>				<u>Comments</u>
		<u>Sale Date</u>	<u>Size Acres</u>	<u>Price</u>	<u>Price/ Sq. Ft.</u>	
1	S/S Elfin Forest Road between San Elijo Road, San Elijo, San Marcos	3/17	1.94	\$1,300,000	\$15.38	Irregular shaped generally finished superpad
2	220 W. Mission Ave. Escondido	11/16	1.57	\$1,350,000	\$19.74	Long escrow to obtain self-storage use.
3	E/S Vista Way, S/O Palomar Pl., Vista	6/16	4.62	\$3,050,000	\$15.16	Adjacent to existing retail center.
4	SWC Escondido Blvd. & 4 th Ave., Escondido	4/16	0.32	\$875,000	\$20.09	Small corner site in older area.
5	E/S Santa Anita Dr., N/O Santa Fe Ave., Vista	12/15	0.97	\$550,000	\$13.02	Poor commercial location. Slopes up.
6	E/S Rancho Santa Fe Rd. S/O La Mirada Dr. San Marcos	4/16	0.49	\$300,000	\$14.06	Buyer to hold for future commercial development.

Summarized data indicates a range between \$13 and \$20 per square foot of land area. In estimating revenue for the two subject commercial sites, consideration was given to various aspects of the comparable data including location, size, date of sale and physical characteristics. Data No. 1 has a better location compared to the subject but is considered to be similar as it is at entrance to a master planned community and is located within a CFD. Data No. 2 has a better location than the subject as it is in a more established area and is not located within a CFD. In addition, the long escrow suggests a higher unit price would be realized in the current market. Data No. 3 is better located than the subject and not within a CFD but is substantially larger. Typically, for neighborhood retail lands, a larger parcel is sold for a lower price per square foot due to economies of scale on construction. Data No. 4 is a smaller site and in a better location with no CFD. It indicates the highest price per square foot of commercial land sales found in the research. Data No. 5 is in a more established area with no CFD but the site does not have a good commercial location and will require substantial site work to make it suitable for development. Data No. 6 is a small site, in a good location in San Marcos with no CFD, although adjacent to secondary commercial uses.

The two subject commercial sites are located on both sides of Country Living Way and have frontage along Country Club Drive, one of the major access roads for Harmony Grove Village. Country Living Way is a major entrance to the core of the village terminating at the large community park. Proposed “Live-Work” product, to be called Martingale, is either adjacent or close to these commercial sites and face the park as well. The commercial sites are proposed to be neighborhood serving commercial uses and should enhance the adjacent properties.

Based on the comparable data and summarized considerations we have estimated the retail value of these sites at \$15 per square foot. This is summarized as follows:

Lot 74, Tract 5365-2	1.033 Ac.(45,000 SF)	X \$15/SF	\$675,000 ®
Lot 75, Tract 5365-2	1.623 Ac.(70,698 SF)	X \$15/SF	<u>\$1,060,000 ®</u>
		Total	\$1,735,000

Remaining Development Costs

As discussed under the property description section earlier within this report there are \$15,023 per lot in remaining hard costs for the builder owned 294 residential parcels which equates to \$3,845,888 in remaining development costs for the 256 residential lots being valued in this section. In addition, there is \$1,740,000 in remaining school fees bringing the total number of remaining costs to \$5,585,888. We have spread the costs evenly over the absorption period within the Discounted Cash Flow within the Subdivision Development Method.

Development Phasing

In the development of master-planned communities it is prudent for the developer to maximize value, to the degree possible, by creating revenue early in the program and “push-out” costs into the future. This is evident based on an inspection of existing product in Harmony Grove Village which consists mostly of the more conventional single family detached product while the future products include the large lot (half acre) program.

Empire Economics, Inc. has completed a “Market Absorption Study” on Harmony Grove Village, Improvement Area No. 1, dated June 15, 2017. They report that, as of June 5, 2017, there were 106 escrows that had closed in the currently selling neighborhoods within the subject project. Their estimated absorption schedule for remaining homes in Improvement Area No. 1 are summarized as follows:

<u>Product</u>	<u>Closed</u>	<u>Remaining</u>	<u>Estimated Closing</u>	<u>Avg.Sales /Mo.</u>
Lusitano	39	58	By Early 2019	3.0
Canteridge	43	26	By December, 2018	1.4
Seabreeze	24	85	By Mid-2019	3.5
Andalucia	0	49	During 2020-2021	2.0
Whittingham	0	27	During 2018-2020	0.75
Village Court	0	40	During 2018-2019	1.7
Martingale	0	27	During 2020-2022	0.75
Hillside Compound	0	24	During 2020-2022	0.67
Totals	106	336		

This estimated absorption schedule reflects the sale of homes within the project but not the sale of land. In master-planned communities the land developer typically negotiates the sale of land a year to 18 months prior to construction of models and sale of homes. We have utilized the above absorption schedule as a guide in estimating the sale of land

with land revenues being obtained roughly a year prior to model opening. For the existing projects, we assume the land sale would occur following the absorption of the remaining inventory. The following chart summarizes the estimated absorption of the subject lots assuming sale to builders.

<u>Product</u>	<u># Lots</u>	<u>Land Closing</u>
Lusitano	34	Q4, 2017
Canteridge	8	Q3, 2017
Seabreeze	50	Q4, 2017
Andalucia	46	Q2, 2018
Whittingham	27	Q3, 2018
Village Court	40	Q3, 2018
Martingale	27	Q1, 2019
Hillside Compound	<u>24</u>	Q2, 2019
Totals	<u>256</u>	

The subject lots are in a generally physically finished condition with most fees paid and minimal development costs remaining. We have been provided a “Job Cost Report” by CalAtlantic Group dated September 7, 2017. The remaining hard costs, as provided by the developer/builder, amounts to \$4,416,704 which is equivalent to \$15,023 per lot for the remaining 294 lots, 256 which are being valued in this section. The remaining 38 are improved, builder-owned lots. The costs associated with these 38 lots will be considered under the valuation of the improved property. In addition, school fees need to be paid on the remaining 200 lots which have not yet begun construction. These estimated fees average \$8,700 per lot which equates to total remaining school fees of \$1,740,000. Based on our experience these appear to be reasonable amounts, however, we are not experts in land development costs and are relying on this estimate. It is an extraordinary assumption of this appraisal that the costs are reasonable and accurate. Should actual costs differ substantially from costs provided, there may be a material impact on our conclusions and we reserve the right to adjust our value accordingly. It is assumed that the developer will spend the remaining costs evenly over the next six quarters. A CFD is a common financing mechanism used in most all master planned communities in San Diego County as well as for larger subdivisions. This mechanism was created by law in California in 1982 and allows governmental agencies to help finance needed community facilities and services. It requires a two-thirds approval vote by qualified “electors” which in the case of the subject property, was the land owner. CFD No. 2008-1 IA 1 covers the

subject property and is financing public improvements associated with the project. Most of the market data also have CFDs in place. Consideration has been made for various overall tax rates.

Discount Rate

The discount used should be a market derived rate that is based on market conditions at the date of value and reflects the rate of return, profit and risk needed to attract debt and equity capital to the property. The subject property was discussed with land developers, equity capital sources and builders to determine an appropriate rate to use in discounting the net cash flows. Generally, the responses were in a range from 18% to 30%. The higher end of the range were for properties in secondary locations without full entitlements. Consensus for a property like the subject, with an Inland North San Diego County location, full entitlements and grading complete (alleviates the majority of construction risk) was at the lower end of the range. Based on this a range from 18% to 22% for discount rates has been used.

Land Final Valuation

A copy of the DCF is located in the Addenda for your review. The concluded bulk value for the developer owned lands ranges from \$52,260,208 to \$53,890,986 with our conclusion at \$53,000,000.

House Valuation Analysis

Below is a summary of the four neighborhoods and the various floor plans within Harmony Grove that are located within Improvement Area No. 1. If a plan has optional square footage, the valuation will be based on the base plan size. A listing of the improved residential comparable properties is located in the Addenda of this report.

Plan	Room Count	Floors/ Parking	Sq. Ft.	Ind. Owned	Bldr. Owned
Canteridge					
1	3 / 2.5	2 / 2	1,920	6	1*
2	3 / 3	2 / 2	1,922	21	2*
3	4 / 3	2 / 2	2,075	14	2*
3X	4 / 3	2 / 2	2,136	<u>14</u>	<u>1*</u>
Subtotal Canteridge				55	6
Seabreeze					
1	4 / 3	2 / 2	2,185	17	6*
2	4 / 3	2 / 2	2,519	12	7*
3	4 / 3.5	2 / 2	2,783	13	4*
4	4 / 3	2 / 2	2,277	<u>0</u>	<u>0</u>
Subtotal Seabreeze				42	17
Lusitano					
1	3 / 2.5	2 / 2	1,684	16	4*
2	3 / 2.5	2 / 2	1,875	17	5*
3	4 / 3	2 / 2	2,018	<u>18</u>	<u>3*</u>
Subtotal Lusitano				51	12
Andalucia					
1	4 / 4.5	2 / 2	3,027	0	1*
2	4 / 4.5	2 / 2	3,182	0	1*
3	5 / 4.5	2 / 3	3,640	0	1*
4	4 / 3.5	2 / 2	2,980	<u>0</u>	<u>0</u>
Subtotal Andalucia				0	3
Total				148	38

*One of each of these plans is a model home.

In addition to the above shown houses: within Canteridge there are eight homes under construction and no remaining lots; within Seabreeze there are 20 homes under construction and 30 remaining lots; within Lusitano there are 28 homes under construction and six remaining lots; and, within Andalucia - there are no homes under construction and 46 remaining lots. It should be noted that Andalucia also has homes within Improvement Area 2 which are not included in this appraisal report. The home plans will be valued below using the Improved Residential Sales Data located in the Addenda.

Canteridge

Within County of San Diego CFD No. 2008-01 Improvement Area No. 1 there are 55 individually owned houses, six builder owned homes over 95 percent complete (including four model homes) and eight homes under construction. The homes under construction

have been valued in the Subdivision Development Method/DCF on the basis of a finished lot rather than attribute value to a partially complete improvement.

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

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/\$F
Subj	1	3 / 2.5	2 / 2	1,920	—
1	2	3 / 3	2 / 2	1,922	\$280.18
2	1	4 / 3	2 / 2	2,185	\$261.78
3	2	3 / 2.5	2 / 2	1,875	\$284.00
3	3	4 / 3	2 / 2	2,018	\$268.83
8	1	3 / 2.5	2 / 2	2,211	\$289.46

All new home comparables are located within Harmony Grove or Rancho Tesoro approximately 2 ½ miles west of Harmony Grove. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$261.78 to \$289.46 per square foot. The subject Plan 1 had an asking price of \$263.38 per square foot at time of sell-out. There have been seven closings of Plan 1 (one that is “not a part” of CFD 2008-01) with sales prices from \$271.54 to \$305.40 per square foot. There are currently no remaining Plan 1s except the model, thus there are no escrows. The final closing was in March 2017. Since March the market has seen price increases. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. The Canteridge neighborhood is on a ridge allowing for views from some of the lots. While we are not appraising each specific lot, we have considered the views as an overall average in our analysis. It has been concluded that Plan 1 has a base current market value of \$275.00 per square foot. This calculates as follows:

$$1,920 \text{ sf} \times \$275.00 = \$528,000$$

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

Data	Plan	Rm. Ct.	Flrs /Pkg.	Sq. Ft.	Price/\$F
Subj	2	3 /3	2 /2	1,922	—
1	1	3 /2.5	2 /2	1,920	\$263.38
1	3	4 /3	2 /2	2,075	\$255.66
2	1	4 /3	2 /2	2,185	\$261.78
3	2	3 /2.5	2 /2	1,875	\$284.00
3	3	4 /3	2 /2	2,018	\$268.83
8	1	3 /2.5	2 /2	2,211	\$289.46

All new home comparables are located within Harmony Grove or Rancho Tesoro approximately 2 ½ miles west of Harmony Grove. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$255.66 to \$289.46 per square foot. The subject Plan 2 has a current asking price of \$280.18 per square foot. There have been 21 closings of Plan 2 (one that is “not a part” of CFD 2008-01) with sales prices from \$276.40 to \$328.40 per square foot, however the one that sold for \$328.40 included the largest lot within the neighborhood. There are four current escrows of Plan 2 with sales pricing ranging from \$287.83 to \$303.84 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. The Canteridge neighborhood is on a ridge allowing for views from some of the lots. While we are not appraising each lot, we have considered the views as an overall average in our analysis. It has been concluded that Plan 2 has a base current market value of \$277.00 per square foot. This calculates as follows:

$$1,922 \text{ sf} \times \$277.00 = \$532,394$$

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

Data	Plan	Rm. Ct.	Flrs /Pkg.	Sq. Ft.	Price/\$F
Subj	3	4 /3	2 /2	2,075	—
1	2	3 /3	2 /2	1,922	\$280.18
1	3X	4 /3	2 /2	2,136	\$258.19
2	1	4 /3	2 /2	2,185	\$261.78
2	4	4 /3	2 /2	2,277	\$252.52
3	3	4 /3	2 /2	2,018	\$268.83
8	1	3 /2.5	2 /2	2,211	\$289.46

All new home comparables are located within Harmony Grove or Rancho Tesoro approximately 2 ½ miles west of Harmony Grove. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$249.77 to \$289.46 per square foot. The subject Plan 3 has a current asking price of \$264.34 per square foot. There have been 14 closings of Plan 3 with sales prices from \$281.91 to \$333.49 per square foot, however the one that sold for \$333.49 had a view premium over \$50,000. The Plan 3 and 3X homes are located on the superior view parcels with an average view/lot premium for Plan 3 of over \$42,000 which equates to about \$20.00 per square foot. There are four current escrows of Plan 3 with sales pricing ranging from \$288.89 to \$314.81 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. The Canteridge neighborhood is on a ridge allowing for views from some of the lots. While we are not appraising each lot, we have considered the views as an overall average in our analysis. It has been concluded that Plan 3 has a base current market value of \$262.00 per square foot. This calculates as follows:

$$2,075 \text{ sf} \times \$262.00 = \$543,650$$

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

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/\$F
Subj	3X	4 / 3	2 / 2	2,136	—
1	2	3 / 3	2 / 2	1,922	\$280.18
1	3	4 / 3	2 / 2	2,075	\$264.34
2	1	4 / 3	2 / 2	2,185	\$261.78
2	4	4 / 3	2 / 2	2,277	\$252.52
3	3	4 / 3	2 / 2	2,018	\$268.83
8	1	3 / 2.5	2 / 2	2,211	\$289.46

All new home comparables are located within Harmony Grove or Rancho Tesoro approximately 2 ½ miles west of Harmony Grove. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count,

garage space and other amenities. The comparable new home sales have base prices ranging from \$252.52 to \$289.46 per square foot. The subject Plan 3X has a current asking price of \$258.19 per square foot. There have been 14 closings of Plan 3X with sales prices from \$257.55 to \$337.01 per square foot. The Plan 3 and 3X homes are located on the superior view parcels with an average view/lot premium for Plan 3X of over \$48,000 which equates to about \$22.00 per square foot. There are two current escrows of Plan 3X with sales pricing ranging from \$273.31 to \$330.49 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. The Canteridge neighborhood is on a ridge allowing for views from some of the lots. While we are not appraising each lot, we have considered the views as an overall average in our analysis. It has been concluded that Plan 3X has a base current market value of \$257.00 per square foot. This calculates as follows:

$$2,136 \text{ sf} \times \$257.00 = \$548,952$$

Seabreeze

Within County of San Diego CFD No. 2008-01 Improvement Area No. 1 there are 42 individually owned houses, 17 builder owned homes over 95 percent complete (including three model homes), 20 homes under construction and 30 remaining finished lots. The homes under construction will be valued on the basis of a finished lot rather than attribute value to a partially complete improvement.

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

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	1	4 / 3	2 / 2	2,185	—
1	3	4 / 3	2 / 2	2,075	\$264.34
1	3X	4 / 3	2 / 2	2,136	\$258.19
2	4	4 / 3	2 / 2	2,277	\$252.52
3	3	4 / 3	2 / 2	2,018	\$268.83
8	1	3 / 2.5	2 / 2	2,211	\$289.46
8	2	4 / 3	2 / 2	2,392	\$275.50

All new home comparables are located within Harmony Grove or Rancho Tesoro approximately 2 ½ miles west of Harmony Grove. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories,

sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$252.52 to \$289.46 per square foot. The subject Plan 1 had an asking price of \$261.58 per square foot. There have been 17 closings of Plan 1 with sales prices from \$243.23 to \$295.07 per square foot. There are currently 10 Plan 1's in escrow with sales pricing ranging from \$268.15 to \$289.29 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. It has been concluded that Plan 1 has a base current market value of \$260.00 per square foot. This calculates as follows:

$$2,185 \text{ sf} \times \$260.00 = \$568,100$$

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

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	2	4 / 3	2 / 2	2,519	—
2	3	4 / 3.5	2 / 2	2,783	\$217.30
2	4	4 / 3	2 / 2	2,277	\$252.52
4	4	4 / 3.5	2 / 2	2,980	\$213.56
7	1	5 / 3	2 / 2	2,801	\$262.55
8	3	4 / 3	2 / 2	2,550	\$264.71
9	2	5 / 3	2 / 2	2,646	\$262.79
10	2	5 / 3	2 / 3	2,875	\$244.21

All new home comparables are located within Harmony Grove, Rancho Tesoro or in Escondido proper, within three miles of Harmony Grove. While Market Data No. 10 is located on much larger lots (minimum 10,000 square feet), this is partially offset by the amenities associated with the master planned community in both Harmony Grove and Rancho Tesoro. The homes are all of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$213.56 to \$264.71 per square foot. The subject Plan 2 has an asking price less concessions of \$231.44 per square foot. There have been 12 closings of Plan 2 with sales prices from \$220.14 to \$294.95 per square foot however the home that sold for \$294.95 had over

\$90,000 in options or about \$35.00 per square foot. There are currently 13 Plan 2s in escrow with sales pricing ranging from \$236.48 to \$269.14 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. It has been concluded that Plan 1 has a base current market value of \$230.00 per square foot. This calculates as follows:

$$2,519 \text{ sf} \times \$230.00 = \$579,370$$

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

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	3	4 / 3.5	2 / 2	2,783	—
2	2	4 / 3	2 / 2	2,519	\$231.44
4	1	4 / 4.5	2 / 2	3,027	\$212.22
4	4	4 / 3.5	2 / 2	2,980	\$213.56
6	3	4 / 3.5	2 / 3	3,012	\$223.56
7	1	5 / 3	2 / 2	2,801	\$262.55
9	2	5 / 3	2 / 2	2,646	\$262.79
9	3	5 / 3.5	2 / 2	3,009	\$242.92
10	2	5 / 3	2 / 3	2,875	\$244.21

All new home comparables are located within Harmony Grove, Rancho Tesoro or in San Marcos or Escondido proper, within three miles of Harmony Grove. While Market Data Nos. 6 and 10 are located on much larger lots (minimum 10,000 square feet), this is partially offset by the amenities associated with the master planned community in both Harmony Grove and Rancho Tesoro. The homes are all of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$212.22 to \$262.79 per square foot. The subject Plan 3 has an asking price less concessions of \$217.39 per square foot. There have been 13 closings of Plan 3 with sales prices from \$215.02 to \$255.88 per square foot. There are currently five Plan 3s in escrow with sales pricing ranging from \$224.90 to \$242.86 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. It has been concluded that Plan 3 has a base current market value of \$217.00 per square foot. This calculates as follows:

$$2,783 \text{ sf} \times \$217.00 = \$603,911$$

The most appropriate new home comparable data for Plan 4 are:

Data	Plan	Rm. Ct.	Fhrs/Pkg.	Sq. Ft.	Price/SF
Subj	4	4 / 3	2 / 2	2,277	—
1	3X	4 / 3	2 / 2	2,136	\$258.19
2	1	4 / 3	2 / 2	2,185	\$261.78
3	3	4 / 3	2 / 2	2,018	\$268.83
8	1	3 / 2.5	2 / 2	2,211	\$289.46
8	2	4 / 3	2 / 2	2,392	\$275.50

All new home comparables are located within Harmony Grove or Rancho Tesoro approximately 2 ½ miles west of Harmony Grove. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$258.19 to \$289.46 per square foot. The subject Plan 4 had an asking price of \$252.52 per square foot. There have not been any closings of Plan 4s within Seabreeze as there are none complete at this time. There are currently five Plan 4s in escrow with sales pricing ranging from \$244.45 to \$292.74 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. It has been concluded that Plan 4 has a base current market value of \$252.00 per square foot. This calculates as follows:

$$2,277 \text{ sf} \times \$252.00 = \$573,804$$

Lusitano

Within County of San Diego CFD No. 2008-01 Improvement Area No. 1 there are 51 individually owned houses, 12 builder owned homes over 95 percent complete (including three model homes), 28 homes under construction and six remaining finished lots. The

homes under construction will be valued on the basis of a finished lot rather than attribute value to a partially complete improvement.

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

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	1	3 / 2.5	2 / 2	1,684	—
1	1	3 / 2.5	2 / 2	1,920	\$263.38
1	2	3 / 3	2 / 2	1,922	\$280.18
3	2	3 / 2.5	2 / 2	1,875	\$284.00
3	3	4 / 3	2 / 2	2,018	\$268.83
8	1	3 / 2.5	2 / 2	2,211	\$289.46

All new home comparables are located within Harmony Grove or Rancho Tesoro approximately 2 ½ miles west of Harmony Grove. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$263.38 to \$289.46 per square foot. The subject Plan 1 had an asking price of \$298.99 per square foot. The subject has the smallest plans of detached homes in all of the comparables. Typically a smaller home sells for a higher price per square foot due to the price savings when building on the economies of scale. There have been 16 closings of Plan 1 with sales prices ranging from \$293.39 to \$327.75 per square foot. There are currently seven Plan 1s in escrow with sales prices ranging from \$301.49 to \$321.03 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. It has been concluded that Plan 1 has a base current market value of \$298.00 per square foot. This calculates as follows:

$$1,684 \text{ sf} \times \$298.00 = \$501,832$$

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

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	2	3 / 2.5	2 / 2	1,875	—
1	1	3 / 2.5	2 / 2	1,920	\$263.38
1	2	3 / 3	2 / 2	1,922	\$280.18
3	1	3 / 2.5	2 / 2	1,684	\$298.99
3	3	4 / 3	2 / 2	2,018	\$268.83
8	1	3 / 2.5	2 / 2	2,211	\$289.46

All new home comparables are located within Harmony Grove or Rancho Tesoro approximately 2 ½ miles west of Harmony Grove. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$263.38 to \$298.99 per square foot. The subject Plan 2 had an asking price less concessions of \$284.00 per square foot. The subject has the smallest plans of detached homes in all of the comparables. Typically, a smaller home sells for a higher price per square foot due to the price savings when building on the economies of scale. There have been 17 closings of Plan 2 with sales prices ranging from \$257.84 to \$312.94 per square foot. There are currently eleven Plan 2s in escrow with sales prices ranging from \$280.09 to \$318.66 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. It has been concluded that Plan 2 has a base current market value of \$275.00 per square foot. This calculates as follows:

$$1,875 \text{ sf} \times \$275.00 = \$515,625$$

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

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	3	4 / 3	2 / 2	2,018	—
1	2	3 / 3	2 / 2	1,922	\$280.18
1	3X	4 / 3	2 / 2	2,136	\$258.19
2	1	4 / 3	2 / 2	2,185	\$261.78
2	4	4 / 3	2 / 2	2,277	\$252.52
3	2	3 / 2.5	2 / 2	1,875	\$284.00
8	1	3 / 2.5	2 / 2	2,211	\$289.46

All new home comparables are located within Harmony Grove or Rancho Tesoro approximately 2 ½ miles west of Harmony Grove. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$252.52 to \$289.46 per square foot. The subject Plan 3 had an asking price of

\$268.83 per square foot. There have been 18 closings of Plan 3 with sales prices ranging from \$258.87 to \$304.13 per square foot. There are currently ten Plan 3s in escrow with sales prices ranging from \$268.15 to \$289.21 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. It has been concluded that Plan 3 has a base current market value of \$265.00 per square foot. This calculates as follows:

$$2,018 \text{ sf} \times \$265.00 = \$534,770$$

Andalucia

Within County of San Diego CFD No. 2008-01 Improvement Area No. 1 there are no individually owned houses, three builder owned homes (all models) and 46 remaining finished lots. The Andalucia neighborhood is partially located in Improvement Area No. 1 and partially in Improvement Area No. 2. The homes that have closed and are under construction are located in Improvement Area 2 which are not included in this appraisal. Thus, only the three model homes and 46 lots will be valued within Andalucia.

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

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/\$F
Subj	1	4 / 4.5	2 / 2	3,027	—
2	3	4 / 3.5	2 / 2	2,783	\$217.39
4	2	4 / 4.5	2 / 2	3,182	\$205.50
4	4	4 / 3.5	2 / 2	2,980	\$213.56
5	1	5 / 4	2 / 3	3,017	\$262.15
6	3	4 / 3.5	2 / 3	3,012	\$223.56
9	3	5 / 3.5	2 / 2	3,009	\$242.92
10	3	5 / 3	2 / 3	3,192	\$223.55

All new home comparables are located within Harmony Grove, Rancho Tesoro or in San Marcos, Vista or Escondido proper, within five miles of Harmony Grove. While Market Data Nos. 6 and 10 are located on much larger lots (minimum 10,000 square feet), this is partially offset by the amenities associated with the master planned community in both Harmony Grove and Rancho Tesoro. The homes are all of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage

space and other amenities. The comparable new home sales have base prices ranging from \$205.50 to \$262.15 per square foot. The subject Plan 1 has an asking price less concessions of \$212.22 per square foot. There have been ten closings of Plan 1 with sales prices from \$218.09 to \$267.44 per square foot. The closing at the highest end of the range included over \$100,000 of upgrades and options which equates to about \$33.00 per square foot. There are currently seven Plan 1s in escrow with sales pricing ranging from \$210.37 to \$290.98 per square foot however the sale at the high end included over \$200,000 in upgrades and options which equates to over \$66.00 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. It has been concluded that Plan 1 has a base current market value of \$212.00 per square foot. This calculates as follows:

$$3,027 \text{ sf} \times \$212.00 = \$641,724$$

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

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	2	4 / 4.5	2 / 2	3,182	—
2	3	4 / 3.5	2 / 2	2,783	\$217.39
4	3	5 / 4.5	2 / 3	3,640	\$188.02
4	4	4 / 3.5	2 / 2	2,980	\$213.56
5	2	5 / 4	2 / 3	3,449	\$235.98
6	4	5 / 4.5	2 / 3	3,402	\$211.32
8	3	5 / 3.5	2 / 2	3,009	\$242.92
10	3	5 / 3	2 / 3	3,192	\$223.35
11	1	5 / 4	2 / 3	3,061	\$238.97

All new home comparables are located within Harmony Grove, Rancho Tesoro or in San Marcos, Vista or Escondido proper, within five miles of Harmony Grove. While Market Data Nos. 6, 10 and 11 are located on much larger lots (minimum 10,000 square feet), this is partially offset by the amenities associated with the master planned community in both Harmony Grove and Rancho Tesoro. The homes are all of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$188.02 to \$242.92 per square foot. The lowest end of the range is for the

largest sized home. A larger home typically sells for a smaller price per square foot due to economies of scale during construction. The subject Plan 2 has an asking price less concessions of \$205.50 per square foot. There have been seven closings of Plan 2 with sales prices from \$217.75 to \$258.50 per square foot. The closing at the highest end of the range included over \$80,000 of upgrades and options which equates to about \$25.00 per square foot. There are currently six Plan 2s in escrow with sales pricing ranging from \$214.09 to \$256.01 per square foot however the high end of the range purchased over \$100,000 in upgrades. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder.

All homes appear to be in excellent condition with little to no physical depreciation visible. It has been concluded that Plan 2 has a base current market value of \$205.00 per square foot. This calculates as follows:

$$3,182 \text{ sf} \times \$205.00 = \$652,310$$

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

Data	Plan	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	3	5 / 4.5	2 / 3	3,640	—
4	2	4 / 4.5	2 / 2	3,182	\$205.50
5	2	5 / 4	2 / 3	3,449	\$235.98
6	4	5 / 4.5	2 / 3	3,402	\$211.32
10	3	5 / 3	2 / 3	3,192	\$223.55
11	4	5 / 4	2 / 3	2,606	\$209.93

All new home comparables are located within Harmony Grove, Rancho Tesoro or in San Marcos, Vista or Escondido proper, within five miles of Harmony Grove. While Market Data Nos. 10 and 11 are located on much larger lots (minimum 10,000 square feet), this is partially offset by the amenities associated with the master planned community in both Harmony Grove and Rancho Tesoro. The homes are all of similar quality, design and appeal. Adjustments were considered (when applicable) for location, views, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home sales have base prices ranging from \$205.50 to \$235.98 per square foot. The subject Plan 3 is the largest plan in the comparables and has an asking price of \$188.02 per square foot. There have been seven closings of Plan 3 with sales prices from \$191.73 to \$224.46 per square foot. There

are currently three Plan 3s in escrow with sales pricing ranging from \$203.76 to \$226.48 per square foot. It should be noted the reported sales prices include premiums and options purchased by the buyer as well as any concessions given by the builder. All homes appear to be in excellent condition with little to no physical depreciation visible. It has been concluded that Plan 3 has a base current market value of \$187.00 per square foot. This calculates as follows:

$$3,640 \text{ sf} \times \$187.00 = \$680,680$$

Builder Owned Retail Value

Within each neighborhood there are some model homes. Per interviews with builders, upgrades and landscape/hardscape of up to \$100,000 are installed in the model homes, however, the builders generally consider this a marketing cost and do not anticipate recovering this investment on a dollar for dollar basis. Based on historical information, home sizes and fixtures, actual model home sales within the subject area and the current real estate market, a consideration of a \$40,000 premium has been included with each of the model homes for Canteridge, Seabreeze and Lusitano while a \$50,000 premium has been included for Andalucia as the models are larger and a more luxury product. The retail base value conclusions for the builder-owned homes are calculated as follows:

Canteridge:

Plan 1 (1 x \$528,000)	\$ 528,000
Plan 2 (2 x \$532,394)	1,064,788
Plan 3 (2 x \$543,650)	1,087,300
Plan 3X (1 x \$548,952)	548,952
Model Upgrades (4 x \$40,000)	160,000
Total Canteridge	<u>\$ 3,389,040</u>

Seabreeze:

Plan 1 (6 x \$568,100)	\$ 3,408,600
Plan 2 (7 x \$579,370)	4,055,590
Plan 3 (4 x \$603,911)	2,415,644
Plan 4 (0 x \$573,804)	0
Model Upgrades (3 x \$40,000)	120,000
Total Seabreeze	<u>\$ 9,999,834</u>

Lusitano:

Plan 1 (4 x \$501,832)	\$ 2,007,328
Plan 2 (5 x \$515,625)	2,578,125
Plan 3 (3 x \$534,770)	1,604,310
Model Upgrades (3 x \$40,000)	120,000
Total Lusitano	<u>\$ 6,309,763</u>

Andalucia:

Plan 1 (1 x \$641,724)	\$ 641,724
Plan 2 (1 x \$652,310)	652,310
Plan 3 (1 x \$680,680)	680,680
Model Upgrades (3 x \$50,000)	<u>150,000</u>
Total Andalucia	<u>\$ 2,124,714</u>

Absorption Period

In order to arrive at an absorption period for the builder owned homes within Harmony Grove, the absorption rates for each project have been reviewed. There is an overall average closing rate for all projects within Harmony Grove of 9.48 sales per month. The average sales rates for each neighborhood are as follows: Canteridge has an average sales rate of 2.30 sales per month, however they are nearing sell-out with only a couple plans left. Seabreeze has an average sales rate of 2.78 sales per month; Lusitano has an average sales rate of 2.93 sales per month; and, Andalucia (all sales thus far outside of CFD 2008-1 IA 1) has an average sales rate of 1.48 sales per month. In addition to reviewing actual sales rates, we have reviewed Empire Economics Market Absorption Study on Harmony Grove Village Improvement Area No. 1.

Canteridge has six builder owned completed homes including four models (not released) and two production homes over 95 percent complete that are owned by the builder. The average sales rate thus far has been 2.30 homes per month. We have also reviewed Empire Economic's Market Absorption Study which estimates that Canteridge will sell approximately 1.37 homes per month. It should be noted that Empire Economics is referring to 26 (total remaining) homes within Canteridge while our review is of the six, current builder-owned homes. We have concluded that the six Canteridge builder-owned homes will be absorbed over a three-month time period.

Seabreeze has seventeen builder owned completed homes including three models (not released) and fourteen production homes over 95 percent complete (twelve in escrow) that are owned by the builder. The average sales rate thus far has been 2.78 homes per month. We have also reviewed Empire Economics Market Absorption Study which estimates that Seabreeze will sell approximately 3.54 homes per month. It should be noted that Empire

Empire Economics is referring to 85 (total remaining) homes within Seabreeze while our absorption review is of the seventeen current builder-owned homes. We have concluded that the seventeen Seabreeze builder-owned homes (twelve in escrow) will be absorbed over a five-month time period.

Lusitano has twelve builder owned completed homes including three models (not released) and nine production homes (all in escrow) over 95 percent complete that are owned by the builder. The average sales rate thus far has been 2.93 homes per month. We have also reviewed Empire Economics Market Absorption Study which estimates that Lusitano will sell an average of 2.75 homes per month. It should be noted that Empire Economics is referring to 58 (total remaining) homes within Lusitano while our absorption review is of the twelve current builder-owned homes. We have concluded that the twelve Lusitano builder-owned homes (nine in escrow) will be absorbed over a four-month time period.

Andalucia has three builder owned completed homes within the subject property (not released). Andalucia is currently selling the homes in Improvement Area No. 2, however, the model homes are located within CFD 2008-1 IA 1. The average sales rate within Andalucia (outside of subject property) has been 1.48 homes per month. We have reviewed Empire Economic's Market Absorption Study which estimates that Andalucia will sell an average of over 2.0 homes per month. It should be noted that Empire Economics is referring to 49 (total remaining) homes within Andalucia with the absorption beginning, after the homes outside of the subject property are sold-out, in 2020 and 2021. Our absorption refers to the three model homes being sold off immediately. We have concluded that the three Andalucia builder-owned homes (none in escrow) will be absorbed over a three-month time period.

Remaining Costs

As discussed earlier within this report the developer owned property has some remaining costs which equate to \$15,023 per unit. This will be taken into consideration within each of the separate discounted cash flow analyses.

Expenses

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

Profit

Several interviews with merchant builders in the area were conducted in order to determine an appropriate profit percentage for the subject properties. In the early 2000s, developers typically attempted to achieve a 10 to 12 percent profit based on gross sales proceeds. During the Great Recession, this range was lowered considerably to six to eight percent with some builders drastically lowering their profit potential in order to maintain their work force. As the market improved, so did the profits. This appears to be occurring once again as prices have increased in the past year. An eight percent profit is considered appropriate in the analysis for these neighborhoods.

Discount Rate

In selecting a discount rate, the following was completed:

1. Interviews with merchant builders in the North San Diego area
2. Review of current market conditions including current market rates as well as yields reflected in other markets (i.e., municipal bonds, corporate bonds, etc.)
3. The quality, construction, historical sales and product on the subject properties
4. Discussed the project with equity investors and master plan community developers

The homes within the subject property have been well received in the marketplace with average to good absorption rates. Due to the good sales rates and minimal supply, a ten percent discount rate is considered appropriate for the subject neighborhoods.

Discounted Cash Flow Summary

The discounted revenue (see DCF Analyses in Addenda) for the builder owned homes resulted in the values shown on the following page:

- Canteridge – \$2,711,342
- Seabreeze – \$7,944,752
- Lusitano – \$5,015,012
- Analucia – \$1,711,094

CalAtlantic Ownership

CalAtlantic owns 13 models, 25 production homes, 56 homes under construction, 200 finished residential lots and two commercial parcels within County of San Diego 2008-1 Improvement Area No. 1. The homes under construction (under 95 percent complete) have been valued on the basis of a finished lot rather than attribute value to a partially complete improvement. The builder-owned homes have been valued under each neighborhood. The homes under construction (valued as finished lots) along with the finished lots have been included in the Subdivision Development Method/Discounted Cash Flow Analysis in order to conclude at a bulk value for the builder owned remaining lots.

The final value conclusion for the builder owned property is shown below.

Builder Owned Homes –	
Canteridge	\$2,711,342
Seabreeze	7,944,752
Lusitano	5,015,012
Andalucia	1,711,094
Builder Owned Lots –	<u>53,000,000</u>
Total CalAtlantic Property	<u>\$ 70,382,200</u>

Individual Owners Value Conclusion

In determining the value for the individually owned homes, we have considered the concluded base price value for the homes which is considered a minimum market value. This is due to homebuyers typically purchasing some addition upgrades, options or pay some premiums for the lot. The concluded values are shown on the following page:

Canteridge:

Plan 1 (6 x \$528,000)	\$ 3,168,000
Plan 2 (21 x \$532,394)	11,180,274
Plan 3 (14 x \$543,650)	7,611,100
Plan 4 (14 x \$548,952)	<u>7,685,328</u>
Total Canteridge	<u>\$29,644,702</u>

Seabreeze:

Plan 1 (17 x \$568,100)	\$ 9,657,700
Plan 2 (12 x \$579,370)	6,952,440
Plan 3 (13 x \$603,911)	7,850,843
Plan 4 (0 x \$573,380)	0
Total Seabreeze	<u>\$24,460,983</u>

Lusitano:

Plan 1 (16 x \$501,832)	\$ 8,029,312
Plan 2 (17 x \$515,625)	8,765,625
Plan 3 (18 x \$534,770)	<u>9,625,860</u>
Total Lusitano	<u>\$ 26,420,797</u>

Total Individ.-Owned Minimum Value \$ 80,526,482

In an additional analysis, we have reviewed the original builder sales prices for the homes. Closings occurred between October 2015 and September 10, 2017. The builder's reported closing prices for the individually owned homes totals \$82,089,630. The concluded current minimum market value of \$80,526,482 is 1.9 percent lower than the actual sales prices. Within Canteridge, actual closing prices were \$31,257,500 which is 5.2 percent lower than the concluded minimum values. The Canteridge product included view premiums which, while we took into account the location and possible views, the concluded value is considered a mass appraisal and does not look at each home and allow for view potential. Lot premiums included in the actual sales prices of Canteridge totaled \$1,704,638. In addition, the actual closing prices include upgrades and options purchased by the homeowner along with the concessions given by the builder. Home prices have increased which offsets a portion of the upgrades, options and premiums difference. Within Seabreeze actual closing prices were \$24,580,860 or about 0.5 percent higher than the concluded minimum values. While Seabreeze doesn't have much

view potential, there were lot premiums (due to size), options and upgrades purchased which was offset by the increasing pricing of the Seabreeze product. Within Lusitano the actual closing prices were \$26,251,270 which is actually 0.6 percent lower than the concluded minimum market value. The actual prices included lot premiums, upgrades and options purchased which are offset by price increases that have occurred within Lusitano. Typically a higher priced home attracts buyers who purchase more options which would suggest that Seabreeze and Canteridge have higher purchase prices due to premiums, options and upgrades. The concluded values do not include the upgrades, options and premiums in the minimum market valuation however concessions are considered which would suggest that the actual sales prices would be higher than the concluded values, however this is offset by increasing pricing. It is our conclusion that the original builder sales prices further substantiate the concluded minimum market value for the individually owned homes.

APPRAISAL REPORT SUMMARY

The appraisal assignment was to value the subject property within the County of San Diego CFD No. 2008-1 Improvement Area No. 1 which includes 442 single-family lots and two small commercial parcels being developed into a portion of the master planned community of Harmony Grove Village by CalAtlantic Homes. The entire Harmony Grove Village master plan is proposed for 736 homes however this appraisal is for Improvement Area No. 1 only and does not include Improvement Area No. 2. There are four neighborhoods currently selling within Improvement Area No. 1 known as Canteridge, Seabreeze, Lusitano and Andalucia. All lots are in a generally finished condition and range from completed, individually owned homes to builder owned homes, to homes under construction and finally to finished lots. Closings began in October 2015 with 148 homes closed to individuals as of September 10, 2017. The project is experiencing average to good sales rates with some apparent price increases. All structures appear to be in excellent condition with no visible depreciation. We have reviewed builder sales and reviewed the local MLS for re-sales.

The subject property was valued utilizing the Sales Comparison Approach to value, a Subdivision Development Method using a Discounted Cash Flow and a mass appraisal technique for the individually owned homes. A minimum value was determined by concluding at a base value for the homes. The valuation took into account the improvements/benefits to be funded by the Special Tax CFD 2008-01 IA 1 Bond Proceeds along with the CFD 2008-01 IA 1 special tax lien. The concluded aggregate value for the subject properties, subject to their respective special tax lien, is:

(Portion of) Harmony Grove by CalAtlantic Homes:

CalAtlantic Homes Ownership	\$ 70,382,200
Individually Owned Homes Minimum Market Value	<u>\$ 80,526,482</u>
Aggregate Value for CFD No. 2008-1 IA 1	<u>\$150,908,682</u>

The above values are stated as of said date of value and subject to the attached Assumptions and Limiting Conditions and Appraiser's Certification.

APPRAISERS' CERTIFICATION

The appraiser certifies that to the best of his knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
3. The appraisers have no present or prospective interest in the property that is the subject of this report, and no personal interest or bias with respect to the parties involved.
4. The appraisers' compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result or the occurrence of a subsequent event.
5. This appraisal was not based on a requested minimum valuation, a specific valuation or the approval of a loan.
6. The analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
7. Kitty Siino and Larry Heglar have made a personal inspection of the property that is the subject of this report.
8. Kitty Siino and Larry Heglar have performed appraisal services on the subject property in the past three years. This report is an update to the original report which had a June 28, 2017 date of value.
9. No other appraisers have provided significant professional assistance to the persons signing this report.
10. The reported analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the requirements of the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice, which include the Uniform Standards of Professional Appraisal Practice.
11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. As of the date of this report, both Larry Heglar and Kitty Siino have completed the requirements of the continuing education program of the Appraisal Institute.



Larry W. Heglar, MAI



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

ADDE NDA

CFD NO. 2008-1 BOUNDARY MAP

**ANNEXATION MAP NO. 1 OF COUNTY OF SAN DIEGO
COMMUNITY FACILITIES DISTRICT NO. 2008-01
(HARMONY GROVE VILLAGE)
COUNTY OF SAN DIEGO
STATE OF CALIFORNIA**

SHEET 1 OF 2

THE ORIGINAL OF THIS DOCUMENT
WAS RECORDED ON SEP 22, 2014
DOCUMENT NUMBER 2014-0409384
CHRIS J. DEGENER, JR., COUNTY RECORDER
SAN DIEGO COUNTY RECORDER'S OFFICE
TIME 1:20 PM

FILED IN THE OFFICE OF THE CLERK OF THE
BOARD OF SUPERVISORS OF THE COUNTY
OF SAN DIEGO THIS 20TH DAY OF
SEPTEMBER, 2014
Thomas J. Pini
CLERK OF THE BOARD OF SUPERVISORS
COUNTY OF SAN DIEGO

I HEREBY CERTIFY THAT THE WITHIN MAP
SHOWING THE PROPOSED BOUNDARIES OF
ANNEXATION MAP NO. 1 OF COUNTY OF SAN
DIEGO COMMUNITY FACILITIES DISTRICT NO.
2008-01 (HARMONY GROVE VILLAGE),
COUNTY OF SAN DIEGO, STATE OF
CALIFORNIA, WAS APPROVED BY THE BOARD
OF SUPERVISORS OF THE COUNTY OF SAN
DIEGO AT A REGULAR MEETING THEREOF
HELD ON THE 17TH DAY OF
SEPTEMBER, 2014, BY ITS
RESOLUTION NO. 14-181

Thomas J. Pini
CLERK OF THE BOARD OF SUPERVISORS
COUNTY OF SAN DIEGO

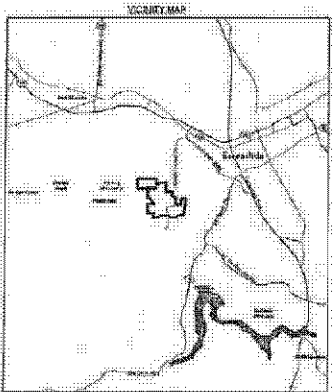
FILED THIS 22ND DAY OF SEP
2014, AT THE HOUR OF 1:20 P.M., IN BOOK 14, PAGE 17, OF
MAPS OF ASSESSMENT AND COMMUNITY
FACILITIES DISTRICTS AND AN INSTRUMENT
NO. 2014-0409384, IN THE OFFICE OF
THE COUNTY RECORDER IN THE COUNTY OF
SAN DIEGO, STATE OF CALIFORNIA.

BY DEPUTY
COUNTY RECORDER
COUNTY OF SAN DIEGO
STATE OF CALIFORNIA
Christ J. Degener, Jr.

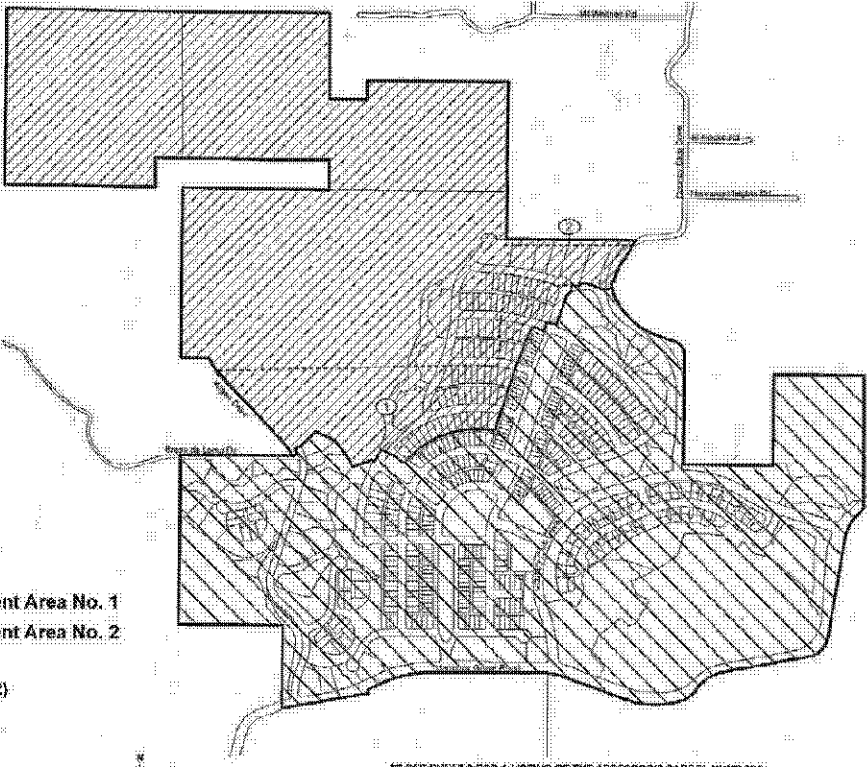
THIS MAP SHOWS THE PROPOSED
BOUNDARIES OF ANNEXATION NO. 1 TO THE
COUNTY OF SAN DIEGO COMMUNITY
FACILITIES DISTRICT NO. 2008-01 (HARMONY
GROVE VILLAGE), COUNTY OF SAN DIEGO,
STATE OF CALIFORNIA. THE AMENDED
BOUNDARY MAP FOR WHICH WAS
PREVIOUSLY RECORDED AS AMENDED
BOUNDARIES OF COUNTY OF SAN DIEGO
COMMUNITY FACILITIES DISTRICT NO. 2008-01
(HARMONY GROVE VILLAGE), COUNTY OF
SAN DIEGO, STATE OF CALIFORNIA ON
SEP 22, 2014, IN BOOK 14,
PAGE 17, OF MAPS OF ASSESSMENT
AND COMMUNITY FACILITIES DISTRICTS AND
AN INSTRUMENT NO. 2014-0409384, IN
THE OFFICE OF THE COUNTY RECORDER IN
THE COUNTY OF SAN DIEGO, STATE OF
CALIFORNIA.

THE LINES AND DIMENSIONS OF EACH LOT
OR PARCEL ENCOMPASSED BY THIS MAP
SHALL BE THOSE LINES AND DIMENSIONS AS
SHOWN ON THE SAN DIEGO COUNTY
ASSESSOR'S MAPS.

THE SAN DIEGO COUNTY ASSESSOR'S MAPS
SHALL GOVERN FOR ALL DETAILS
CONCERNING THE LINES AND DIMENSIONS
OF SAID PLOTS OR PARCELS.



- Legend**
- CFD No. 2008-01 Boundary
 - Amended Boundary of Improvement Area No. 1
 - Amended Boundary of Improvement Area No. 2
 - Boundary of Annexation No. 1
 - Map Reference Number - (See Sheet 2)



*SEE SHEET 3 FOR A LISTING OF THE ASSESSOR'S PARCEL NUMBERS



BK 44 PG 57

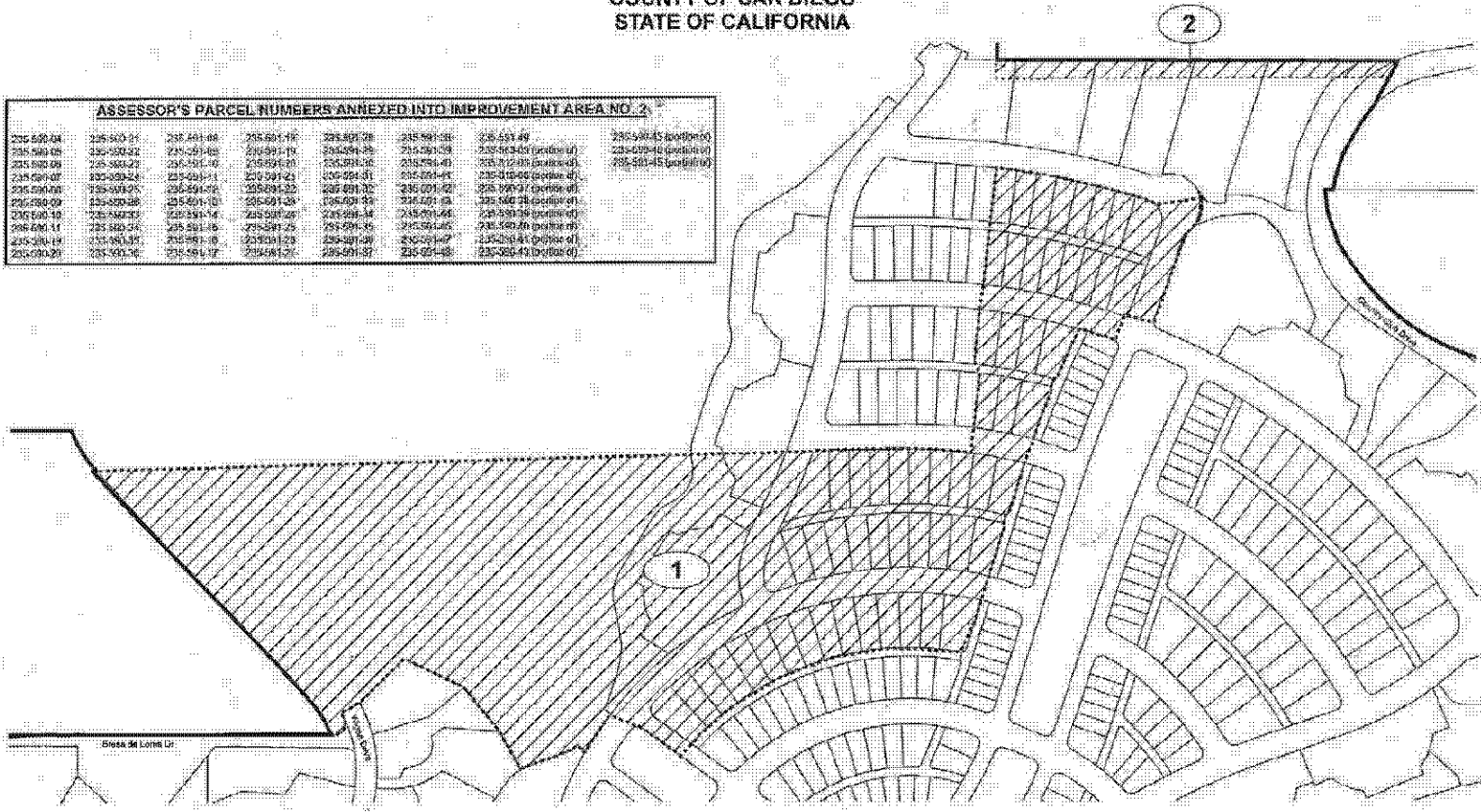
2014-0409384

ANNEXATION MAP NO. 1 OF COUNTY OF SAN DIEGO
 COMMUNITY FACILITIES DISTRICT NO. 2008-01
 (HARMONY GROVE VILLAGE)
 COUNTY OF SAN DIEGO
 STATE OF CALIFORNIA

SHEET 1 OF 3

ASSESSOR'S PARCEL NUMBERS ANNEXED INTO IMPROVEMENT AREA NO. 2

235-590-04	235-590-05	235-590-06	235-590-07	235-590-08	235-590-09	235-590-10	235-590-11	235-590-12	235-590-13	235-590-14	235-590-15	235-590-16	235-590-17	235-590-18	235-590-19	235-590-20	235-590-21	235-590-22	235-590-23	235-590-24	235-590-25	235-590-26	235-590-27	235-590-28	235-590-29	235-590-30	235-590-31	235-590-32	235-590-33	235-590-34	235-590-35	235-590-36	235-590-37	235-590-38	235-590-39	235-590-40	235-590-41	235-590-42	235-590-43	235-590-44	235-590-45	235-590-46	235-590-47	235-590-48	235-590-49	235-590-50	235-590-51	235-590-52	235-590-53	235-590-54	235-590-55	235-590-56	235-590-57	235-590-58	235-590-59	235-590-60	235-590-61	235-590-62	235-590-63	235-590-64	235-590-65	235-590-66	235-590-67	235-590-68	235-590-69	235-590-70	235-590-71	235-590-72	235-590-73	235-590-74	235-590-75	235-590-76	235-590-77	235-590-78	235-590-79	235-590-80	235-590-81	235-590-82	235-590-83	235-590-84	235-590-85	235-590-86	235-590-87	235-590-88	235-590-89	235-590-90	235-590-91	235-590-92	235-590-93	235-590-94	235-590-95	235-590-96	235-590-97	235-590-98	235-590-99	235-590-100
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Legend
 [Hatched Box] Boundary of Annexation No. 1 [Circle with 1] Map Reference Number - (See Sheet 1)

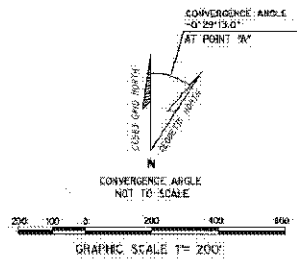
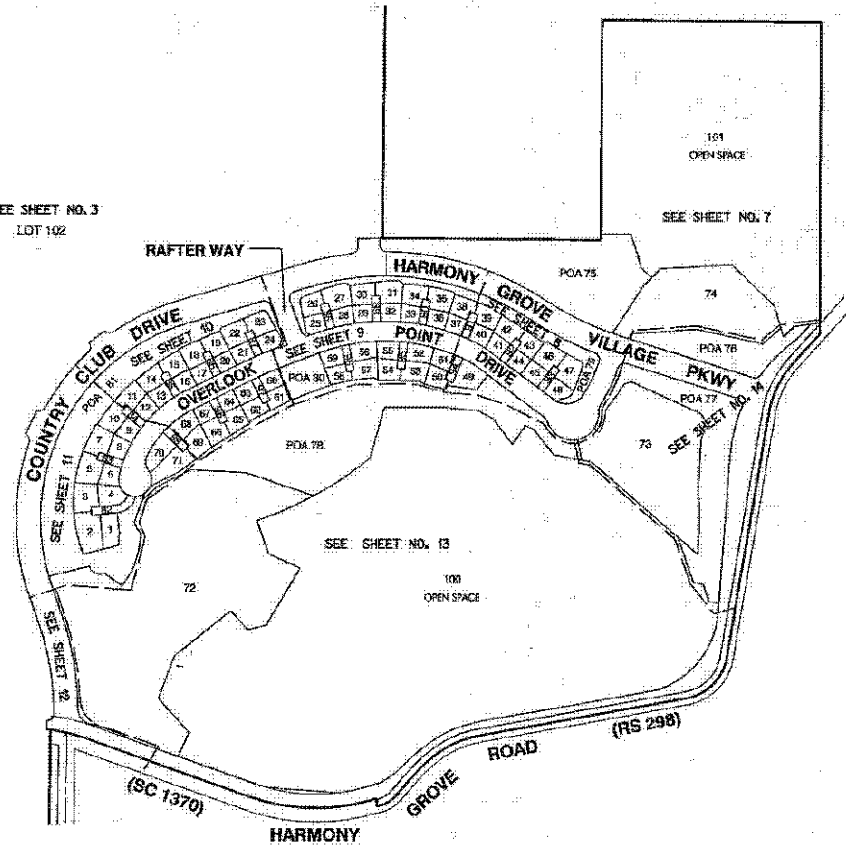


TRACT MAPS 15888, 15889, 15890, 15893 &
15894

INDEX SHEET

LOT AREA TABULATION

LOT NO.	ACRES	LOT NO.	ACRES
1	0.119	41	0.078
2	0.139	42	0.085
3	0.142	43	0.076
4	0.198	44	0.086
5	0.079	45	0.059
6	0.140	46	0.136
7	0.136	47	0.058
8	0.038	48	0.039
9	0.075	49	0.116
10	0.169	50	0.187
11	0.187	51	0.168
12	0.079	52	7.890
13	0.075	53	2.541
14	0.162	54	1.802
15	0.120	55	2.593
16	0.010	56	0.884
17	0.069	57	1.185
18	0.105	58	3.870
19	0.095	59	0.761
20	0.055	60	0.373
21	0.076	61	2.505
22	0.174	62	0.077
23	0.151	63	0.043
24	0.082	64	0.043
25	0.074	65	0.043
26	0.096	66	0.043
27	0.130	67	0.043
28	0.062	68	0.043
29	0.071	69	0.043
30	0.104	70	0.043
31	0.151	71	0.043
32	0.077	72	0.046
33	0.071	73	0.046
34	0.103	74	0.044
35	0.112	75	0.046
36	0.075	76	0.044
37	0.069	77	0.044
38	0.095	78	0.043
39	0.100	79	0.046
40	0.077	80	2.311
41	0.077	81	11.324
42	0.101	82	36.404
43	0.069		
44	0.070	STREETS: 12.601	
45	0.084		
46	0.123	TOTAL: 476.800	
47	0.123		
48	0.065		
49	0.143		
50	0.063		
51	0.062		
52	0.057		
53	0.105		
54	0.036		
55	0.082		
56	0.097		
57	0.103		
58	0.081		
59	0.062		
60	0.075		



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 (619) 441-7084
 (619) 441-7085
 (619) 441-7086
 (619) 441-7087
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 (619) 441-7093
 (619) 441-7094
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 (619) 441-7096
 (619) 441-7097
 (619) 441-7098
 (619) 441-7099
 (619) 441-7100

GRADING PLAN L-15656 COUNTY T.M. 5365-1
 CALIF. COORD. INDEX 338-1725 (CCS27)

MAP NO. 15889

SHEET 6 OF 16 SHEETS

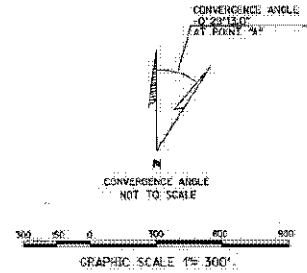
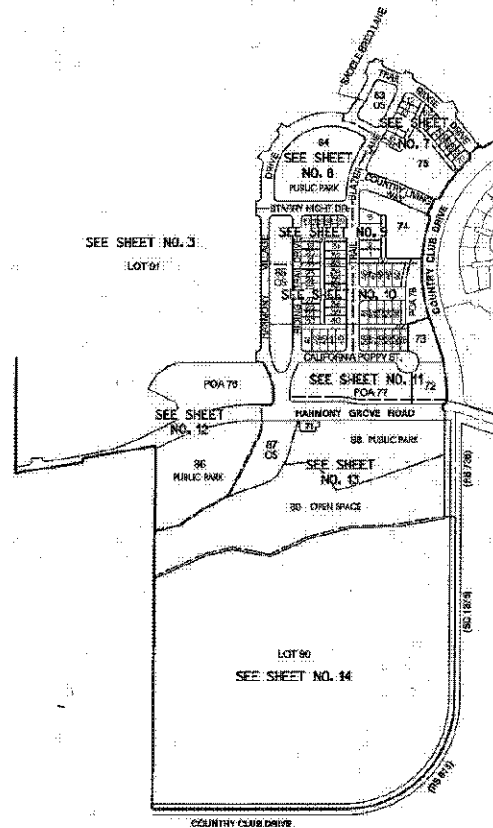
COUNTY OF SAN DIEGO TRACT NO. 5365-2

INDEX SHEET

LOT AREA TABULATION

LOT NO.	ACRES	LOT NO.	ACRES
1	0.101	61	0.083
2	0.090	62	0.095
3	0.080	63	0.160
4	0.080	64	0.053
5	0.128	65	0.056
6	0.077	66	0.059
7	0.069	67	0.059
8	0.069	68	0.050
9	0.060	69	0.053
10	0.069	70	0.084
11	0.099	71	0.053
12	0.083	72	0.059
13	0.102	73	0.031
14	0.070	74	1.274
15	0.070	75	1.816
16	0.070	76	2.375
17	0.070	77	2.269
18	0.091	78	0.020
19	0.068	79	0.280
20	0.058	80	0.281
21	0.060	81	0.363
22	0.060	82	0.153
23	0.060	83	0.521
24	0.069	84	2.810
25	0.060	85	1.223
26	0.060	86	3.875
27	0.060	87	1.138
28	0.060	88	3.847
29	0.060	89	1.059
30	0.069	90	16.819
31	0.086	91	302.092
32	0.085		
33	0.085		
34	0.085		
35	0.085		
36	0.085		
37	0.085		
38	0.085		
39	0.085		
40	0.085		
41	0.094		
42	0.083		
43	0.081		
44	0.083		
45	0.111		
46	0.104		
47	0.091		
48	0.081		
49	0.081		
50	0.123		
51	0.104		
52	0.097		
53	0.098		
54	0.099		
55	0.101		
56	0.094		
57	0.083		
58	0.083		
59	0.083		
60	0.083		

STREETS 10.531
TOTAL 386.403



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 38812
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 619-231-1700
 3756 W. 12TH ST. #115
 SAN DIEGO, CA 92108

GRADING PLAN L-15656 COUNTY T.M. 5365-2
 CALIF. COORD. INDEX 358-1725 (CCS-27)

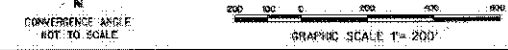
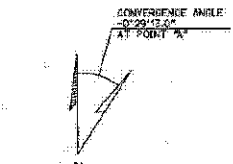
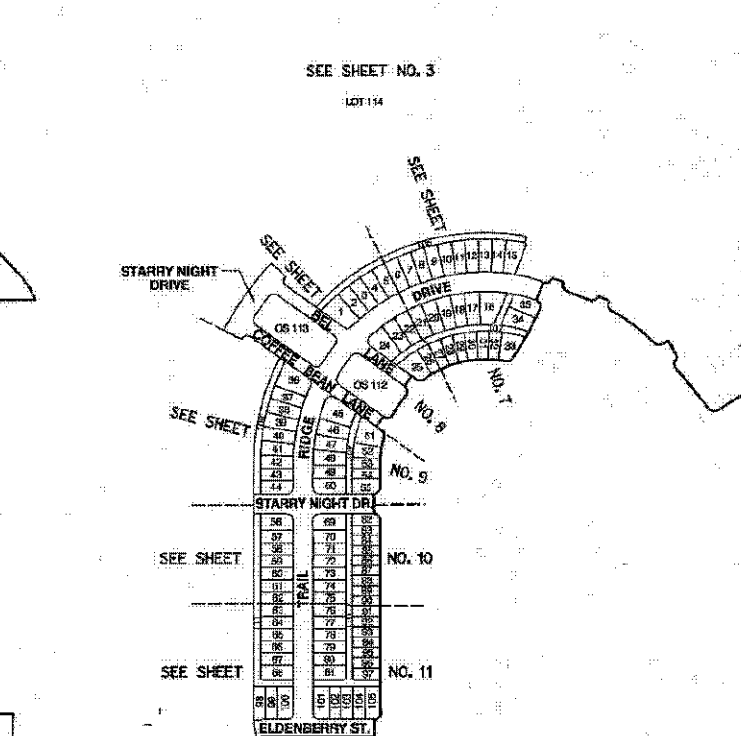
MAP NO. 15890

COUNTY OF SAN DIEGO TRACT NO. 5365-3 INDEX SHEET

SHEET 6 OF 13 SHEETS

LOT AREA TABULATION

LOT NO.	AREA	LOT NO.	AREA
1	0.137	61	0.065
2	0.030	62	0.065
3	0.090	63	0.065
4	0.090	64	0.065
5	0.092	65	0.065
6	0.092	66	0.065
7	0.092	67	0.065
8	0.090	68	0.101
9	0.090	69	0.123
10	0.160	70	0.165
11	0.080	71	0.085
12	0.090	72	0.235
13	0.080	73	0.085
14	0.092	74	0.095
15	0.114	75	0.095
16	0.143	76	0.235
17	0.097	77	0.095
18	0.093	78	0.095
19	0.095	79	0.095
20	0.093	80	0.095
21	0.095	81	0.101
22	0.095	82	0.095
23	0.095	83	0.095
24	0.125	84	0.095
25	0.117	85	0.095
26	0.066	86	0.055
27	0.066	87	0.055
28	0.066	88	0.060
29	0.066	89	0.060
30	0.067	90	0.060
31	0.066	91	0.060
32	0.066	92	0.060
33	0.108	93	0.060
34	0.105	94	0.060
35	0.097	95	0.050
36	0.149	96	0.050
37	0.090	97	0.070
38	0.092	98	0.083
39	0.094	99	0.083
40	0.092	100	0.100
41	0.090	101	0.112
42	0.095	102	0.083
43	0.083	103	0.083
44	0.090	104	0.083
45	0.148	105	0.100
46	0.100	106	0.110
47	0.100	107	0.248
48	0.097	108	0.193
49	0.092	109	0.113
50	0.106	110	0.325
51	0.124	111	0.285
52	0.077	112	0.050
53	0.084	113	0.035
54	0.059	114	0.059
55	0.088	STREETS 4, 463	
56	0.113		
57	0.085	TOTAL	302.092
58	0.065		
59	0.025		
60	0.085		



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GRADING PLAN L-15656 COUNTY T.M. 5365-3
CALIF. COORD. INDEX 338-1725 (CCS 27)

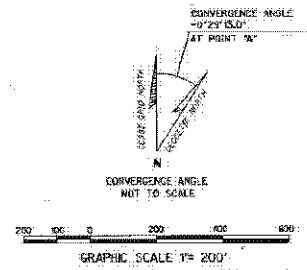
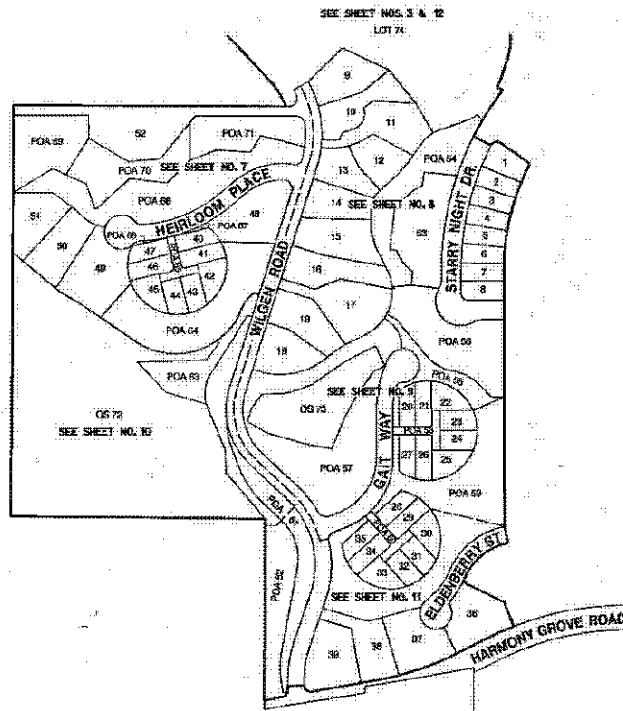
COUNTY OF SAN DIEGO TRACT NO. 5365-6

INDEX SHEET

LOT AREA TABULATION

LOT NO.	ACRES
1	0.228
2	0.165
3	0.148
4	0.166
5	0.166
6	0.166
7	0.166
8	0.171
9	0.333
10	0.526
11	0.583
12	0.408
13	0.400
14	0.235
15	0.542
16	0.597
17	0.784
18	0.550
19	0.500
20	0.141
21	0.193
22	0.181
23	0.142
24	0.149
25	0.181
26	0.189
27	0.141
28	0.193
29	0.181
30	0.193
31	0.149
32	0.181
33	0.159
34	0.181
35	0.181
36	0.008
37	0.513
38	0.532
39	0.643
40	0.141
41	0.159
42	0.141
43	0.149
44	0.149
45	0.181
46	0.193
47	0.141
48	0.735
49	0.810
50	0.568
51	0.570
52	1.267
53	1.032
54	1.095
55	0.489
56	1.378
57	2.380
58	0.123
59	0.757
60	0.132
61	0.822
62	1.008
63	0.992
64	1.608
65	0.124
66	0.644
67	0.018
68	1.267
69	0.203
70	0.812
71	0.165
72	8.211
73	1.306
74	163.196

STREETS: 5.407
TOTAL 214.689



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GRADING PLAN L-15636 COUNTY T.M. 5365-6
 CALIF. COORD. INDEX 558-1725 (CCS 27)

COUNTY OF SAN DIEGO TRACT NO. 5365-7 BOUNDARY AND SHEET INDEX

SEE SHEET 4 FOR PROCEDURE OF SURVEY,
BASIS OF BEARINGS,
AND RECORD DATA

SEE SHEET 5 FOR MONUMENTATION
DESCRIPTIONS I.E. (2)
& LOT ACREAGE TABLE

MONUMENTATION NOTES

1. ALL LOT CORNERS OF THIS MAP WILL BE MONUMENTED BY A 2"x 1/2" IRON PIPE WITH DISK STAMPED "L.S. 6187" EXCEPT ALONG THE ALLEYS WHICH WILL BE MONUMENTED BY A LEAD AND DISK STAMPED "L.S. 6187" SET IN THE CURB ALONG THE EXTENSION OF THE LOT LINE AT AN OFFSET FROM THE PROPERTY LINE OF 0.25 FEET, UNLESS OTHERWISE NOTED.
2. LOT CORNERS AND POINTS OF CURVE ALONG THE SIDELINES OF DEDICATED STREET RIGHT-OF-WAY WILL BE MONUMENTED BY A LEAD AND DISK STAMPED "L.S. 6187" SET IN THE CURB ALONG THE EXTENSION OF THE LOT LINE AT AN OFFSET FROM THE PROPERTY LINE OF 1.15 FEET EXCEPT AS FOLLOWS: 0.75 FEET THE WESTERLY SIDELINE OF COUNTRY CLUB DRIVE; THE OFFSET SHALL BE MEASURED RADIALLY OR AT RIGHT ANGLES TO THE RIGHT-OF-WAY LINE, UNLESS OTHERWISE NOTED.
3. WHERE LOT LINES ARE NOT AT RIGHT ANGLES TO THE STREET OR RADIAL TO THE STREET RIGHT-OF-WAY LINE, THE OFFSET DISTANCE IS SHOWN ON THE MAP FROM LOT CORNER TO OFFSET MONUMENT WITH THE COURSE BEING THAT OF THE PRODUCKED LOT LINE.
4. FOUND LOT CORNERS ALONG THE EASTERN BOUNDARY OF SAN DIEGO TRACT 5365-2, MAP NO. 15892, (WHICH IS THE WESTERLY BOUNDARY OF THIS MAP) MONUMENTED BY A 2"x 1/2" IRON PIPE WITH DISK STAMPED "L.S. 6207" PER SAID TRACT 5365-2, EXCEPT ALONG THE ALLEYS WHICH ARE MONUMENTED BY A LEAD AND DISK STAMPED "L.S. 6187" SET IN THE CURB ALONG THE EXTENSION OF THE LOT LINE AT AN OFFSET FROM THE PROPERTY LINE OF 0.25 FEET, UNLESS OTHERWISE NOTED. MONUMENTS NOT SET PRIOR TO THE RECORDED OF THIS MAP.
5. FOUND LOT CORNERS AND POINTS OF CURVE ALONG THE SIDELINES OF DEDICATED STREET RIGHT-OF-WAY ALONG THE EASTERN BOUNDARY OF SAN DIEGO TRACT 5365-2, MAP NO. 15892, (WHICH IS THE WESTERLY BOUNDARY OF THIS MAP) MONUMENTED BY A LEAD AND DISK STAMPED "L.S. 6187" SET IN THE CURB ALONG THE EXTENSION OF THE LOT LINE AT AN OFFSET FROM THE PROPERTY LINE OF 1.15 FEET, UNLESS OTHERWISE NOTED. THE OFFSET WAS MEASURED RADIALLY OR AT RIGHT ANGLES TO THE RIGHT-OF-WAY LINE, ALL UNLESS OTHERWISE NOTED.

NON-PLOTTABLE EASEMENT DESCRIPTIONS

EASEMENT DESCRIPTION	RECORDED	DOCUMENT
PRIVATE EASEMENT	06-27-1887	BK 59, PG 149
RIGHT-OF-WAY USMT. EASEMENT	10-13-1892	BK 61, PG 241
	04-17-1893	BK 212, PG 350
PRIVATE EASEMENT	10-22-1926	DX 1259, PG 304
SEWER EASEMENT (16' +/-)	4-10-2002	2003-0404209

LEGEND (CONTINUED)

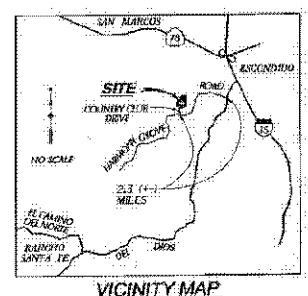
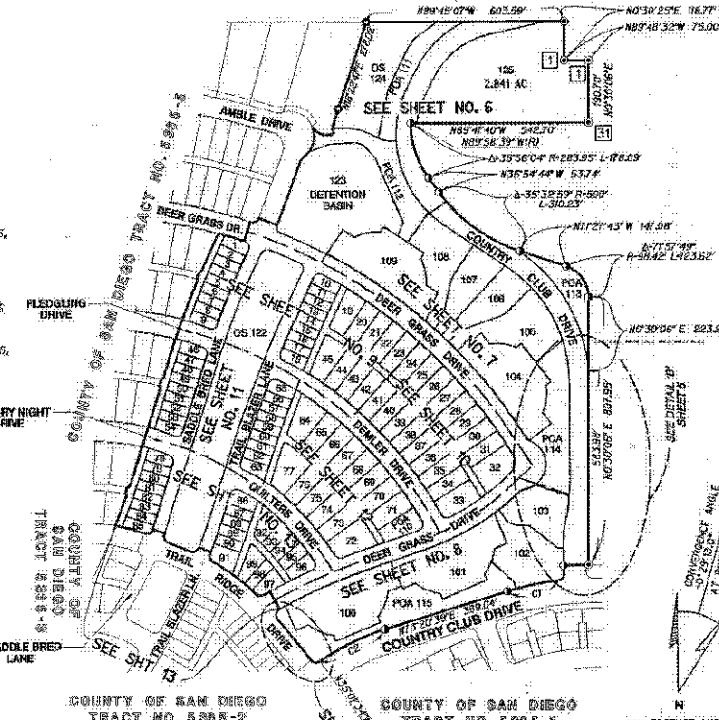
- (N) INDICATES ROSE PROTECTION EASEMENT TO THE COUNTY OF SAN DIEGO DEDICATED AND ACCEPTED HEREOF.
- (D) INDICATES UPSTREAM EASEMENT TO THE COUNTY OF SAN DIEGO DEDICATED AND ACCEPTED HEREOF.
- (S) INDICATES SEWER EASEMENT TO THE SAN DIEGO COUNTY SANITATION DISTRICT DEDICATED AND ACCEPTED HEREOF.
- (W) INDICATES FUTURE WATER EASEMENT TO THE RINGGOLD HARBOR MUNICIPAL WATER DISTRICT.

LEGEND

- (---) INDICATES SUBDIVISION BOUNDARY
- (---) INDICATES RADIAL BEARING
- (---) INDICATES FOUND MONUMENT AS NOTED PER COUNTY OF SAN DIEGO TRACT NO. 5365-2, MAP NO. 15892, MONUMENT DESCRIPTION ON SHEET 3.
- (---) INDICATES FOUND 2" x 1/2" IRON PIPE WITH DISK STAMPED "L.S. 6187" PER COUNTY OF SAN DIEGO TRACT NO. 5365-2, MAP NO. 15892.
- (---) INDICATES FOUND 2" x 1/2" IRON PIPE WITH DISK STAMPED "L.S. 6187" PER COUNTY OF SAN DIEGO TRACT NO. 5365-2, MAP NO. 15892, MONUMENT NOT SET PRIOR TO THE RECORDED OF THIS MAP.
- (---) INDICATES FOUND 2" x 1/2" IRON PIPE WITH DISK STAMPED "L.S. 6187" PER COUNTY OF SAN DIEGO TRACT NO. 5365-2, MAP NO. 15892, AND/OR COUNTY TRACT NO. 5365-2, MAP NO. 15892, MONUMENT NOT SET PRIOR TO THE RECORDED OF THIS MAP.
- (---) INDICATES WILL SET 2" x 1/2" IRON PIPE WITH DISK STAMPED "L.S. 6187" (SEE DEFERRED MONUMENTATION CERT. ON SHEET 11)
- (---) INDICATES FOUND 1/2" x 1/2" IRON PIPE MARKED "L.S. 6187" PER COUNTY OF SAN DIEGO TRACT NO. 5365-2, MAP NO. 15892, MONUMENT NOT SET PRIOR TO THE RECORDED OF THIS MAP.
- (---) INDICATES WILL SET 3/4" x 1/2" IRON PIPE WITH DISK STAMPED "L.S. 6187" (SEE DEFERRED MONUMENTATION CERT. ON SHEET 11)
- (---) INDICATES FOUND LEAD & DISK MARKED "L.S. 6187" AT AN OFFSET OF 1.15 FEET FROM THE LOT CORNER, UNLESS OTHERWISE NOTED. MONUMENT NOT SET PRIOR TO THE RECORDED OF THIS MAP.
- (---) INDICATES FOUND LEAD & DISK MARKED "L.S. 6187" AT AN OFFSET OF 0.75 FEET FROM THE LOT CORNER, UNLESS OTHERWISE NOTED. MONUMENT NOT SET PRIOR TO THE RECORDED OF THIS MAP.
- (---) INDICATES WILL SET LEAD & DISK STAMPED "L.S. 6187" (SEE DEFERRED MONUMENTATION CERT. ON SHEET 11)
- (---) INDICATES FOUND STREET SURVEY MONUMENT MARKED "L.S. 6187" PER COUNTY OF SAN DIEGO TRACT NO. 5365-2, MAP NO. 15892, AND/OR COUNTY TRACT NO. 5365-2, MAP NO. 15892, MONUMENT NOT SET PRIOR TO THE RECORDED OF THIS MAP.
- (---) INDICATES WILL SET STREET SURVEY MONUMENT MARKED "L.S. 6187" (SEE DEFERRED MONUMENTATION CERT. ON SHEET 11)
- (---) INDICATES PROPERTY OWNER'S ASSOCIATION
- (---) INDICATES ACCESS RIGHTS UNLAWFULLY PAID AND ACCEPTED HEREOF EXCEPT AT ACCESS OPENINGS 1, 2 & 3.

NOTES

1. THE BEGINNING AND ENDING LOT NUMBERS ARE 1 AND 125.
2. TOTAL NUMBER OF LOTS IS 125.
 - 125 RESIDENTIAL LOTS 8, 0, 7, 5, 1 THRU 95, 102, 103, 104 THRU 107
 - 4 CONDOMINIUM LOTS 108, 109, 101, 104 AND 109
 - 6 PROPERTY OWNER'S ASSOCIATION LOTS 110 THRU 115
 - 6 PRIVATE ROAD LOTS (ALLEYS) 8, 0, 1, 16 THRU 20
 - 3 OPEN SPACE LOTS 102 THRU 104 LOT 123 IS BETWEEN EAST AND
 - 7. RETURNED LOT BY DEVELOPER FOR FUTURE SUBDIVISION LOT 163
3. TOTAL GROSS AREA OF THIS SUBDIVISION EXCLUDING LOT FOR FUTURE SUBDIVISION (123) IS 37,770 ACRES.
4. ALL DISTANCES AND/OR STREET WIDTHS SHOWN IN THIS MAP REPRESENT THAT DISTANCE TO ZERO HUNDRETHS.
5. ANY CURVE SHOWN IN THIS MAP IS TANGENT TO ITS ADJACENT COURSES, UNLESS A RADIAL BEARING IS SHOWN AT ITS POINT-OF-CURVATURE.
6. IT IS THE SUBDIVIDER'S RESPONSIBILITY TO PROVIDE NECESSARY ACCESS AND UTILITY EASEMENTS TO ALL LOTS CREATED BY THIS MAP.
7. IT IS THE SUBDIVIDER'S RESPONSIBILITY TO RESOLVE EASEMENTS FOR ingress, egress and PUBLIC UTILITY PURPOSES OVER THE PRIVATE ROAD LOTS (ALLEYS) OF THIS MAP FOR THE FUTURE OWNERS OF LOTS IN SUBSEQUENT LOTS OF THIS DEVELOPMENT.
8. LATERAL FEE TO PRIVATE ROAD LOTS (ALLEYS) WILL BE VESTED IN THE SUBDIVIDER OF THIS MAP. EACH LOT OWNER WILL BE GRANTED A NON-EXCLUSIVE EASEMENT OVER ALL SAID ROAD LOTS WHICH WILL BE MAINTAINED ON-SITE AND OFF-SITE IN ACCORDANCE WITH PRIVATE ROAD MAINTENANCE AGREEMENTS RECORDED OCTOBER 17, 2013 AS DOCUMENT NO. 2012-0618700 OF OFFICIAL RECORDS.



CURVE TABLE			
NAME	DELTA	RADIUS	ARC
29	10° 06' 12"	887.00	156.44
22	18° 22' 13"	687.00	220.27



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GRADING PLAN L-18566 COUNTY T.M. 5365-7
CALIF. COORD. INDEX 338-1725 (CCS 27)

ASSESSOR PARCEL LISTING

APN	Appraisal Status	Lot	Project	ResSquareFootage	Map	Tract
235-560-01-00	95% +	1	Canteridge	1,922.0	15888	5365-1
235-560-02-00	95% +	2	Canteridge	2,136.0	15888	5365-1
235-560-03-00	95% +	3	Canteridge	2,075.0	15888	5365-1
235-560-04-00	95% +	4	Canteridge	1,922.0	15888	5365-1
235-560-05-00	95% +	5	Canteridge	1,922.0	15888	5365-1
235-560-06-00	95% +	6	Canteridge	2,136.0	15888	5365-1
235-560-07-00	95% +	7	Canteridge	2,075.0	15888	5365-1
235-560-08-00	95% +	8	Canteridge	1,922.0	15888	5365-1
235-560-09-00	95% +	9	Canteridge	1,922.0	15888	5365-1
235-560-10-00	95% +	10	Canteridge	2,136.0	15888	5365-1
235-560-11-00	95% +	11	Canteridge	2,075.0	15888	5365-1
235-560-12-00	95% +	12	Canteridge	1,922.0	15888	5365-1
235-560-13-00	95% +	13	Canteridge	1,922.0	15888	5365-1
235-560-14-00	95% +	14	Canteridge	2,136.0	15888	5365-1
235-560-15-00	95% +	15	Canteridge	2,075.0	15888	5365-1
235-560-16-00	95% +	16	Canteridge	1,922.0	15888	5365-1
235-560-17-00	95% +	17	Canteridge Model	1,922.0	15888	5365-1
235-560-18-00	95% +	18	Canteridge Model	2,136.0	15888	5365-1
235-560-19-00	95% +	19	Canteridge Model	2,075.0	15888	5365-1
235-560-20-00	95% +	20	Canteridge Model	1,920.0	15888	5365-1
235-560-21-00	Under Const.	21	Canteridge		15888	5365-1
235-560-22-00	Under Const.	22	Canteridge		15888	5365-1
235-560-23-00	Under Const.	23	Canteridge		15888	5365-1
235-560-24-00	Under Const.	24	Canteridge		15888	5365-1
235-560-25-00	Under Const.	60	Canteridge		15888	5365-1
235-560-26-00	Under Const.	61	Canteridge		15888	5365-1
235-560-27-00	Under Const.	62	Canteridge		15888	5365-1
235-560-28-00	Under Const.	63	Canteridge		15888	5365-1
235-560-29-00	95% +	64	Canteridge	1,922.0	15888	5365-1
235-560-30-00	95% +	65	Canteridge	2,136.0	15888	5365-1
235-560-31-00	95% +	66	Canteridge	2,075.0	15888	5365-1
235-560-32-00	95% +	67	Canteridge	1,922.0	15888	5365-1
235-560-33-00	95% +	68	Canteridge	1,922.0	15888	5365-1
235-560-34-00	95% +	69	Canteridge	2,136.0	15888	5365-1
235-560-35-00	95% +	70	Canteridge	1,922.0	15888	5365-1
235-560-36-00	95% +	71	Canteridge	2,075.0	15888	5365-1
235-560-37-00			X-NAP			
235-560-38-00			X-NAP			
235-560-39-00			X-NAP			
235-560-40-00			X-NAP			
235-560-41-00			X-NAP			
235-560-42-00			X-NAP			
235-560-43-00			X-NAP			
235-560-44-00			X-NAP			
235-560-45-00			X-NAP			
235-560-46-00			X-NAP			
235-560-47-00			X-NAP			
235-561-01-00	95% +	25	Canteridge	1,922.0	15888	5365-1
235-561-02-00	95% +	26	Canteridge	2,136.0	15888	5365-1
235-561-03-00	95% +	27	Canteridge	2,075.0	15888	5365-1
235-561-04-00	95% +	28	Canteridge	1,920.0	15888	5365-1

235-561-05-00	95% +	29	Canteridge	1,922.0	15888	5365-1
235-561-06-00	95% +	30	Canteridge	2,136.0	15888	5365-1
235-561-07-00	95% +	31	Canteridge	2,075.0	15888	5365-1
235-561-08-00	95% +	32	Canteridge	1,920.0	15888	5365-1
235-561-09-00	95% +	33	Canteridge	1,922.0	15888	5365-1
235-561-10-00	95% +	34	Canteridge	2,136.0	15888	5365-1
235-561-11-00	95% +	35	Canteridge	2,075.0	15888	5365-1
235-561-12-00	95% +	36	Canteridge	1,920.0	15888	5365-1
235-561-13-00	95% +	37	Canteridge	1,922.0	15888	5365-1
235-561-14-00	95% +	38	Canteridge	2,136.0	15888	5365-1
235-561-15-00	95% +	39	Canteridge	2,075.0	15888	5365-1
235-561-16-00	95% +	40	Canteridge	1,920.0	15888	5365-1
235-561-17-00	95% +	41	Canteridge	1,922.0	15888	5365-1
235-561-18-00	95% +	42	Canteridge	2,136.0	15888	5365-1
235-561-19-00	95% +	43	Canteridge	2,075.0	15888	5365-1
235-561-20-00	95% +	44	Canteridge	1,922.0	15888	5365-1
235-561-21-00	UnderConst.	45	Canteridge	1,922.0	15888	5365-1
235-561-22-00	UnderConst.	46	Canteridge	2,136.0	15888	5365-1
235-561-23-00	UnderConst.	47	Canteridge	2,075.0	15888	5365-1
235-561-24-00	UnderConst.	48	Canteridge	1,920.0	15888	5365-1
235-561-25-00	95% +	49	Canteridge	1,922.0	15888	5365-1
235-561-26-00	95% +	50	Canteridge	2,075.0	15888	5365-1
235-561-27-00	95% +	51	Canteridge	1,920.0	15888	5365-1
235-561-28-00	95% +	52	Canteridge	1,922.0	15888	5365-1
235-561-29-00	95% +	53	Canteridge	2,136.0	15888	5365-1
235-561-30-00	95% +	54	Canteridge	2,075.0	15888	5365-1
235-561-31-00	95% +	55	Canteridge	1,920.0	15888	5365-1
235-561-32-00	95% +	56	Canteridge	1,922.0	15888	5365-1
235-561-33-00	95% +	57	Canteridge	2,136.0	15888	5365-1
235-561-34-00	95% +	58	Canteridge	2,075.0	15888	5365-1
235-561-35-00	95% +	59	Canteridge	1,920.0	15888	5365-1
235-561-36-00			X-NAP			
235-561-37-00			X-NAP			
235-561-38-00			X-NAP			
235-561-39-00			X-NAP			
235-561-40-00			X-NAP			
235-561-41-00			X-NAP			
235-561-42-00			X-NAP			
235-561-43-00			X-NAP			
235-561-44-00			X-NAP			
235-561-45-00			X-NAP			
235-562-01-00			X-NAP			
235-562-02-00			X-NAP			
235-562-03-00			X-NAP			
235-562-04-00			X-NAP			
235-562-05-00			X-NAP			
235-562-06-00			X-NAP			
235-562-07-00			X-NAP			
235-562-08-00			X-NAP			
235-562-09-00			X-NAP			
235-570-01-00	95% +	1	Seabreeze	2,783.0	15890	5365-3
235-570-02-00	95% +	2	Seabreeze	2,519.0	15890	5365-3

235-570-03-00	95% +	3	Seabreeze	2,185.0	15890	5365-3
235-570-04-00	95% +	4	Seabreeze	2,783.0	15890	5365-3
235-570-05-00	95% +	5	Seabreeze	2,185.0	15890	5365-3
235-570-06-00	Superpad	13	Live-Work		15889	5365-2
235-570-07-00	Superpad	14	Live-Work		15889	5365-2
235-570-08-00	Superpad	15	Live-Work		15889	5365-2
235-570-09-00	Superpad	16	Live-Work		15889	5365-2
235-570-10-00	Superpad	17	Live-Work		15889	5365-2
235-570-11-00	Superpad	18	Live-Work		15889	5365-2
235-570-12-00	Fin. Lot	19	Lusitano		15889	5365-2
235-570-13-00	Fin. Lot	20	Lusitano		15889	5365-2
235-570-14-00	Fin. Lot	21	Lusitano		15889	5365-2
235-570-15-00	Fin. Lot	22	Lusitano		15889	5365-2
235-570-16-00	Fin. Lot	23	Lusitano		15889	5365-2
235-570-17-00	Fin. Lot	24	Lusitano		15889	5365-2
235-570-18-00	Fin. Lot	25	Lusitano		15889	5365-2
235-570-19-00	Fin. Lot	26	Lusitano		15889	5365-2
235-570-20-00	Fin. Lot	27	Lusitano		15889	5365-2
235-570-21-00	Fin. Lot	28	Lusitano		15889	5365-2
235-570-22-00	Fin. Lot	29	Lusitano		15889	5365-2
235-570-23-00	Fin. Lot	30	Lusitano		15889	5365-2
235-570-24-00	Under Const.	31	Seabreeze	2,185.0	15889	5365-2
235-570-25-00	Under Const.	32	Seabreeze	2,769.0	15889	5365-2
235-570-26-00	Under Const.	33	Seabreeze	2,519.0	15889	5365-2
235-570-27-00	Under Const.	34	Seabreeze	2,185.0	15889	5365-2
235-570-28-00	Under Const.	35	Seabreeze	2,185.0	15889	5365-2
235-570-29-00	Under Const.	36	Seabreeze	2,519.0	15889	5365-2
235-570-30-00	Under Const.	37	Seabreeze	2,185.0	15889	5365-2
235-570-31-00	Under Const.	38	Seabreeze	2,519.0	15889	5365-2
235-570-32-00	Under Const.	39	Seabreeze	2,185.0	15889	5365-2
235-570-33-00	Under Const.	40	Seabreeze	2,769.0	15889	5365-2
235-570-34-00	Under Const.	41	Seabreeze	2,519.0	15889	5365-2
235-570-35-00	Under Const.	42	Seabreeze	2,185.0	15889	5365-2
235-570-36-00	Under Const.	43	Seabreeze	2,519.0	15889	5365-2
235-570-37-00	Under Const.	44	Seabreeze	2,185.0	15889	5365-2
235-570-38-00	Under Const.	45	Seabreeze	2,519.0	15889	5365-2
235-570-39-00	Under Const.	46	Seabreeze	2,185.0	15889	5365-2
235-570-40-00	Under Const.	47	Seabreeze	2,783.0	15889	5365-2
235-570-41-00	Under Const.	48	Seabreeze	2,519.0	15889	5365-2
235-570-42-00	Under Const.	49	Seabreeze	2,185.0	15889	5365-2
235-570-43-00	Under Const.	50	Seabreeze	2,783.0	15889	5365-2
235-570-44-00	Under Const.	51	Seabreeze	2,783.0	15889	5365-2
235-570-45-00	Under Const.	52	Seabreeze	2,185.0	15889	5365-2
235-570-46-00	Under Const.	53	Seabreeze	2,519.0	15889	5365-2
235-570-47-00	Under Const.	54	Seabreeze	2,783.0	15889	5365-2
235-570-48-00	Under Const.	55	Seabreeze	2,185.0	15889	5365-2
235-570-49-00	Under Const.	56	Seabreeze	2,185.0	15889	5365-2
235-570-50-00	Under Const.	57	Seabreeze	2,519.0	15889	5365-2
235-570-51-00	Under Const.	58	Seabreeze	2,185.0	15889	5365-2
235-570-52-00	Under Const.	59	Seabreeze	2,519.0	15889	5365-2
235-570-53-00	Under Const.	60	Seabreeze	2,185.0	15889	5365-2
235-570-54-00	Under Const.	61	Seabreeze	2,519.0	15889	5365-2

235-570-55-00	Finished Lot	73	Farmhouse		15889	5365-2
235-570-56-00	Superpad	74	Commercial		15889	5365-2
235-570-57-00	IA 1		X-NAP			
235-570-58-00	IA 1		X-NAP			
235-570-59-00	IA 1		X-NAP			
235-570-60-00	IA 1		X-NAP			
235-570-61-00	IA 1		X-NAP			
235-571-01-00	Superpad	6	Live-Work		15889	5365-2
235-571-02-00	Superpad	7	Live-Work		15889	5365-2
235-571-03-00	Superpad	8	Live-Work		15889	5365-2
235-571-04-00	Superpad	9	Live-Work		15889	5365-2
235-571-05-00	Superpad	10	Live-Work		15889	5365-2
235-571-06-00	Superpad	11	Live-Work		15889	5365-2
235-571-07-00	Superpad	12	Live-Work		15889	5365-2
235-571-08-00	UnderConst.	62	Lusitano		15889	5365-2
235-571-09-00	UnderConst.	63	Lusitano		15889	5365-2
235-571-10-00	UnderConst.	64	Lusitano		15889	5365-2
235-571-11-00	UnderConst.	65	Lusitano		15889	5365-2
235-571-12-00	UnderConst.	66	Lusitano		15889	5365-2
235-571-13-00	UnderConst.	67	Lusitano		15889	5365-2
235-571-14-00	UnderConst.	68	Lusitano		15889	5365-2
235-571-15-00	UnderConst.	69	Lusitano		15889	5365-2
235-571-16-00	UnderConst.	70	Lusitano		15889	5365-2
235-571-17-00	Superpad	75	Commercial		15889	5365-2
235-571-18-00	IA 1		X-NAP			
235-571-19-00	IA 1		X-NAP			
235-571-20-00	IA 1		X-NAP			
235-572-02-00	Finished Lot	72	Farmhouse		15889	5365-2
235-572-03-00	IA 1		X-NAP			
235-572-04-00	IA 1		X-NAP			
235-580-01-00	95% +	1	Seabreeze Phase 1	2,519.0	15889	5365-2
235-580-02-00	95% +	2	Seabreeze Phase 1	2,185.0	15889	5365-2
235-580-03-00	95% +	3	Seabreeze Phase 1	2,519.0	15889	5365-2
235-580-04-00	95% +	4	Seabreeze Phase 1	2,185.0	15889	5365-2
235-580-05-00	95% +	5	Seabreeze Phase 1	2,519.0	15889	5365-2
235-580-06-00	95% +	6	Seabreeze	2,185.0	15890	5365-3
235-580-07-00	95% +	7	Seabreeze	2,783.0	15890	5365-3
235-580-08-00	95% +	8	Seabreeze	2,519.0	15890	5365-3
235-580-09-00	95% +	9	Seabreeze	2,185.0	15890	5365-3
235-580-10-00	95% +	10	Seabreeze	2,783.0	15890	5365-3
235-580-11-00	95% +	11	Seabreeze	2,185.0	15890	5365-3
235-580-12-00	95% +	12	Seabreeze	2,519.0	15890	5365-3
235-580-13-00	95% +	13	Seabreeze	2,783.0	15890	5365-3
235-580-14-00	95% +	14	Seabreeze	2,185.0	15890	5365-3
235-580-15-00	95% +	15	Seabreeze	2,783.0	15890	5365-3
235-580-16-00	95% +	16	Seabreeze	2,185.0	15890	5365-3
235-580-17-00	95% +	17	Seabreeze	2,783.0	15890	5365-3
235-580-18-00	95% +	18	Seabreeze	2,519.0	15890	5365-3
235-580-19-00	95% +	19	Seabreeze	2,783.0	15890	5365-3
235-580-20-00	95% +	20	Seabreeze	2,185.0	15890	5365-3
235-580-21-00	95% +	21	Seabreeze	2,783.0	15890	5365-3
235-580-22-00	95% +	22	Seabreeze	2,519.0	15980	5365-3

235-580-23-00	95% +	23	Seabreeze	2,185.0	15980	5365-3
235-580-24-00	95% +	24	Seabreeze	2,783.0	15980	5365-3
235-580-25-00	Superpad	25	Live-Work		15890	5365-3
235-580-26-00	Superpad	26	Live-Work		15890	5365-3
235-580-27-00	Superpad	27	Live-Work		15890	5365-3
235-580-28-00	Superpad	28	Live-Work		15890	5365-3
235-580-29-00	Superpad	29	Live-Work		15890	5365-3
235-580-30-00	Superpad	30	Live-Work		15890	5365-3
235-580-31-00	Superpad	31	Live-Work		15890	5365-3
235-580-32-00	Superpad	32	Live-Work		15890	5365-3
235-580-33-00	Superpad	33	Live-Work		15890	5365-3
235-580-34-00	95% +	34	Lusitano	1,873.0	15890	5365-3
235-580-35-00	95% +	35	Lusitano	2,028.0	15890	5365-3
235-580-36-00	IA 1		X-NAP			
235-580-37-00	IA 1		X-NAP			
235-580-38-00	IA 1		X-NAP			
235-580-39-00	IA 1		X-NAP			
235-581-01-00	Fin Lot	36	Seabreeze		15890	5365-3
235-581-02-00	Fin Lot	37	Seabreeze		15890	5365-3
235-581-03-00	Fin Lot	38	Seabreeze		15890	5365-3
235-581-04-00	Fin Lot	39	Seabreeze		15890	5365-3
235-581-05-00	Fin Lot	40	Seabreeze		15890	5365-3
235-581-06-00	Fin Lot	41	Seabreeze		15890	5365-3
235-581-07-00	95% +	42	Seabreeze Model	2,185.0	15890	5365-3
235-581-08-00	95% +	43	Seabreeze Model	2,519.0	15890	5365-3
235-581-09-00	95% +	44	Seabreeze Model	2,783.0	15890	5365-3
235-581-10-00	Fin Lot	45	Seabreeze		15890	5365-3
235-581-11-00	Fin Lot	46	Seabreeze		15890	5365-3
235-581-12-00	Fin Lot	47	Seabreeze		15890	5365-3
235-581-13-00	Fin Lot	48	Seabreeze		15890	5365-3
235-581-14-00	Fin Lot	49	Seabreeze		15890	5365-3
235-581-15-00	Fin Lot	50	Seabreeze		15890	5365-3
235-581-16-00	Superpad	51	Live-Work		15890	5365-3
235-581-17-00	Superpad	52	Live-Work		15890	5365-3
235-581-18-00	Superpad	53	Live-Work		15890	5365-3
235-581-19-00	Superpad	54	Live-Work model	2,359.0	15890	5365-3
235-581-20-00	Superpad	55	Live-Work model	2,204.0	15890	5365-3
235-581-21-00	IA 1		X-NAP			
235-581-22-00	IA 1		X-NAP			
235-582-01-00	Fin Lot	56	Seabreeze		15890	5365-3
235-582-02-00	Fin Lot	57	Seabreeze		15890	5365-3
235-582-03-00	Fin Lot	58	Seabreeze		15890	5365-3
235-582-04-00	Fin Lot	59	Seabreeze		15890	5365-3
235-582-05-00	Fin Lot	60	Seabreeze		15890	5365-3
235-582-06-00	Fin Lot	61	Seabreeze		15890	5365-3
235-582-07-00	Fin Lot	62	Seabreeze		15890	5365-3
235-582-08-00	Fin Lot	63	Seabreeze		15890	5365-3
235-582-09-00	Fin Lot	64	Seabreeze		15890	5365-3
235-582-10-00	Fin Lot	65	Seabreeze		15890	5365-3
235-582-11-00	Fin Lot	66	Seabreeze		15890	5365-3
235-582-12-00	Fin Lot	67	Seabreeze		15890	5365-3
235-582-13-00	Fin Lot	68	Seabreeze		15890	5365-3

235-582-14-00	Fin Lot	69	Seabreeze		15890	5365-3
235-582-15-00	Fin Lot	70	Seabreeze		15890	5365-3
235-582-16-00	Fin Lot	71	Seabreeze		15890	5365-3
235-582-17-00	Fin Lot	72	Seabreeze		15890	5365-3
235-582-18-00	Fin Lot	73	Seabreeze		15890	5365-3
235-582-19-00	Fin Lot	74	Seabreeze		15890	5365-3
235-582-20-00	Fin Lot	75	Seabreeze		15890	5365-3
235-582-21-00	Fin Lot	76	Seabreeze		15890	5365-3
235-582-22-00	Fin Lot	77	Seabreeze		15890	5365-3
235-582-23-00	Fin Lot	78	Seabreeze		15890	5365-3
235-582-24-00	Fin Lot	79	Seabreeze		15890	5365-3
235-582-25-00	Fin Lot	80	Seabreeze		15890	5365-3
235-582-26-00	Fin Lot	81	Seabreeze		15890	5365-3
235-582-27-00	95% +	82	Lusitano Model	2,018.0	15890	5365-3
235-582-28-00	95% +	83	Lusitano Model	1,873.0	15890	5365-3
235-582-29-00	95% +	84	Lusitano Model	1,686.0	15890	5365-3
235-582-30-00	Fin Lot	85	Lusitano		15890	5365-3
235-582-31-00	Fin Lot	86	Lusitano		15890	5365-3
235-582-32-00	Fin Lot	87	Lusitano		15890	5365-3
235-582-33-00	Fin Lot	88	Lusitano		15890	5365-3
235-582-34-00	Fin Lot	89	Lusitano		15890	5365-3
235-582-35-00	Fin Lot	90	Lusitano		15890	5365-3
235-582-36-00	Fin Lot	91	Lusitano		15890	5365-3
235-582-37-00	Fin Lot	92	Lusitano		15890	5365-3
235-582-38-00	Fin Lot	93	Lusitano		15890	5365-3
235-582-39-00	Fin Lot	94	Lusitano		15890	5365-3
235-582-40-00	Fin Lot	95	Lusitano		15890	5365-3
235-582-41-00	Fin Lot	96	Lusitano		15890	5365-3
235-582-42-00	Fin Lot	97	Lusitano		15890	5365-3
235-582-43-00	Under Const.	98	Seabreeze		15890	5365-3
235-582-44-00	Under Const.	99	Seabreeze		15890	5365-3
235-582-45-00	Under Const.	100	Seabreeze		15890	5365-3
235-582-46-00	Under Const.	101	Seabreeze		15890	5365-3
235-582-47-00	Under Const.	102	Seabreeze		15890	5365-3
235-582-48-00	Under Const.	103	Seabreeze		15890	5365-3
235-582-49-00	Under Const.	104	Seabreeze		15890	5365-3
235-582-50-00	Under Const.	105	Seabreeze		15890	5365-3
235-582-51-00	IA 1		X-NAP			
235-582-52-00	IA 1		X-NAP			
235-600-01-00	Fin Lot	1	Analucia		15893	5365-6
235-600-02-00	Fin Lot	2	Analucia		15893	5365-6
235-600-03-00	Fin Lot	3	Analucia		15893	5365-6
235-600-04-00	Fin Lot	4	Analucia		15893	5365-6
235-600-05-00	Fin Lot	5	Analucia		15893	5365-6
235-600-06-00	IA 1	6	Andalucia Model	3,027.0	15893	5365-6
235-600-07-00	IA 1	7	Andalucia Model	3,182.0	15893	5365-6
235-600-08-00	IA 1	8	Andalucia Model	3,640.0	15893	5365-6
235-600-09-00	Finished Lot	9	Farmhouse		15894	5365-7
235-600-10-00	Finished Lot	10	Farmhouse		15894	5365-7
235-600-11-00	Finished Lot	11	Farmhouse		15894	5365-7
235-600-12-00	Finished Lot	12	Farmhouse		15894	5365-7
235-600-13-00	Finished Lot	13	Farmhouse		15894	5365-7

235-600-14-00	Finished Lot	14	Farmhouse		15894	5365-7
235-600-15-00	Finished Lot	15	Farmhouse		15894	5365-7
235-600-16-00	Finished Lot	16	Farmhouse		15894	5365-7
235-600-17-00	Finished Lot	17	Farmhouse		15894	5365-7
235-600-18-00	Finished Lot	18	Farmhouse		15894	5365-7
235-600-19-00	Finished Lot	19	Farmhouse		15894	5365-7
235-600-20-00	S uperpad	53	Village Court		15893	5365-6
235-600-21-00	IA 1		X-NAP			
235-601-01-00	S uperpad	20	Hillside Compound		15893	5365-6
235-601-02-00	S uperpad	21	Hillside Compound		15893	5365-6
235-601-03-00	S uperpad	22	Hillside Compound		15893	5365-6
235-601-04-00	S uperpad	23	Hillside Compound		15893	5365-6
235-601-05-00	S uperpad	24	Hillside Compound		15893	5365-6
235-601-06-00	S uperpad	25	Hillside Compound		15893	5365-6
235-601-07-00	S uperpad	26	Hillside Compound		15893	5365-6
235-601-08-00	S uperpad	27	Hillside Compound		15893	5365-6
235-601-09-00	IA 1		X-NAP			
235-601-10-00	IA 1	56	X-NAP			
235-601-11-00	IA 1		X-NAP			
235-601-12-00	IA 1		X-NAP			
235-601-13-00	IA 1		X-NAP			
235-601-14-00	IA 1		X-NAP			
235-602-01-00	S uperpad	28	Hillside Compound		15893	5365-6
235-602-02-00	S uperpad	29	Hillside Compound		15893	5365-6
235-602-03-00	S uperpad	30	Hillside Compound		15893	5365-6
235-602-04-00	S uperpad	31	Hillside Compound		15893	5365-6
235-602-05-00	S uperpad	32	Hillside Compound		15893	5365-6
235-602-06-00	S uperpad	33	Hillside Compound		15893	5365-6
235-602-07-00	S uperpad	34	Hillside Compound		15893	5365-6
235-602-08-00	S uperpad	35	Hillside Compound		15893	5365-6
235-602-09-00	Finished Lot	36	Farmhouse		15893	5365-6
235-602-10-00	Finished Lot	37	Farmhouse		15893	5365-6
235-602-11-00	Finished Lot	38	Farmhouse		15893	5365-6
235-602-12-00	Finished Lot	39	Farmhouse		15893	5365-6
235-602-13-00	IA 1		X-NAP			
235-602-14-00	IA 1		X-NAP			
235-602-15-00	IA 1		X-NAP			
235-602-16-00	IA 1		X-NAP			
235-603-01-00	S uperpad	40	Hillside Compound		15893	5365-6
235-603-02-00	S uperpad	41	Hillside Compound		15893	5365-6
235-603-03-00	S uperpad	42	Hillside Compound		15893	5365-6
235-603-04-00	S uperpad	43	Hillside Compound		15893	5365-6
235-603-05-00	S uperpad	44	Hillside Compound		15893	5365-6
235-603-06-00	S uperpad	45	Hillside Compound		15893	5365-6
235-603-07-00	S uperpad	46	Hillside Compound		15893	5365-6
235-603-08-00	S uperpad	47	Hillside Compound		15893	5365-6
235-603-09-00	Finished Lot	48	Farmhouse		15893	5365-6
235-603-10-00	Finished Lot	49	Farmhouse		15893	5365-6
235-603-11-00	Finished Lot	50	Farmhouse		15893	5365-6
235-603-12-00	Finished Lot	51	Farmhouse		15893	5365-6
235-603-14-00	IA 1		X-NAP			
235-603-15-00	IA 1		X-NAP			

235-603-16-00	IA 1		X-NAP			
235-603-17-00	IA 1		X-NAP			
235-603-18-00	IA 1		X-NAP			
235-603-19-00	IA 1		X-NAP			
235-603-20-00	IA 1		X-NAP			
235-603-22-00	IA 1		X-NAP			
235-603-23-00	IA 1		X-NAP			
235-603-24-00	Existing House	52	Existing House		15893	5365-6
235-610-01-00	95% +	1	Lusita no	2,018.0	15894	5365-7
235-610-02-00	95% +	2	Lusita no	1,686.0	15894	5365-7
235-610-03-00	95% +	3	Lusita no	1,873.0	15894	5365-7
235-610-04-00	95% +	4	Lusita no	1,686.0	15894	5365-7
235-610-05-00	95% +	5	Lusita no	2,018.0	15894	5365-7
235-610-06-00	95% +	6	Lusita no	1,873.0	15894	5365-7
235-610-07-00	95% +	7	Lusita no	1,686.0	15894	5365-7
235-610-08-00	95% +	8	Lusita no	1,873.0	15894	5365-7
235-610-09-00	95% +	9	Lusita no	2,018.0	15894	5365-7
235-610-10-00	95% +	10	Lusita no	2,028.0	15894	5365-7
235-610-11-00	95% +	11	Lusita no	1,873.0	15894	5365-7
235-610-12-00	95% +	12	Lusita no	1,686.0	15894	5365-7
235-610-13-00	95% +	13	Lusita no	1,873.0	15894	5365-7
235-610-14-00	95% +	14	Lusita no	2,028.0	15894	5365-7
235-610-15-00	95% +	15	Lusita no	1,686.0	15894	5365-7
235-610-16-00	95% +	16	Lusita no	1,873.0	15894	5365-7
235-610-17-00	95% +	17	Lusita no	1,686.0	15894	5365-7
235-610-18-00	95% +	18	Lusita no	2,028.0	15894	5365-7
235-610-19-00	Fin Lot	19	Analucia		15894	5365-7
235-610-20-00	Fin Lot	20	Analucia		15894	5365-7
235-610-21-00	Fin Lot	21	Analucia		15894	5365-7
235-610-22-00	Fin Lot	22	Analucia		15894	5365-7
235-610-23-00	Fin Lot	23	Analucia		15894	5365-7
235-610-24-00	Fin Lot	24	Analucia		15894	5365-7
235-610-25-00	Fin Lot	25	Analucia		15894	5365-7
235-610-26-00	Fin Lot	26	Analucia		15894	5365-7
235-610-27-00	Fin Lot	27	Analucia		15894	5365-7
235-610-28-00	Fin Lot	28	Analucia		15894	5365-7
235-610-29-00	Fin Lot	29	Analucia		15894	5365-7
235-610-30-00	Fin Lot	30	Analucia		15894	5365-7
235-610-31-00	Fin Lot	31	Analucia		15894	5365-7
235-610-32-00	Fin Lot	32	Analucia		15894	5365-7
235-610-33-00	Fin Lot	33	Analucia		15894	5365-7
235-610-34-00	Fin Lot	34	Analucia		15894	5365-7
235-610-35-00	Fin Lot	35	Analucia		15894	5365-7
235-610-36-00	Fin Lot	36	Analucia		15894	5365-7
235-610-37-00	Fin Lot	37	Analucia		15894	5365-7
235-610-38-00	Fin Lot	38	Analucia		15894	5365-7
235-610-39-00	Fin Lot	39	Analucia		15894	5365-7
235-610-40-00	Fin Lot	40	Analucia		15894	5365-7
235-610-41-00	Fin Lot	41	Analucia		15894	5365-7

LAND DEVELOPMENT ANALYSIS
DISCOUNTED CASH FLOW

CASH FLOW ANALYSIS OF THE PROJECT

	Q3 17'	Q4 17'	Q1 18'	Q2 18'	Q3 18'	Q4 18'	Q1 19'	Q2 19'	TOTAL
PROJECT REVENUES:									
RESIDENTIAL:									
Lusitano		7,820,000							\$ 7,820,000
Canteridge	1,920,000								\$ 1,920,000
Seabreeze		13,250,000							\$ 13,250,000
Andalucia				13,800,000					\$ 13,800,000
Whittingham					11,475,000				\$ 11,475,000
Village Court					8,800,000				\$ 8,800,000
Martingale							6,210,000		\$ 6,210,000
Hillside Compound								5,520,000	\$ 5,520,000
TOTAL RESIDENTIAL	1,920,000	21,070,000	-	13,800,000	20,275,000	-	6,210,000	5,520,000	\$ 68,795,000
COMMERCIAL								1,735,000	\$ 1,735,000
OTHER REVENUE									\$ -
TOTAL REVENUES	\$ 1,920,000	\$ 21,070,000	\$ -	\$ 13,800,000	\$ 20,275,000	\$ -	\$ 6,210,000	\$ 7,255,000	\$ 70,530,000
PROJECT COSTS:									
TOTAL PROJECT COSTS		\$ 930,981	\$ 930,981	\$ 930,981	\$ 930,981	\$ 930,981	\$ 930,981		\$ 5,585,886
NET INCOME		\$ 20,139,019	\$ (930,981)	\$ 12,869,019	\$ 19,344,019	\$ (930,981)	\$ 5,279,019	\$ 7,255,000	\$ 42,885,095
NET PRESENT VALUE									
Quarterly Discount Factor									
Discount Factor:	0.18	1.021	1.064	1.109	1.156	1.205	1.256	1.309	1.364
Discounted Cash Flow		-	18,927,034	(839,488)	11,133,935	16,057,556	(741,486)	4,034,084	5,319,351
Cumulative		\$ -	\$ 18,927,034	\$ 18,087,546	\$ 29,221,481	\$ 45,279,037	\$ 44,537,551	\$ 48,571,635	\$ 53,890,986
Discount Factor:	0.22	1.025	1.077	1.132	1.190	1.251	1.314	1.381	1.452
Discounted Cash Flow		-	18,691,897	(822,178)	10,813,856	15,466,495	(708,265)	3,821,365	4,997,039
Cumulative Cash Flow		\$ -	\$ 18,691,897	\$ 17,869,719	\$ 28,683,575	\$ 44,150,070	\$ 43,441,804	\$ 47,263,169	\$ 52,260,208

BUILDER-OWNED HOMES
DISCOUNTED CASH FLOW ANALYSES

Harmony Grove Village Canteridge Discounted Cash Flow Analysis

MONTH	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>TOTAL</u>
INCOME:				
Retail Sales	\$1,129,680	\$1,129,680	\$1,129,680	\$3,389,040
TOTAL INCOME	<u>\$1,129,680</u>	<u>\$1,129,680</u>	<u>\$1,129,680</u>	<u>\$3,389,040</u>
EXPENSES:				
Remaining Costs	(\$30,046)	(\$30,046)	(\$30,046)	(\$90,138)
Marketing & Carrying Expenses	(\$90,374)	(\$90,374)	(\$90,374)	(\$271,123)
Profit	<u>(\$90,374)</u>	<u>(\$90,374)</u>	<u>(\$90,374)</u>	<u>(\$271,123)</u>
TOTAL EXPENSES	(\$210,795)	(\$210,795)	(\$210,795)	(\$632,384)
NET CASH FLOW	\$918,885	\$918,885	\$918,885	\$2,756,656
Discount Factor	<u>0.9917</u>	<u>0.9835</u>	<u>0.9754</u>	
DISCOUNTED CASH FLOW	\$911,291	\$903,760	\$896,291	\$2,711,342
CUMULATIVE DISCOUNTED CASH FLOW	<u>\$911,291</u>	<u>\$1,815,051</u>	<u>\$2,711,342</u>	<u>\$2,711,342</u>

Harmony Grove Village Seabreeze Discounted Cash Flow Analysis

MONTH	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>MONTH 4</u>	<u>MONTH 5</u>	<u>TOTAL</u>
INCOME:						
Retail Sales	\$1,999,967	\$1,999,967	\$1,999,967	\$1,999,967	\$1,999,967	\$9,999,834
TOTAL INCOME	<u>\$1,999,967</u>	<u>\$1,999,967</u>	<u>\$1,999,967</u>	<u>\$1,999,967</u>	<u>\$1,999,967</u>	<u>\$9,999,834</u>
EXPENSES:						
Remaining Costs	(\$51,078)	(\$51,078)	(\$51,078)	(\$51,078)	(\$51,078)	(\$255,391)
Marketing & Carrying Expenses	(\$159,997)	(\$159,997)	(\$159,997)	(\$159,997)	(\$159,997)	(\$799,987)
Profit	<u>(\$159,997)</u>	<u>(\$159,997)</u>	<u>(\$159,997)</u>	<u>(\$159,997)</u>	<u>(\$159,997)</u>	<u>(\$799,987)</u>
TOTAL EXPENSES	(\$371,073)	(\$371,073)	(\$371,073)	(\$371,073)	(\$371,073)	(\$1,855,364)
NET CASH FLOW	\$1,628,894	\$1,628,894	\$1,628,894	\$1,628,894	\$1,628,894	\$8,144,470
Discount Factor	<u>0.9917</u>	<u>0.9835</u>	<u>0.9754</u>	<u>0.9673</u>	<u>0.9594</u>	
DISCOUNTED CASH FLOW	\$1,615,432	\$1,602,081	\$1,588,841	\$1,575,710	\$1,562,688	\$7,944,752
CUMULATIVE DISCOUNTED CASH FLOW	<u>\$1,615,432</u>	<u>\$3,217,513</u>	<u>\$4,806,354</u>	<u>\$6,382,064</u>	<u>\$7,944,752</u>	<u>\$7,944,752</u>

Harmony Grove Village Lusitano Discounted Cash Flow Analysis

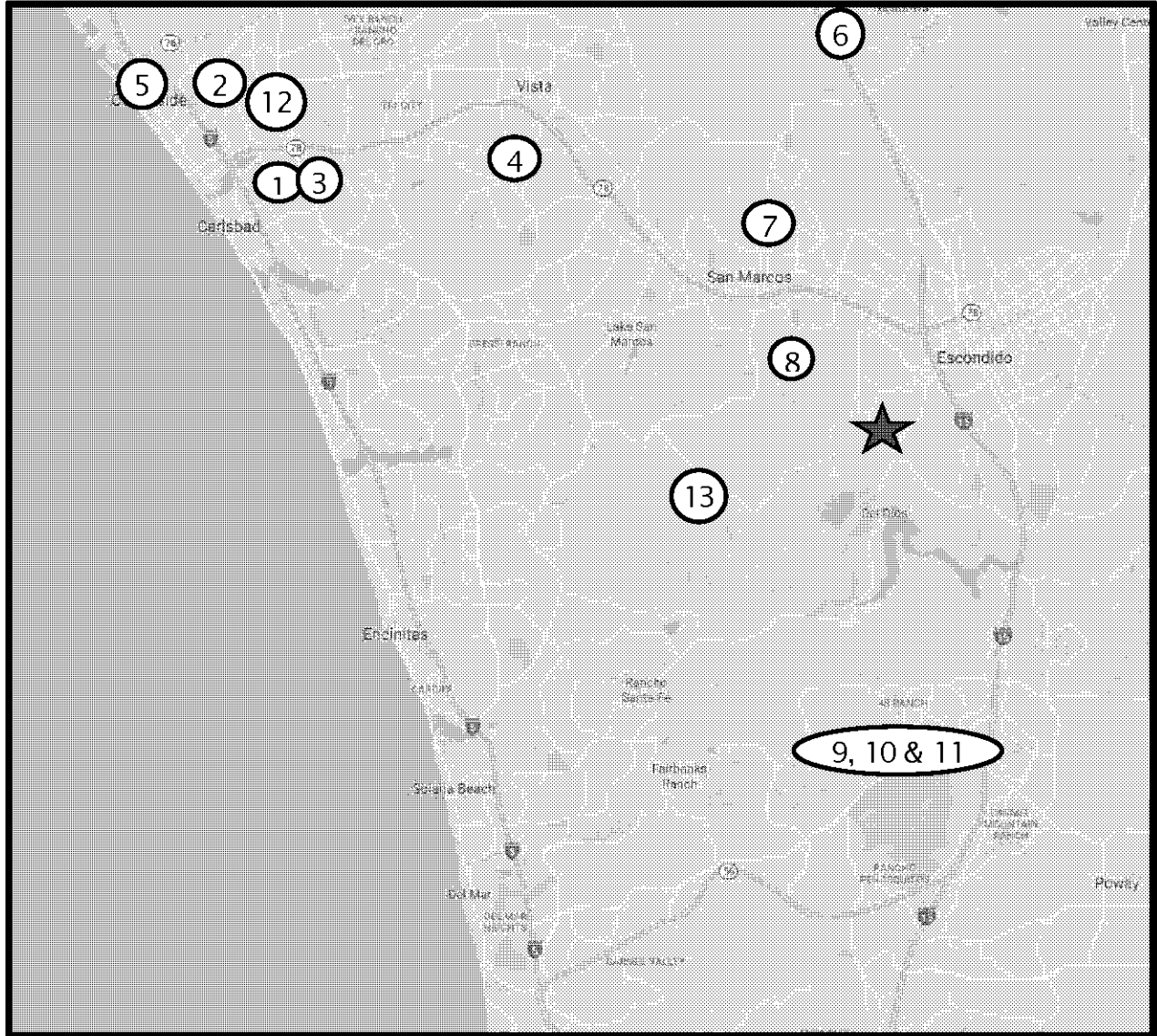
MONTH	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>MONTH 4</u>	<u>TOTAL</u>
INCOME :					
Retail Sales	\$1,577,441	\$1,577,441	\$1,577,441	\$1,577,441	\$6,309,763
TOTAL INCOME	<u>\$1,577,441</u>	<u>\$1,577,441</u>	<u>\$1,577,441</u>	<u>\$1,577,441</u>	<u>\$6,309,763</u>
EXPENSES :					
Remaining Costs	(\$45,069)	(\$45,069)	(\$45,069)	(\$45,069)	(\$180,276)
Marketing & Carrying Expenses	(\$126,195)	(\$126,195)	(\$126,195)	(\$126,195)	(\$504,781)
Profit	(\$126,195)	(\$126,195)	(\$126,195)	(\$126,195)	(\$504,781)
TOTAL EXPENSES	(\$297,460)	(\$297,460)	(\$297,460)	(\$297,460)	(\$1,189,838)
NET CASH FLOW	\$1,279,981	\$1,279,981	\$1,279,981	\$1,279,981	\$5,119,925
Discount Factor	<u>0.9917</u>	<u>0.9835</u>	<u>0.9754</u>	<u>0.9673</u>	
DISCOUNTED CASH FLOW	\$1,269,403	\$1,258,912	\$1,248,508	\$1,238,189	\$5,015,012
CUMULATIVE DISCOUNTED CASH FLOW	<u>\$1,269,403</u>	<u>\$2,528,315</u>	<u>\$3,776,823</u>	<u>\$5,015,012</u>	<u>\$5,015,012</u>

Harmony Grove Village Andalusia Discounted Cash Flow Analysis

MONTH	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>TOTAL</u>
INCOME:				
Retail Sales	\$708,238	\$708,238	\$708,238	\$2,124,714
TOTAL INCOME	<u>\$708,238</u>	<u>\$708,238</u>	<u>\$708,238</u>	<u>\$2,124,714</u>
EXPENSES:				
Remaining Costs	(\$15,023)	(\$15,023)	(\$15,023)	(\$45,069)
Marketing & Carrying Expenses	(\$56,659)	(\$56,659)	(\$56,659)	(\$169,977)
Profit	<u>(\$56,659)</u>	<u>(\$56,659)</u>	<u>(\$56,659)</u>	<u>(\$169,977)</u>
TOTAL EXPENSES	(\$128,341)	(\$128,341)	(\$128,341)	(\$385,023)
NET CASH FLOW	\$579,897	\$579,897	\$579,897	\$1,739,691
Discount Factor	<u>0.9917</u>	<u>0.9835</u>	<u>0.9754</u>	
DISCOUNTED CASH FLOW	\$575,104	\$570,351	\$565,638	\$1,711,094
CUMULATIVE DISCOUNTED CASH FLOW	<u>\$575,104</u>	<u>\$1,145,456</u>	<u>\$1,711,094</u>	<u>\$1,711,094</u>

FINISHED LOT LAND SALES MAP
& SUMMARY CHART

Finished Lot Land Sales Map



FINISHED LOT LAND SALES SUMMARY CHART

Data No.	Location/APN	Sales Date	# Lots / Acres	Lot Size / Density	Sales Price / Price per Lot	Est. Finished Lot Price	Comments
1	1835 Buena Vista Way, Carlsbad / 156-220-01 (Yada Family Trust / N/A)	Current Escrow	12 / 3.84	9,500 3.1 du/ac	\$4,850,000 / \$404,167*	\$610,000	Shea advertising as Lanai Court II. Adjacent to Data 1. Appears to be assemblage but due to escrow, unable to verify.
2	W S Rancho Del Oro at Ocean Ranch Blvd, Oceanside / 160-572-43, 45 and portion of 160-572-10 (Shopoff Land Fund / Lennar Homes)	7/17	70 / 4.83	Townhomes 14.5 du/ac	\$7,500,000 / \$107,143	\$192,950	Lennar planning 70 3-story townhomes with sizes ranging from 1,708 to 2,215 square feet
3	1833 Buena Vista Way, Carlsbad / 156-220-02 (Robert Miles Living Trust / Shea Homes LP)	4/17	10 / 3.09	9,500 3.2 du/ac	\$4,000,000 / \$400,000	\$550,000	Shea advertising as Lanai Court II, a continuation of their successful Lanai Court near I-5 and Las Flores Drive which sold out with prices from \$1.2 to \$1.3 Million.
4	1630 S. Melrose Drive, Vista / 183-220-30 / Warmington (Christian Science Church) / Lennar Homes	3/17	47 / 3.14	14.97 DU/ac	\$4,300,000 / \$91,489	\$230,000	Warmington optioned property from Church for \$2.5M; mapped and commenced engineering and architectural plans for 47 3-story townhomes. Existing Church on site.
5	W S Vine St, N/O Oceanside Blvd. Oceanside / 152-320-40	1/17	58 / 6.3	9.2 DU/Ac	\$6,405,000 \$110,431	\$230,000	Site previously in graded superpad condition with surrounding streets in place. Across from existing hotel & gas station.
6	E/O I-15 Frwy, S/O Canonita Dr., Unincorporated San Diego County Por of 109-421-21	Offers	115 / N/A	5,000	N/A	\$250,000+	Horse Creek Ridge MPC. Guest builder site w/in MPC by DR Horton. General Fallbrook area.
7	W S Twin Oaks Valley Rd., N/O Windy Way, San Marcos 218-110-05	1/17	19 / 4.88	6,000	\$2,303,000	\$296,000	Infill site purchased by CalAtlantic Group. Using models in Toscana (Del Sur) to market. Pre-sales opened 5/17.
8	W/O Twin Oaks Valley Rd., at Santa Barbara Dr., San Marcos Por of 221-091-21; 222-080-59 & 222-170-28	12/16	71	7,200	\$18,415,000 \$259,366	\$320,000	Westerly product at Rancho Tesoro. Quasi JV w/Brookfield negotiated in '15. Homes 2,801-3,521 SF. Prices \$750,000 to \$800,000.

Data No.	Location/APN	Sales Date	# Lots / Acres	Lot Size/ Density	Sales Price / Price per Lot	Est. Finished Lot Price	Comments
9	Both sides of Carmel Valley Rd. at Wineridge Rd, Del Sur area of Unincorporated San Diego County Various Pgs & Parcels in Book 312	11/16	58	4,700	\$24,500,000 \$143,275 (Avg 5, 6 & 7)	\$311,400 Allocated	Corzano by CalAtlantic now selling on 4,700 square foot lots now selling in the high \$900,000s. In MPC adjacent to development activity.
10	Both sides of Carmel Valley Rd. at Wineridge Rd, Del Sur area of Unincorporated San Diego County Various Pgs & Parcels in Book 312	11/16	61	5,200	\$24,500,000 \$143,275 (Avg 5, 6 & 7)	\$302,000 Allocated	Toscana by CalAtlantic now selling on 5,200 square foot lots now selling in the \$1,050,000 to \$1,100,000 range. In MPC adjacent to development activity.
11	Both sides of Carmel Valley Rd. at Wineridge Rd, Del Sur area of Unincorporated San Diego County Various Pgs & Parcels in Book 312	11/16	52	6,200	\$24,500,000 \$143,275 (Avg 5, 6 & 7)	\$384,000 Allocated	Castello by CalAtlantic on 6,400 square foot lots now selling in the \$1,240,000 to \$1,400,000 range. In MPC adjacent to development activity.
12	N/S Mesa Dr. at Newport Way Oceanside Various in Book 146	11/16	22	6,400 Avg.	\$5,000,000 \$227,273	\$432,000	Oceanside Summerset Estates. Homes range 2,487 to 3,307 SF w/ Prices \$753,000 to \$952,000. View premiums up to \$50,000.
13	3899 Rancho Summit Dr. Encinitas (Olivenhain) Various in 264-590 & 264-591	1/15	28	1 Ac Minimum	\$10,650,000 \$380,357	\$735,000	Shea purchased final map. Lots range from 0.87 Ac. To 1.5 Ac. Most lots have views.

COMMERCIAL LAND SALES MAP AND
SUMMARY CHART

Commercial Land Sales Map

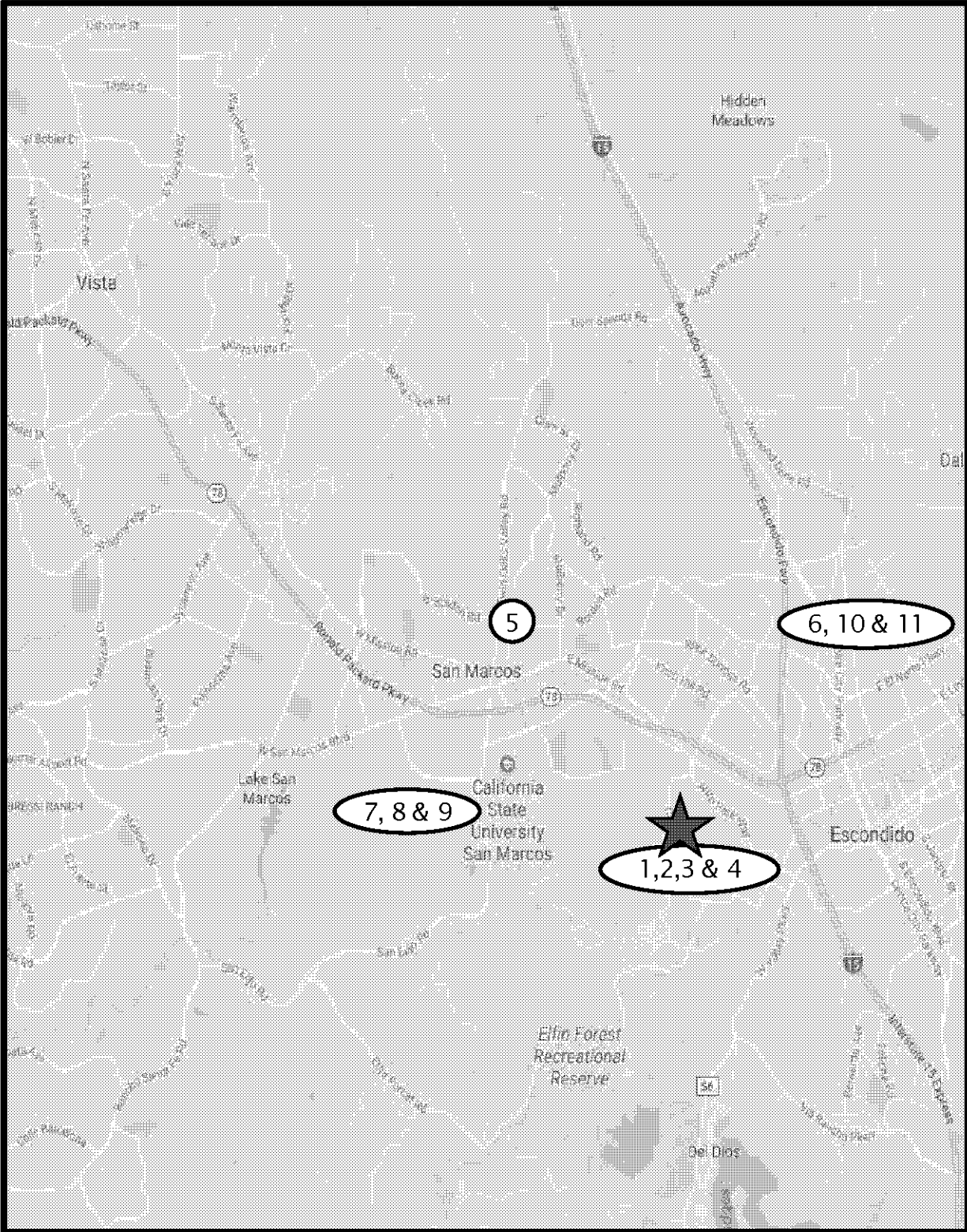


Commercial Land Sale Summary

<u>Data No.</u>	<u>Location/APN (Seller/Buyer)</u>	<u>Sale Date</u>	<u>Size Acres</u>	<u>Price</u>	<u>Price/Sq. Ft.</u>	<u>Comments</u>
1	S/S Elfin Forest Road between San Elijo Hills Road, San Elijo Hills, San Marcos / 223-630-23/ (San Elijo Hills Town Center LLC / SEH Lifestyle Center LLC)	3/17	1.94	\$1,300,000	\$15.38	Planned for 22,888 SF retail center at entrance to San Elijo Hills. Similar CFD.
2	220 W. Mission Ave. Escondido/229-120-76 (N.Island Financial Credit/222 W. Mission SP, LLC)	11/16	1.57	\$1,350,000	\$19.74	Long escrow to obtain self-storage use. No CFD.
3	E/S Vista Way, S/O Palomar Pl., Vista/173-065-25 (Monte Mar Land,LLC/Hesperia Outpost, LP)	6/16	4.62	\$3,050,000	\$15.16	Adjacent to existing retail center. No CFD
4	SWC Escondido Blvd. & 4 th Ave., Escondido/233-150-05 (Marvel Simbach/AMRE Properties, LLC)	4/16	0.32	\$875,000	\$20.09	Small corner site in older area. No CFD.
5	E/S Santa Anita Dr., N/O Santa Fe Ave., Vista/175-080-51 (Anita Place Partners, LLC/ Rancho Estates, Inc.)	12/15	0.97	\$550,000	\$13.02	Poor commercial location. Slopes up. No CFD
6	E/S Rancho Santa Fe Rd. S/O La Mirada Dr. San Marcos/219-221-26 (Union Bank of Calif/Norwood, Z M & Co., Inc.)	4/16	0.49	\$300,000	\$14.06	Buyer to hold for future commercial development. No CFD.

IMPROVED RESIDENTIAL SALES MAP
& SUMMARY CHART

Improved Residential Sales Map



IMPROVED RESIDENTIAL SALES SUMMARY CHART

Data No.	Project Name Location/Developer	Plan	Room Count	Size (SF)	Floors/ Parking	* Lot Size/	Base Sales Price	Incentives / Concessions	Price less Incentives	Price/SF After Incentives
1	Canteridge Harmony Grove, Country Club & Harmony Grove, Escondido /CalAtlantic	1	3 /2.5	1,920	2 /2	2,550	\$513,000	\$5,000 with design center and \$2,500 in closing costs with builder's lender	\$505,500	\$263.38
		2	3 /3	1,922	2 /2		\$528,000		\$520,500	\$270.81
		3	4 /3	2,075	2 /2		\$538,000		\$530,500	\$255.66
		3X	4 /3	2,136	2 /2		\$541,000		\$533,500	\$249.77
2	Seabreeze, Harmony Grove, Country Club & Harmony Grove, Escondido /CalAtlantic	1	4 /3	2,185-2,626	2 /2	3,600	\$582,000	\$7,500 in design center and \$2,500 in closing costs with builder's lender	\$572,000	\$261.78
		2	4 /3	2,519	2 /2		\$593,000		\$583,000	\$231.44
		3	4 /3.5	2,783-3,112	2 /2		\$615,000		\$605,000	\$217.39
		4	4 /3	2,277	2 /2		\$585,000		\$575,000	\$252.52
3	Lusitano, Harmony Grove, Country Club & Harmony Grove /CalAtlantic	1	3 /2.5	1,684-1,686	2 /2	2,550	\$511,000	\$5,000 with design center and \$2,500 in closing costs with builder's lender	\$503,500	\$298.99
		2	3 /2.5	1,875	2 /2		\$540,000		\$532,500	\$284.00
		3	4 /3	2,018	2 /2		\$550,000		\$542,500	\$268.83
4	Andalucia, Harmony Grove, Country Club & Harmony Grove / CalAtlantic	1	4 /4.5	3,027-3,527	2 /2	5,460	\$652,400	\$7,500 in design center and \$2,500 in closing costs with builder's lender	\$642,400	\$212.22
		2	4 /4.5	3,182-3,701	2 /2		\$663,900		\$653,900	\$205.50
		3	5 /4.5	3,640	2 /3		\$676,900		\$666,900	\$183.21
		4	4 /3.5	2,980	2 /2		\$646,400		\$636,400	\$13.56
5	Montessa, N. Twin Oaks Valley Road, San Marcos / CalAtlantic	1	5 /4	3,017	2 /3	6,000	\$790,900	Opened in April	\$790,900	\$262.15
		2	5 /4	3,449	2 /3		\$813,900		\$813,900	\$235.98
6	Heritage Collection, 1312 Vista Avenue, Escondido Shea Homes	1	4 /2.5	2,325	1 /3	10,000	\$654,230	\$5,000 in closing costs with preferred lender	\$649,230	\$279.24
		2	4 /2.5	2,641	1 /3		\$674,230		\$669,230	\$253.40
		3	4 /3.5	3,012	2 /3		\$678,350		\$673,350	\$223.56
		4	5 /4.5	3,402	2 /3		\$723,920		\$718,920	\$211.32
7	Westerly at Rancho Tesoro, San Marcos / California West Communities	1	5 /3	2,801	2 /2	4,000-	\$742,900	\$5,000 with preferred lender and \$2,500 with design center.	\$735,400	\$262.55
		2	5 /3.5	3,182	2 /2	6,500	\$768,900		\$761,400	\$239.28
		3	5 /4.5	3,305	2 /2	\$787,900	\$780,400		\$236.13	
8	Terracina, Rancho Tesoro, San Marcos /Brookfield Homes	1	3 /2.5	2,211	2 /2	2,200-	\$645,000	\$5,000 in closing with preferred lender	\$640,000	\$289.46
		2	4 /3	2,392	2 /2	3,025	\$664,000		\$659,000	\$275.50
		3	4 /3	2,550	2 /2	\$680,000	\$675,000		\$264.71	
9	Vientos, Rancho Tesoro, San Marcos /Brookfield Homes	1	4 /3	2,458	2 /2	2,400-	\$687,370	\$7,500 in closing with preferred lender	\$679,870	\$276.59
		2	5 /3	2,646	2 /2	2,600	\$702,850		\$695,350	\$262.79
		3	5 /3.5	3,009	2 /2	\$738,440	\$730,940		\$242.92	
10	Lexington - 1792 Ash Street, Escondido / KB Home	1	4 /2	2,473	1 /3	10,000	\$693,490	\$1,500 towards closing with preferred lender	\$691,990	\$279.82
		2	5 /3	2,875	2 /3		\$703,615		\$702,115	\$244.21
		3	5 /3	3,192	2 /3		\$715,065		\$713,565	\$223.55
11	Pradera, Lehner Avenue, N/O 78 and E/O 215, Escondido /Lennar	2	5 /4	3,061	2 /3	7,000+	\$736,500	\$5,000 towards closing with preferred lender	\$731,500	\$238.97
		3	4 /3.5	3,381	2 /3		\$767,000		\$762,000	\$225.37
		4	5 /4	3,606	2 /3		\$762,000		\$757,000	\$209.93

APPRAISERS' QUALIFICATIONS

QUALIFICATIONS OF KITTY S. SIIINO, MAI

Education

Bachelor of Arts in Business Administration, Financial Investments, California State University, Long Beach, California (1980)

Post-Graduate Study, Real Estate Development, University of California, Irvine, California

Appraisal Institute Classes: Uniform Standards of Professional Appraisal Practice, A & B; Appraisal Principles; Appraisal Procedures; Basic Income Capitalization; Advanced Income Capitalization; Narrative Report Writing; Advanced Applications, Case Studies. Successfully completed all classes in addition to successfully completing the writing of a Demonstration Report and taking the Comprehensive Exam. Became a Member of the Appraisal Institute in December 1996. Have completed over 100 hours of continuing education through the Appraisal Institute every five years.

Employment

1988 –Present:

Self-Employed Real Estate Appraiser. Duties include the appraisal of various types of properties such as commercial, retail, industrial and vacant land. More complex assignments include easements, right-of-ways and special assessment districts. From 1996 to present, specialized in special assessment districts and community facilities districts appraisals for public entities, including Jurupa Community Services District, Corona Norco Unified School District, City of Corona, City of Chula Vista, City of San Marcos and City of Moreno Valley.

1986–1988:

Project Manager of Development for Ferguson Partners, Irvine, California. Duties included land acquisitions; review of fee appraisals and valuations; analysis of proposed development; planning and design; and management of development, construction and lease-up. The types of properties developed were commercial and industrial. Duties ranged from raw, vacant site development through property management of recently developed projects.

1981 –1986

Manager of Finance, Construction for Community Development Division, The Irvine Company, Irvine, California. Duties included originating and managing a newly formed division of finance to bridge between the accounting functions and project management functions. Worked with analysis and budgets for Community Development Division. Coordinated with cities in forming new Assessment Districts and Community Facilities Districts to finance major infrastructure improvements. Types of properties were apartments and single-family residential lots on a for sale basis to apartment and homebuilders.

1980 –1981

Investment Counselor, Newport Equity Funds, Newport Beach, California. Duties included obtaining private financing for residential properties, working with appraisals of properties and analyzing the investments.

Licenses

Real Estate Sales Person, State of California, 1980
Certified General Appraiser, State of California (#AG004793)

Organizations

MAI #11145 -The Appraisal Institute

Public Financing

CASTOFF Meetings, 2006, 2007, 2008, 2009, 2010, 2011, 2013, 2014, 2015 and 2016

Speaker, Mello-Roos & Special Assessment Financing, UCLA Extension Public Policy Program, February 2009 and March 2011

PROFESSIONAL QUALIFICATIONS
LARRY W. HEGLAR, MAI

Professional Experience

- Appraisal Mr. Heglar has experience in the appraisal of various residential and income-producing properties including master-planned communities, commercial, industrial, office, medical buildings, apartment buildings, planned unit developments, shopping centers, hotels and motels, post office buildings, corporate headquarters and multi-use projects. He has more than 40 years of real estate experience.
- Consulting Mr. Heglar's experience has included acquisitions and dispositions of residential subdivision property, master planned communities, portfolio advice/strategies planning, highest and best use studies, project feasibility and marketing studies.

Professional Employment

Nov, 2012 to Present-Principal/Owner, Larry W. Heglar & Associates, Huntington Beach, CA

Orange County based appraisal and consulting firm providing a broad scope of real estate services including appraisals, market studies and litigation support. Projects included master planned communities, subdivisions and large investment properties. Locations included properties mainly in Southern California.

Mar, 2007 to November 2012-Sage Community Group, Consultant, Newport Beach, CA

Develops strategy/methodology for disposition of land assets in California, Nevada and Arizona. Assists in developing strategy for institutional investors in the acquisition of land assets during economic slow-down. Assists in management of land assets for Sage Community Group and for financial institutions on REO assets.

Feb 2001 to Oct 2006 -Pulte Homes, Vice-President of Land Acquisition, Irvine CA

Oversaw the purchase and sale of land for Orange County/South Riverside County Division, as well as North Inland Empire Division. Transactional experience throughout Southern California in most major markets.

Responsibilities included seeking development opportunities, analysis of potential acquisitions, negotiation of terms, coordination of legal documentation and internal land purchase approvals.

Hired and trained professional land personnel.

Jan 1993 to Feb 2001 -Principal/Owner, Larry W. Heglar & Associates, Irvine CA

Orange County based appraisal and consulting firm providing a broad scope of real estate services including appraisals, market studies and feasibility analyses. Projects included master planned communities, military bases, subdivisions, large investment properties and portfolio properties. Locations included properties mainly in Southern California as well as Northern California, Colorado, Florida.

Office and associated with Institutional Housing Partners, a CalPers advisor.

April 1984 to Jan 1993 -The Irvine Company, Vice-President Land Sales, Newport Beach CA

Responsible for managing and conducting the analysis, negotiations and documentation of residential subdivision and institutional land sales for The Irvine Company. Negotiated more than 80 transactions for over \$660 million in land revenue.

Oversaw escrow process and collection of builder payment of price and profit participation.

Jan 1983 to April 1984 -Appraiser, John S. Adams & Associates, Newport Beach CA

Appraisal assignments specializing in income properties located in Southern California

Jan 1979 to Jan 1983 -Manager of Appraisals, The Irvine Company, Newport Beach CA

Coordinated the appraisal requirements with outside valuation consultants and recommended strategies to upper management.

Feb 1978 to Jan 1979 -Regional Appraiser, United California Mortgage Company, Tustin CA

Chief staff appraiser for the mortgage banking operations of UCB/First Interstate Bank in Orange County. Responsible for all loan appraisals on income properties.

July 1971 to Feb 1978 -Real Estate Analyst, Coldwell Banker, Los Angeles CA

Conducted appraisals on all major types of real estate including residential, commercial, industrial and special use properties mainly in California but also in Maryland, Washington, New Jersey and Illinois.

Education

San Diego State University – Bachelor of Arts in Geography.

Appraisal Institute Courses –

- Course IA (AIREA) – Principles of Real Estate Appraising, 1972
- Course IB (AIREA) – Principles of Real Estate Appraising, 1974
- Course II (AIREA) – Urban Real Estate Appraisal, 1975
- Course VI (AIREA) – Techniques and Mathematics of Capitalization, 1977
- Course IV (AIREA) – Condemnation Appraisal Practice, 1978
- Standards of Professional Practice, 1990
- Course 410 & 420, Standards of Professional Practice, (Appraisal Institute), 1995
- Continuing Education – The Appraisal Institute and California Office of Real Estate Appraisers provides numerous seminars and workshops to satisfy continuing education requirements. The Urban Land Institute and other real estate organizations also provide programs that Mr. Heglar has attended for continuing education requirements.

Professional Affiliations

Urban Land Institute, Associate Member

Lambda Alpha International, Honorary Land Economics Society, Former Chapter President and International Board of Governors Officer

BIA, Orange County

Board of Directors, Irvine Campus Housing Authority, 1999 to 2008

Appraisal Institute, MAI Designation, (Member No. 6602)

Representative Appraisal Assignments (within past ten years)

Income Property Appraisals

Industrial–

- 17120 Main Street, Gardena, 186,000 square feet in three buildings on 9.40 Acres. Leased to three tenants
- 13226 Alondra Boulevard, Cerritos, 128,000 square feet on 5.42 acres. Single tenant
- LAMBERT PALM BUSINESS CENTER, La Habra, 188,644 square foot, multi-tenant business park
- AIRPORT DISTRIBUTION CENTER, Las Vegas, 69,592 square foot, multi-tenant business park
- 240 SPECTRUM BOULEVARD, Las Vegas, 45,394 square foot, multi-tenant business park
- COMMERCE CENTER, Santa Fe Springs, 81,117 square foot, multi-tenant business park
- PUMICE CARMENITA INDUSTRIAL PARK, 29,808 square foot, multi-tenant business park
- CLAUSET INDUSTRIAL PARK, 103,546 square foot, multi-tenant business park
- 1350 Philadelphia Street, Pomona, 85,851 square foot trucking facility on 11.76 Acres
- 3561 Philadelphia Street, Chino, 14,360 square foot trucking facility on 4.137 Acres
- 1090 E. Belmont Street, Ontario, 128,552 square foot distribution facility on 11.23 Acres
- 1773 Whittier Avenue, Costa Mesa, 20,800 square foot, multi-tenant business park on 1.137 Acres
-
- Gilead Sciences, San Dimas, Four bio-med/office buildings totalling 191,100 square feet on 12.78 Acres

Apartments–

- THE PARK @ THE IRVINE SPECTRUM, 762 unit apartment project on 13.78 Acres
- SAN CARLO APARTMENTS, Irvine, 354 unit apartment project on 21.398 Acres
- SANTA CLARA APARTMENTS, Irvine, 378 unit apartment project on 16.368 Acres
- HERITAGE POINT APARTMENTS, Irvine, 342 unit apartment project on 15.028 Acres

Retail Centers–

- ALTON SQUARE SHOPPING CENTER, Irvine, 35,451 square foot shopping center on 11.559 acres and anchored by Ralph's Market and CVS Drug Store
- 17th St & Newport Blvd., 28,468 square foot leasehold shopping center in Costa Mesa on 2.6 acres.

Office Buildings-

- ONE GOLDEN SHORE, Long Beach, 32,000 square foot office building on 2.42 Acres
- 1601 Avocado Avenue, Newport Beach, 12,547 square foot medical office building on 0.90 acres
- 1928 S. Grand Avenue, Santa Ana. 210,000 square foot, single story building lease to County of Orange

Hotel Properties-

- Portfolio of six hotel properties with following locations: Seal Beach (115 rooms), Corona (171 rooms), Redlands (107 rooms), Moreno Valley (127 rooms), Chino Hills (124 rooms) & Diamond Bar (125 rooms)

Land Appraisals-

- CAPISTRANO UNIFIED SCHOOL DISTRICT, proposed 14 acre school site in Rancho Mission Viejo
- MORENO VALLEY, 52 acres of unentitled land adjacent to freeway
- MOTTE RANCH, 638 acres of unentitled land near San Jacinto, Riverside County
- UCI APARTMENT SITE, Ground lease land valuation of 72.5 acres site improved with 1,753 student apartment units
- ROWLAND HEIGHTS OPEN SPACE, 168.75 acres of vacant land
- CANYON VIEW, proposed 92 lot residential subdivision in Palm Springs
- 1926 PACIFIC COAST HIGHWAY, proposed 52 unit condominium plus 10,000 square feet of retail in Redondo Beach
- SOUTH COAST BUILDERS, proposed 28 lot subdivision in Costa Mesa on Harbor Boulevard
- LAKESIDE, RIVERSIDE COUNTY, Master planned community, 450 acres and 334 residential homes
- WEST COYOTE HILLS SPECIFIC PLAN, FULLERTON, Master planned community, 510 acres, approximately 750 residential units
- Land for proposed hotel on UCI Campus
- LOST VALLEY, 1,353 acre property owned by Boy Scouts of America in eastern San Diego County
- LAMB SCHOOL SITE, HUNTINGTON BEACH, new residential subdivision
- WARDLOW SCHOOL SITE, HUNTINGTON BEACH, new residential subdivision
- UNIVERSITY OF CALIFORNIA, IRVINE, Proposed Hotel Site
- MOUNTAIN PARK, ANAHEIM, Portion of Master Planned Community
- CHRISTOPHER DEVELOPMENT GROUP, WESTMINSTER, 80 Lot Subdivision
- HIGHLAND HILLS, SAN BERNARDINO, 543 acres entitled for 1,516 residential units/lots.
- VAIL LAKE RANCHO CALIFORNIA, LLC, 497 acres of vacant, unentitled land. Purpose for bankruptcy proceedings.
- PARK PLACE, SANTA CLARITA, LOS ANGELES CO., 522 acres of raw land with Approved Tentative Tract Map for 492 residential lots.
- JP RANCH, CALIMESA, RIVERSIDE CO., 38 acres dedicated for open space/wildlife corridor
- NAKASE NURSERY, LAKE FOREST, ORANGE CO., 120 unentitled land, General Plan for business park use.
- TUSTIN LEGACY, 29.18 acre apartment site developed with 758 units
- CHINO HILLS, CHINO, SAN BERNARDINO CO., 400 acres of open space.
- UNIVERSITY PARK, PALM DESERT, RIVERSIDE CO., 165 Acres partially improved land with Approved Tentative Tract Map for 169 lots
- ADAMS CANYON RANCH, SANTA PAULA, VENTURA CO., 4,714 acres of vacant land adjacent to the City of Santa Paula.
- DOS VIENTOS, THOUSAND OAKS, VENTURA CO., 1,000 acres of vacant, raw land.
- CHINO PRESERVE, CHINO, CA -Southerly portion of master planned community consisting of approximately 614 acres and entitlements for 4,566 residential units and commercial development. Purpose was for estate planning.
- MESA VERDE ESTATES SPECIFIC PLAN, CALIMESA, CA-Master planned community with 1,492 acres and entitlements for 3,450 units plus commercial development. Purpose was for bankruptcy proceedings.
- SUNSET RIDGE, WILDOMAR, CA-Master planned community consisting of approximately 792 acres and proposed for about 1,180 residential units. Purpose was for buy-out of partner.
- SHEA TRILOGY, RIVERSIDE CO., CA -Approximately 250 acres of vacant land surrounding an active adult community and golf course adjacent to Corona in unincorporated Riverside County. Purpose was for dedication of Open Space Conservation land and dedication of Wetlands Conservation Easement.

- ONTARIO FESTIVAL, ONTARIO, CA-Proposed mixed-use development on approximately 24 acres consisting of 311 residential units and 2.5 acres of commercial entitlements. Purpose was for bankruptcy proceedings.
- TALEGA VALLEY, SAN CLEMENTE, CA-Orange County, coastal master planned community consisting of 3,479 acres and more than 4,000 residential lots with commercial, support institutional and recreational uses.
- MCAS TUSTIN, CA-Former Tustin Marine Corps Base master planned for a 1,288 acre community to be improved with more than 1,500 residential units/lots with industrial, commercial support institutional and recreational uses.
- DANA POINT HEADLANDS, DANA POINT, CA-Raw land with potential for approximately 200 ocean oriented residential lots plus hotel and commercial site.
- FORSTER RANCH, SAN CLEMENTE, CA-Master planned community with about 534 acres and 1,037 residential lots plus recreational uses.
- PORTA BELLA, SAUGUS, NEWHALL, CA-Specific plan for approximately 2,900 lots along with retail, commercial & industrial land uses on 996 acres.
- BEL MARIN KEYS V, MARIN COUNTY, CA-Specific plan for approximately 800 residential lots on more than 1,600 acres with access to San Francisco Bay.
- EL DORADO HILLS, EL DORADO COUNTY, CA-Specific plan for approximately 2,700 lots/units on 2,245 acres including about 200 acres of commercial/industrial uses.
- SADDLEBACK MEADOWS, ORANGE COUNTY, CA-Planned for approximately 705 lots on 222 acres.
- SERRANO HEIGHTS, ORANGE COUNTY, CA-Specific plan for 1,210 lots/units on 533 acres including recreational uses.
- MISSION OAKS RANCH, BUELTON AREA, SANTA BARBARA COUNTY, CA-Approximately 3,900 acres of raw grazing land planned for "ranchet" development.
- PARADISE HILL, SAN BERNARDINO, CA-Specific plan for 504 lots on approximately 402 acres.
- Two single family subdivisions in the Village of Northwood, Irvine.
- Stonecrest Village, San Diego. Single family residential subdivision with 88 lots with average size of 4,500 square feet.
- Orangecrest Hills, Riverside. Single family residential subdivision with 132 lots with minimum lot size of 7,200 square feet.
- Laguna Beach/Crystal Cove State Park. Total of approximately 40 acres for possible exchange of land between State of California, school district and private land owner.
- Peninsula Pointe, Rancho Palos Verdes. Residential subdivision with 37 lots ranging from 12,000 to 25,000 square feet.
- Single family subdivision in Tustin Ranch. 162 lots with 6,390 square foot minimum lots sizes.
- Single family subdivision in Aliso Viejo. 154 lots with 5,100 square foot minimum lot size.
- Canyon Vista, Oceanside. Approximately 55 acres approved for 93 lot single family subdivision.
- Santa Rosa Colony II, Ventura Co. Approximately 50 acres of raw land. Potential for development with low density subdivision.
- Rancho San Clemente. 84 lot single family subdivision with lots 5,000 square foot minimum size.
- Brentwood project in Rancho Cucamonga. Proposed, 90 lot residential subdivision with 9,000 square foot minimum lot size.
- Willowbrook project in Mountain Gate Planned Community, Corona. Lots in an existing subdivision totaling 51 with a minimum lot size of 7,200 square feet.
- Heather Ridge project in Mountain Gate Planned Community, Corona. Lots in an existing subdivision totaling 58 with a minimum lot size of 4,750 square feet.
- Long Canyon, Simi Valley. Total of 1,813 acres with entitlement for 652 residential units, all single family detached.
- One Park Place, Irvine. Remaining 26 acre site which is a portion of an existing apartment project.
- Las Flores Planned Community, South Orange County. Proposed 147 lot subdivision with 2,464 square foot minimum lot size.
- Las Flores Planned Community, South Orange County. Proposed 48 lot subdivision with 6,000 square foot minimum lot size.
- Twenty mile corridor for Foothill/Eastern Transportation Corridor. Right-of-way runs through unincorporated Orange County territory and through the cities of Anaheim, Orange and Irvine. Total land area of 468 acres acquired for right-of-way and approximately 28,800 acres appraised.

Land Dispositions

Responsible for managing and conducting the analysis and negotiations for residential subdivision and institutional land sales for the Irvine Company. Mr. Heglar negotiated more than 80 transactions for over \$660 million in Irvine, Newport Beach, Tustin and Orange, CA.

- Westpark
- Northwood
- Newport Coast
- Tustin Ranch
- Santiago Hills

Land Acquisitions

Responsible for managing and conducting the analysis and negotiations of residential subdivision land for Pulte Homes in Orange, Riverside and San Diego Counties, CA. A total of 27 transactions for more than 7,300 lots/units and a total land purchase of more than \$433 million.

- ALDERBROOK, LAKE ELSINORE, CA-Canyon Hills Master Plan Community, 143 SFD lots on approximately 28.6 acres.
- ASHTON HILLS, RIVERSIDE COUNTY, CA-196 SFD lots on approximately 140 acres.
- ST. AUSTELL II, PERRIS, CA-117 SFD lots on approximately 15.6 acres.
- ST. CROIX, PERRIS, CA-155 SFD lots on approximately 20.7 acres.
- AVERLY LANE, SAN DIEGO COUNTY, CA-4S Ranch Master Planned Community, 75 SFD lots on approximately 20 acres.
- WINCHESTER HILLS, RIVERSIDE COUNTY, CA-Approximately 500 SFD lots & SFA units within Winchester Hills Specific Plan on about 127 acres.
- BELLA ROSA, IRVINE, CA-104 SFD lots on 14.0 acres on The Irvine Ranch.
- BREMERTON, RIVERSIDE COUNTY, CA-108 SFD lots on approximately 21.6 acres.
- CACHETTE, IRVINE, CA-110 SFD lots in Irvine Ranch master planned community of Woodbury on approximately 16.9 acres.
- STELLAN RIDGE, RIVERSIDE, CA-104 SFD lots on 204 acres.
- CHASE RANCH, CORONA, CA-217 SFD lots on 160 acres. Approximately 90 lots subsequently sold to another builder.
- KUNNEY RANCH, RIVERSIDE, CA-149 SFD lots on 143 acres.
- KUO RANCH, RIVERSIDE, CA-23 SFD lots on 49.1 acres.
- CLAIBORNE, LADERA RANCH, MISSION VIEJO, CA-75 SFD lots on approximately 14.8 acres.
- MEADOWS @ MORGAN VALLEY, TEMECULA, CA-67 SFD lots on approximately 16.8 acres.
- MURRIETA HILLS, MURRIETA, CA-Approximately 1,000 lots for a proposed Del Webb active adult community on 985.2 acres.
- RANCHO DIAMANTE, HEMET, CA-Joint venture for approximately 3,000 SFD lots on about 700 acres. Approximately half of the project to be a Del Webb active adult community.
- SABELLA, SAN CLEMENTE, CA-75 SFD lots on approximately 16.7 acres in the Talega Valley master planned community.
- SAN ELIJO RIDGE, SAN DIEGO COUNTY, CA-131 SFD lots in the San Elijo Master Plan on approximately 32.8 acres.
- SOLSTICE, IRVINE, CA-68 SFD lots in the Irvine Ranch master planned community of Quail Ridge on approximately 20 acres.
- ST. AUSTELL, PERRIS, CA-117 SFD lots in the Avalon master planned community on approximately 17.4 acres.
- STONES THROW, LAKE ELSINORE, CA-126 SFD view lots on approximately 28 acres.
- TIFFANY HILLS, MURRIETA, CA-180 SFD lots on approximately 305 acres.
- VINEYARD ESTATES, MURRIETA, CA-41 lots on approximately 8.2 acres.
- WATERMARK, LAKE ELSINORE, CA-133 SFD view lots on approximately 29.6 acres.
- WEATHERLY @ CANYON HILLS, LAKE ELSINORE, CA-131 SFD lots on approximately 23.8 acres within master planned community of Canyon Hills.
- RANCHO HIGHLANDS, TEMECULA, CA-210 SFA units on approximately 21.1 acres.

Representative Clients:

Attorneys:

Allen, Matkins, Leck, Gamble, Mallory & Natsis, LLP
Friedman, Stroffe & Gerard, P.C.
Jackson, De Marco, Peckinpaugh & Titus
Miller, Morton, Caillat & Nevis, LLP
Palmieri, Tyler, Wiener, Wilhelm & Waldron
Paul, Hastings, Janofsky & Walker
Rutan & Tucker, LLP
Songstad & Randall, LLP
Winthrop Couchot Professional Corporation
Paul Minerich Professional Corporation

Financial Institutions, Real Estate Management & Development Companies:

Bank of America
First Interstate Mortgage
Housing Capital Company
Wells Fargo Bank
Prudential Insurance Company
Westcap Corporation
Lewis Operating Company
BETEK
The Shopoff Group
Presley Homes
John Laing Homes
Richmond American Homes
Pulte Homes
Standard Pacific Homes
Taylor Woodrow Homes
The Irvine Company
William Lyon Homes
William Lyon Asset Management

Governmental Agencies/Institutions:

Capistrano Unified School District
City of Fullerton
City of Irvine
City of Tustin
City of Los Angeles
Federal Deposit Insurance Corporation
County of Orange
Irvine Ranch Water District
Metropolitan Water District of Southern California
United States Department of Navy
University of California, Irvine

Appendix C-2
Supplemental Appraisal Report dated December 8, 2017

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

December 8, 2017

Michele Crichlow, Debt Finance Manager
Finance and General Government
County of San Diego
1600 Pacific Coast Highway, Room 164 & 166
San Diego, California 92101

Reference: Supplement to Appraisal Report
Community Facilities District No. 2008-1 Improvement Area No. 1
(Portion of) Harmony Grove Village
North of Harmony Grove Road at Country Club Drive
Unincorporated San Diego County, California

Dear Ms. Crichlow:

At the request and authorization of the County of San Diego, we have completed a Supplement to the Appraisal Report for County of San Diego Community Facilities District No. 2008-1 Improvement Area 1 ("CFD No. 2008-1 IA 1"). This Supplement is to be used in conjunction with the Updated Appraisal Report for the above referenced property dated October 30, 2017 with a date of value of September 10, 2017 which encompasses a portion of the residential community known as Harmony Grove Village by CalAtlantic Homes ("Updated Appraisal"). Prior to the Updated Appraisal, an Original Appraisal of the property was completed with a June 28, 2017 date of value, however due to time elapse, the Updated Appraisal was needed. In lieu of updating the entire appraisal, the purpose of this Supplement is to bring forward the date of value to December 1, 2017 and conclude if the property has a value not less than the value concluded in the Updated Appraisal. It should be noted that this report may not be understood properly on its own but rather should be used only in conjunction with the Updated Appraisal.

The purpose of this Supplement is to ascertain and discuss changes in the subject property along with any changes which occurred in the housing market between September 10, 2017 (date of value of Updated Appraisal) and December 1, 2017.

INTENDED USE OF APPRAISAL –It is the appraiser's understanding that the client, the County of San Diego, will utilize this Supplement in disclosure documents related to the sale of the Special Tax Bonds of CFD No. 2008-1 IA 1. This Supplement may be included in the Official Statement or similar document to be distributed in connection with the marketing and offering of the bonds. It is the appraiser's understanding that there are no other intended uses of this report.

SUBJECT PROPERTY – The subject property consists of 442 proposed single-family homes and two commercial parcels within the community known as Harmony Grove Village in the community of Harmony Grove in unincorporated San Diego. The subject property consists of various residential product lines encompassed within Tract Maps 15888, 15889, 15890, 15893 and 15894. Please refer to the Addenda of this Supplement to view a table showing the ownership and condition by lot as of September 10, 2017 (from Updated Appraisal) and as of December 1, 2017.

OWNER OF RECORD AS OF DECEMBER 1, 2017 – Lots 2-16, 25-31, 33-38, 40-44 and 46-71 of Tract 15888; Lots 1-5, 35-41, 44-64 and 66-69 of Tract 15889; Lots 1-9, 11-18, 20-24 and 34-35 of Tract 15890; Lots 1-18, 46-63 and 78-99 of Tract 15894 are owned by Individual Homeowners. Lots 17-24, 39 and 45 of Tract 15888; Lots 6-34, 42-43, 65, 70 and 72-75 of Tract 15889; Lots 10, 19, 25-33 and 36-105 of Tract 15890; Lots 1-51 and 53 of Tract 15893; Lots 19-45, 64-77 and 100-109 of Tract 15894 are all owned by CalAtlantic.

PROPERTY RIGHTS APPRAISED – The property rights being appraised are of a fee simple estate interest, subject to easements of record and subject to CFD No. 2008-1 IA 1. The definition of fee simple estate is included in the Updated Appraisal.

DEFINITIONS –

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

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

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

For all other definitions please refer to Updated Appraisal.

¹ The Appraisal of Real Estate, 13th Edition

DATE OF VALUE – December 1, 2017

DATE OF SUPPLEMENT – December 8, 2017

SCOPE OF WORK – The following items were completed in the scope of work for this assignment.

- Identify additional builder home sales and closings within the subject property and ascertain if the sales prices have increased, stayed the same or decreased.
- Identify additional construction on the subject property and report additional expenditures resulting in less remaining costs to complete.
- Review and report on the subject real estate market conditions and identify any changes since the Updated Appraisal.
- Determine if the value is not less than the value conclusion in Updated Appraisal.

DISCUSSION – On November 30, 2017 an inspection of the subject property was made by the appraiser. In addition, sales offices were contacted and reviews of current information was conducted. This information included additional closings within all active projects within Harmony Grove Village. We observed the following changes in the subject property between September 10, 2017 (date of value within Updated Appraisal) and December 1, 2017.

1. An additional 30 homes have closed escrow to individual homebuyers. As of the Updated Appraisal there were 148 homes closed to individual homebuyers and as of December 1, 2017 there were 178 homes closed to individual homebuyers.
2. An additional 32 homes were constructed to over 95 percent complete and an additional 10 homes began construction. As of the Updated Appraisal there were 56 homes under construction (under 95 percent complete) and 200 remaining finished lots. As of December 1, 2017, there were 34 homes under construction and 190 remaining finished lots.
3. An additional 19 homes were sold (closed and under contract). As of the Updated Appraisal there were 209 homes sold and as of December 1, 2017 there were 228 homes sold. Note that sold homes include closed homes, homes that are over 95 percent complete, homes under construction or finished lots, all in escrow.
4. Approximately \$367,000 additional hard costs and fees were expended based on developer estimates since September 10, 2017. While we were not able to review details of these expenditures, the amount appears reasonable per our visual inspection of the site.
5. Within the active projects, Lusitano, Seabreeze and Andalucia (Canteridge has sold out), all plans have had price increases. Within Lusitano base asking prices were \$530,000 to \$557,000 in September while current base asking prices are \$542,000 to \$577,000 suggesting an increase in the 2.3 and 3.5 percent range over the ten-week

period. Within Seabreeze base asking prices were \$584,500 to \$628,500 while current base asking prices are \$594,000 to \$634,500 suggesting an increase in the 1.0 to 1.7 percent range over the ten-week period. Within Andalucia, base asking prices in September were \$652,400 to \$694,400 while current prices are \$660,400 to \$697,400 suggesting increases in the 0.4 to 1.2 percent range. Canteridge sold out. It should be noted that Andalucia's product is partially within the subject CFD and partially within Improvement Area 2 (outside of CFD 2008-1 IA 1) with the current selling area outside of CFD 2008-1 IA 1. The fact that each plan within each active project has had an increase in base pricing, suggest prices are increasing within the subject property.

6. The average of the actual home sale prices within the two active projects currently selling within Improvement Area 1 have showed an increase in pricing since project inception. Due to Andalucia's currently selling product being outside of CFD 2008-1 IA 1, we did not receive information on this project. Within Lusitano the average sales prices (includes options, premiums, upgrades and concessions) of the current escrows as of December 1, 2017 show an average increase of 3.4 percent from the average sales prices of the current escrows as of September 10, 2017. Lucitano's actual sales prices of current escrows as of September 10 were \$507,710 to \$578,899 while the current escrows as of December 1 within Lucitano have a range from \$522,149 to \$614,757. Within Seabreeze the average sales prices of the current escrows as of December 1, 2017 show an average increase of 2.1 percent from the average sales prices of the current escrows as of September 10, 2017. Seabreeze's actual sales prices of current escrows as of September 10, 2017 ranged from \$556,615 to \$670,843 while the current escrows as of December 1, 2017 ranged from \$554,775 to \$702,380. The low end of the actual sales prices within Seabreeze appears to have dropped, however, the actual escrow showing the reduction is for the same home which received an additional \$2,000 in concessions. This is the only suggested decrease of all of our comparisons within all of the plans actively selling in Harmony Grove Village. It should be noted that other factors can skew the sales prices including home size, premiums and options purchased along with concessions given. In general, all projects are showing increases based on this analysis.
7. Between September 10, 2017 and December 1, 2017 four Hillside Farmhouse (also known as Wittingham) models began construction. There is a marketing sign stating Wittingham new homes are coming soon with a phone number to call to get on the "interest list". The Wittingham models are larger single family detached homes ranging from 3,183 to 4,349 square feet on larger lots with current estimated base pricing from \$750,000 to \$841,000. There are 327 families who have signed up on the interest list to date. The construction and interest in Wittingham suggests that the residential market for larger homes within Harmony Grove Village is strong.

SUBJECT REAL ESTATE MARKET –The subject real estate market has seen minimal changes over the past ten weeks. Most projects in the North San Diego area are enjoying slight price increases approximately every three months. While sales are down slightly

from the summer months, this decrease is considered to be typical as home-buying slows down in the winter months.

We have also reviewed CoreLogic's monthly update on Southern California which includes the number of sales and median price within each County. For the Updated Appraisal we were able to obtain information through July 2017 while the most current information is through October 2017. In overall Southern California sales were down 2.3 percent on a year over year basis from October 2016 to October 2017 and down 0.3 percent over the same time period in San Diego County. This is partially due to the expectation that interest rates were going to be increased after the election in November 2016, thus sales were spurred forward one year ago which resulted in a decrease this year. In reviewing sales from July 2017 to sales in October 2017 sales were down in overall southern California by 1.5 percent and down 4.3 percent in San Diego County. This is typical as July is one of the spring/summer selling months while October is the beginning of Winter sales which are typically slower. Sales prices in overall Southern California were up 7.7 percent in October 2017 on a year over year basis while within San Diego County sales prices were up 4.4 percent on a year over year basis. In reviewing sales prices in July 2017 to sales prices in October 2017 prices were down 1.2 percent in overall Southern California and down 1.5 percent in San Diego County. This is again typical due to the slowdown of the summer sales when, at times, price decreases or concessions are offered to bring in more homebuyers. It should be noted that within Harmony Grove, this has not happened and prices have been increasing.

One unknown factor that has entered the housing market in the past few weeks is the possible effect of the Federal proposed tax cuts on home sales. Builders are anxious that some of the proposed tax cuts may slow new home sales due to the possible decreases in interest and property tax right-offs. A proposed tax reform bill passed Congress last month with the Senate passing their own version. The two bills will need to be reconciled, thus, it is too early to project what effect this may have on home sales.

Finally, we have reviewed the Improved Residential Sales Market Data which was used in the Updated Appraisal (please refer to Addenda of Updated Appraisal). Our review concluded that out of 36 home plans within the eleven projects used, one project that included four plans (11 percent) had sold out (Canteridge at Harmony Grove Village), 18 plans (or 50 percent) had price increases, seven plans (or 19 percent) had the prices stay the same and seven plans (or 19 percent) had slight price decreases. The increases ranged from \$650 to \$19,000 while the decreases were in the \$10,000 range. This review of the subject real estate market suggests that the market is still in an upward cycle as projects are selling out and the majority of prices are either staying the same or increasing.

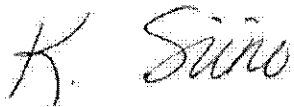
CONCLUSION – This Supplement is intended to be used in conjunction with the Updated Appraisal Report prepared with a September 10, 2017 date of value. This Supplement is to ascertain whether the value that was concluded as of September 10, 2017 is still valid. While we have not concluded at a new value, it is evident that further land development has occurred, additional homes have closed, additional homes have been constructed and more homes are in escrow all suggesting the subject's value has not decreased. In

addition, it has been determined that the subject real estate market has not experienced any significant negative changes since September 10, 2017. Based upon our investigation, we have determined that the current market value is not less than the concluded value as of September 10, 2017.

This Supplement is to be used in conjunction with the Updated Appraisal and subject to the attached Assumptions and Limiting Conditions and the Appraiser's Certification.

Respectfully submitted,

KITTY SIINO & ASSOCIATES, INC.



Kitty S. Siino, MAI
California State Certified General
Real Estate Appraiser (AG 004793)

ASSUMPTIONS AND LIMITING CONDITIONS

1. This report might not include full discussions of the data, reasoning and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Some supporting documentation concerning the data, reasoning and analyses may be retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
3. It is assumed that the subject property is subject to the special tax lien of CFD No. 2008-1 IA 1.
4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
5. The information furnished by others is believed to be reliable; however, no warranty is given for its accuracy.
6. All engineering is assumed to be correct. Any plot plans and illustrative material used in this report are included only to assist the reader in visualizing the property and may not be to scale.
7. It is assumed that there are no hidden or unapparent conditions of either property, subsoil or structures that would render them more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
8. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in this report.
9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined and considered in this appraisal report.
10. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
11. Any sketch or photograph included in this report may show approximate dimensions and is included only to assist the reader in visualizing the properties. Maps, photographs and exhibits found in this report are provided for reader reference purposes only. No guarantee regarding accuracy is expressed or implied unless

otherwise stated in this report. No survey has been made for the purpose of this report.

12. It is assumed that the utilization of the land and improvements (if any) are within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
13. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert relating to asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials that may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
14. Proposed improvements, if any, are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
15. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings, if any, must not be used in conjunction with any other appraisal and are invalid if so used.
16. The Americans with Disabilities Act ("ADA") became effective on January 26, 1992 and have been updated several times since then. The appraiser has made no specific compliance survey and analysis of the property to determine whether they conform to the various detailed requirements of the ADA, nor is the appraiser a qualified expert regarding the requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the ADA. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, a possible noncompliance with requirements of the ADA in estimating the value has not been considered.
17. It is assumed there are no environmental concerns that would slow or thwart development of the subject properties and that the soils are adequate to support the highest and best use conclusions.
18. It is assumed that the sales information provided by Lennar is true and accurate. We have reviewed and analyzed the sales along with checking samples on various public record documents and the information appears to be correct.

19. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with proper qualification and only in its entirety. Permission is given for this appraisal to be published as a part of the Official Statement or similar document for the CFD No. 2008-1 IA 1 Special Tax Bonds.

HYPOTHETICAL CONDITION

1. It is assumed that all improvements and benefits to the subject properties, which are to be funded by the CFD No. 2008-1 IA 1 Special Tax Bond proceeds, are completed and in place.

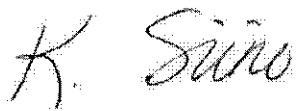
EXTRAORDINARY ASSUMPTION

1. It is an extraordinary assumption that the reported remaining costs and sales information as received from the developer are true and accurate. We have reviewed the sales and costs and they appear reasonable, however we are not experts in cost estimating.

APPRAISER'S CERTIFICATION

The appraiser certifies that to the best of his knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
3. The appraiser has no present or prospective interest in the property that is the subject of this report, and no personal interest or bias with respect to the parties involved.
4. The appraiser's compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result or the occurrence of a subsequent event.
5. This appraisal was not based on a requested minimum valuation, a specific valuation or the approval of a loan.
6. The analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
7. Kitty Siino has made a personal inspection of the property that is the subject of this report.
8. Kitty Siino has performed appraisal services on the subject property in the past three years as described within this Supplement. An Original Appraisal of the property was completed with a June 28, 2017 date of value followed by an Updated Appraisal of the property with a date of value of September 10, 2017 was completed.
9. No other appraisers have provided significant professional assistance to the persons signing this report.
10. The reported analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the requirements of the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice, which include the Uniform Standards of Professional Appraisal Practice.
11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. As of the date of this report, Kitty Siino has completed the requirements of the continuing education program of the Appraisal Institute.



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

ADDENDA

Subject Property as of September 10, 2017 (from Original Report)

Description	No. Lots	Ownership	Condition / Status
Canteridge			
Lots 2-16; 25-31, 33-38, 40-44, 46-59 and 64-71 of Tract 15888	55	Individuals	Completed Houses / Closed
Lots 17-20 of Tract 15888	4	CalAtlantic	Model Homes
Lots 39 and 45 of Tract 15888	2	CalAtlantic	Homes over 95% complete (0 in escrow)
Lots 21-24 and 60-63 of Tract 15888	8	CalAtlantic	Homes U/C (8 in escrow)
Subtotal Canteridge	<u>69</u>		
Seabreeze			
Lots 1-9, 11-18 and 20-24 of Tract 15890; Lots 1-5, 35-40, 46-53 and 55 of Tract 15889	42	Individuals	Complete Houses / Closed
Lots 42-44 of Tract 15890	3	CalAtlantic	Model Homes
Lot 10 and 19 of Tract 15890; Lot 41-45, 54 and 56-61 of Tract 15589	14	CalAtlantic	Homes over 95% complete (12 in escrow)
Lots 31-34 of Tract 15889 and Lots 65-68, 78-81 and 98-105 of Tract 15890	20	CalAtlantic	Homes U/C (18 in escrow)
Lots 36-41, 45-50 and 56-64 and 69-77 of Tract 15890	<u>30</u>	CalAtlantic	Finished Lots (3 in escrow)
Subtotal Seabreeze	<u>109</u>		
Lusitano			
Lots 1-18, 46-52, 54-63 and 78-91 of Tract 15894; Lots 34 & 35 of Tract 15890	51	Individuals	Completed Houses / Closed
Lots 82-84 of Tract 15890	3	CalAtlantic	Model Homes
Lots 53 and 92-99 of Tract 15894	9	CalAtlantic	Homes over 95% complete (9 in escrow)
Lots 19-30 and 62-70 of Tract 15889; Lots 91-97 of Tract 15890	28	CalAtlantic	Homes U/C (19 in escrow)
Lots 85-90 of Tract 15890	<u>6</u>	CalAtlantic	Finished Lots (0 in escrow)
Subtotal Lusitano	<u>97</u>		
Andalucia			
Lots 6-8 of Tract 15893	3	CalAtlantic	Model Homes
Lots 1-5 of Tract 15893 and Lots 19-45, 64-77 of Tract 15984	46	CalAtlantic	Finished Lots
Subtotal Andalucia	<u>49</u>		
LiveWork			
Lots 6-18 of Tract 15889 and Lots 25-33 and 51-55 of Tract 15890	27	CalAtlantic	Finished Lots
Total LiveWork	<u>27</u>		
Hillside Farmhouse			
Lots 72-73 of Tract 15889; Lots 102, 103, 105-108 of Tract 15894; Lots 9-19, 36-39 and 48-51 of Tract 15893	27	CalAtlantic	Finished Lots
Total Hillside Farmhouse	<u>27</u>		
Hillside Compound			
Lots 20-35 and 40-47 of Tract 15893	<u>24</u>	CalAtlantic	Superpads
Total Hillside Compound	<u>24</u>		
Village Court			
Lot 53 of Tract 15893 and 100, 101, 104 and 109 of Tract 15894	540*	CalAtlantic	Superpads
Total Village Court	<u>40</u>		
Commercial Parcels			
Lots 74 and 75 of Tract 15889	<u>2</u>	CalAtlantic	Superpads
Total Commercial Parcels	<u>2</u>		
Total Lots	444		

*Each of these five lots will be subdivided into 8 units for a total of 40 Village Court Units

Subject Property as of December 1, 2017

Description	No. Lots	Ownership	Condition / Status
Canteridge			
Lots 2-16; 25-31, 33-38, 40-44, 46-71 of Tract 15888	59	Individuals	Completed Houses / Closed
Lots 17-20 of Tract 15888	4	CalAtlantic	Model Homes
Lots 21-24, 39 and 45 of Tract 15888	6	CalAtlantic	Homes over 95% complete (6 in escrow)
Subtotal Canteridge	<u>69</u>		
Seabreeze			
Lots 1-9, 11-18 and 20-24 of Tract 15890; Lots 1-5, 35-41, 44-61 of Tract 15889	52	Individuals	Complete Houses / Closed
Lots 42-44 of Tract 15890	3	CalAtlantic	Model Homes
Lot 10, 19, 98-100 of Tract 15890; Lot 42-43 of Tract 15589	7	CalAtlantic	Homes over 95% complete (4 in escrow)
Lots 31-34 of Tract 15889 and Lots 65-68, 78-81 and 101-105 of Tract 15890	17	CalAtlantic	Homes U/C (16 in escrow)
Lots 36-41, 45-50 and 56-64 and 69-77 of Tract 15890	<u>30</u>	CalAtlantic	Finished Lots (7 in escrow)
Subtotal Seabreeze	<u>109</u>		
Lusitano			
Lots 1-18, 46-63 and 78-99 of Tract 15894; Lots 34-35 of Tract 15890; Lots 62-64 and 66-69 of Tract 15889	67	Individuals	Completed Houses / Closed
Lots 82-84 of Tract 15890	3	CalAtlantic	Model Homes
Lots 19-30, 65 and 68 of Tract 15889	14	CalAtlantic	Homes over 95% complete (12 in escrow)
Lots 85-97 of Tract 15890	13	CalAtlantic	Homes U/C (5 in escrow)
Subtotal Lusitano	<u>97</u>		
Andalucia			
Lots 6-8 of Tract 15893	3	CalAtlantic	Model Homes
Lots 1-5 of Tract 15893 and Lots 19-45, 64-77 of Tract 15984	<u>46</u>	CalAtlantic	Finished Lots
Subtotal Andalucia	<u>49</u>		
LiveWork			
Lots 6-18 of Tract 15889 and Lots 25-33 and 51-55 of Tract 15890	27	CalAtlantic	Finished Lots
Total LiveWork	<u>27</u>		
Hillside Farmhouse			
Lots 16-19 of Tract 15893	4	CalAtlantic	Models U/C
Lots 72-73 of Tract 15889; Lots 102, 103, 105-108 of Tract 15894; Lots 9-15, 36-39 and 48-51 of Tract 15893	<u>23</u>	CalAtlantic	Finished Lots
Total Hillside Farmhouse	<u>27</u>		
Hillside Compound			
Lots 20-35 and 40-47 of Tract 15893	24	CalAtlantic	Superpads
Total Hillside Compound	<u>24</u>		
Village Court			
Lot 53 of Tract 15893 and 100, 101, 104 and 109 of Tract 15894	<u>5/40*</u>	CalAtlantic	Superpads
Total Village Court	<u>40</u>		
Commercial Parcels			
Lots 74 and 75 of Tract 15889	2	CalAtlantic	Superpads
Total Commercial Parcels	<u>2</u>		
Total Lots	444		

*Each of these five lots will be subdivided into 8 units for a total of 40 Village Court Units

APPENDIX D
MARKET ABSORPTION STUDY

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MARKET ABSORPTION STUDY

COUNTY OF SAN DIEGO
COMMUNITY FACILITIES DISTRICT NO. 2008-1
(HARMONY GROVE VILLAGE)
IMPROVEMENT AREA NO. 1

PREPARED FOR:
COUNTY OF SAN DIEGO, CALIFORNIA

PREPARED BY:
EMPIRE ECONOMICS, INC.
JOSEPH T JANCZYK Ph.D.

JUNE 15, 2017

EXECUTIVE SUMMARY

The County of San Diego along with the Harmony Grove Village property owner previously formed Community Facilities District 2008-1, also herein referred to as CFD No. 2008-1, to assist with the financing of the infrastructure that is required to support the development of its residential products.

Since CFD No. 2008-1 IA-1 is now proceeding with a Bond Issue, the County of San Diego has retained Empire Economics (Empire) to perform a Market Absorption Study to arrive at the estimated absorption schedule for the homes that have not yet closed escrows.

CFD No. 2008 IA-1 is expected to have 442 homes in eight projects by CalAtlantic Homes.
(Note: Adjusted from 444 homes due to 2 parcels that pre-paid Special Taxes.)

CFD No. 2008 IA-1 Product Mix

For all of the projects as a whole, their prices amount to \$584,426, on the average, and they have a range of \$502,000 to \$765,000. Their living areas amount to 2,502 sq.ft., on the average, and they have a range of 1,651 to 4,200 sq.ft.

Economic Factors Underlying Housing Demand in the County of San Diego

The County of San Diego has established a strong central core employment base as well as an employment base in northern San Diego County with local firms in the nearby City of Escondido having some 45,200 employees. Furthermore, northern San Diego County benefits from households that come to the area for more moderately priced single-family housing as compared to locations closer to the central San Diego employment core, including Poway. However, the amount of current spillover is below the typical levels at this stage of the housing market recovery since millennials have a preference for residing in apartments in urbanized areas.

Socioeconomic Factors: Crime and Educational Quality

From a socioeconomic perspective, the cities closest to Harmony Grove have a similar or lower crime rates than San Diego County and California. The relevant school districts have a somewhat lower API scores as compared to San Diego County and California. But the high school district has an above average graduation rates as compared to San Diego County and California. Overall, the CFD has favorable socioeconomic factors which will support the demand for its housing products.

Competitive Market Analysis

The Competitive Market Analysis involved a statistical comparison of the currently active project in CFD No. 2008-1 IA-1, using their total housing prices (base price less incentives plus special tax liens) and their sizes of living area. The results of this analysis reveal that the total housing prices for the projects/plans in CFD No. 2008-1 IA-1 are priced in line with their proximity to the core central employment center as compared to closer homes in Poway and homes further away in Temecula.

By comparison, the projects to the south in Poway that are closer to the central San Diego employment center have higher prices and lower square footages. Conversely, the projects to the north in Temecula have lower prices than the CFD No. 2008-1 IA-1 reflecting their more distant location from the central San Diego employment center.

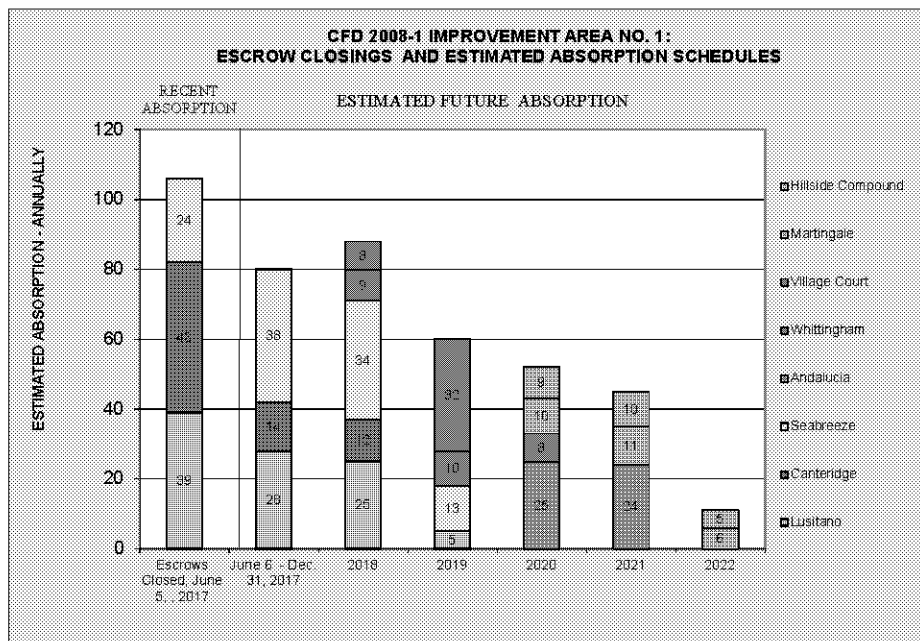
Developer’s Phasing Schedule for the Projects in CFD No. 2008-1 IA-1

- With regards to the market entry of the projects, four entered the marketplace in May 2015; however, one of these, Andalusia, is currently selling homes in IA-2. Consequently, as a safeguard, Empire assumes that all of the homes that Andalusia has in IA-2 are marketed prior to the absorption of the homes in Andalusia in IA 1.
- For the remaining four projects, their market entry times are expected to be as follows: one in Fall 2017, another in Spring 2018 and the final two during 2019.
- Empire also considered CalAtlantic Homes’ anticipated development schedule, with regards to the timing of pulling building permits for the construction of the homes.

Estimated Absorption Schedules

Based upon an analysis of the economic and real estate conditions in the CFD Market Area along with the characteristics of the residential projects in CFD No. 2008-1 IA-1 as well as CalAtlantic Homes’ phasing schedule, the estimated absorption schedules are as follows:

- As of June 5, 2017: 106 escrows closed
- June 5 – Dec. 31, 2017: estimated 80 escrows closed, based upon sales but not yet closed
- January-December 2018: 88 more escrow closings
- January-December 2019: 60 escrow closings, as projects start to close out
- January-December 2020: 52 escrow closings
- January-December 2021: 45 escrow closings
- January-December 2022: the final 11 escrow closings, as all of the projects are closed-out



Potential Financial Risk Factor

With respect to potential macroeconomic-financial risk factors, the primary driver of the housing market is employment growth, and the prospects for continued growth appear to be favorable. With regards to the potential impacts of higher mortgage rates, gradual increases over time do not have a significant adverse impact.

Empire strongly recommends that the Market Absorption Study be read in its entirety, to gain a thorough understanding of the economic and real estate factors underlying the conclusions.

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No Contractual Relationships with Developers/Builders Certification of Independence

Empire Economics, as part of its consulting services, will sign a Certification of Independence, that Empire has no past contractual relationship with the owners/developers/builders in CFD No. 2008-1.

**CERTIFICATION OF INDEPENDENCE:
EMPIRE ECONOMICS PROVIDES CONSULTING SERVICES ONLY
FOR PUBLIC ENTITIES**

The Securities & Exchange Commission has taken action against Wall Street firms that have utilized their research analysts to promote companies that they conduct business with, citing this as a potential conflict of interest. Accordingly, Empire Economics (Empire), in order to ensure that its clients are not placed in a situation that could cause such conflicts of interest, provides a Certification of Independence. **This Certificate states that Empire performs consulting services for public entities only, in order to avoid potential conflicts of interest that could occur if it also provided consulting services for developers/builders.** For example, if a market absorption consultant for a specific Community Facilities District, were to provide consulting services to both the public entity as well as the property owner/developer/builder, then a potential conflict of interest could be created, given the different objectives of the public entity versus the property owner/developer.

- Empire was retained to perform the Market Absorption Study by the County of San Diego, not the District's property owner, or the developer/builder.
- Empire has not performed any consulting services for the District's property owner nor the developer/builder, during the past thirty years.
- Empire will not perform any consulting services for the District's property owner nor the developer/builder, during the next five years.
- Empire's compensation for performing the Market Absorption Study for the District is not contingent upon the issuance of Bonds; Empire's fees are paid on a non-contingency basis.

Therefore, based upon the statements set-forth above, Empire hereby certifies that the Market Absorption Study for CFD No. 2008-1 is performed in an independent professional manner.

Joseph T. Janczyk

Empire Economics, Inc.
Joseph T. Janczyk, President

INTRODUCTION

A. INTRODUCTION TO THE BOND FINANCING PROGRAM

The County of San Diego along with the Harmony Grove Village property owner previously formed Community Facilities District 2008-1, also herein referred to as CFD No. 2008-1, to assist with the financing of the infrastructure that is required to support the development of its residential products.

CFD No. 2008-1 is expected to have 734 new homes with ten different projects/products, and these have been partitioned into two Improvement Areas (IA):

- IA No. 1 is expected to have 442 homes in eight projects
(Note: Adjusted from 444 homes due to two parcels that pre-paid Special Taxes.)
- IA No. 2 is expected to have 292 homes in six projects.

Since CFD No. 2008-1 IA-1 is now proceeding with a Bond Issue, the County of San Diego has retained Empire Economics (Empire) to perform a Market Absorption Study (Market Study) for Improvement Area 1.

Accordingly, the Market Absorption Study performs a systematic analysis of the recent/expected macroeconomic conditions for the County of San Diego, as a whole, as well as a microeconomic analysis to evaluate the competitiveness of the District's projects in the marketplace, in particular. Based upon this, Empire arrives at estimates of the probable absorption schedules for each of the residential projects in CFD No. 2008-1 IA-1.

The current/expected marketing/development status of the eight projects in IA No. 1, based upon information provided by Cal Atlantic Homes, the developer/builder, are as follows:

Prior Market-entry: May 2015

- Lusitano
- Canteridge
- Seabreeze
- Andalucia - Model Complex in IA-1 but Housing Sales Currently in IA-2

Expected Market-entry: Fall 2017

- Whittingham

Expected Market-entry: Spring 2018

- Village Court

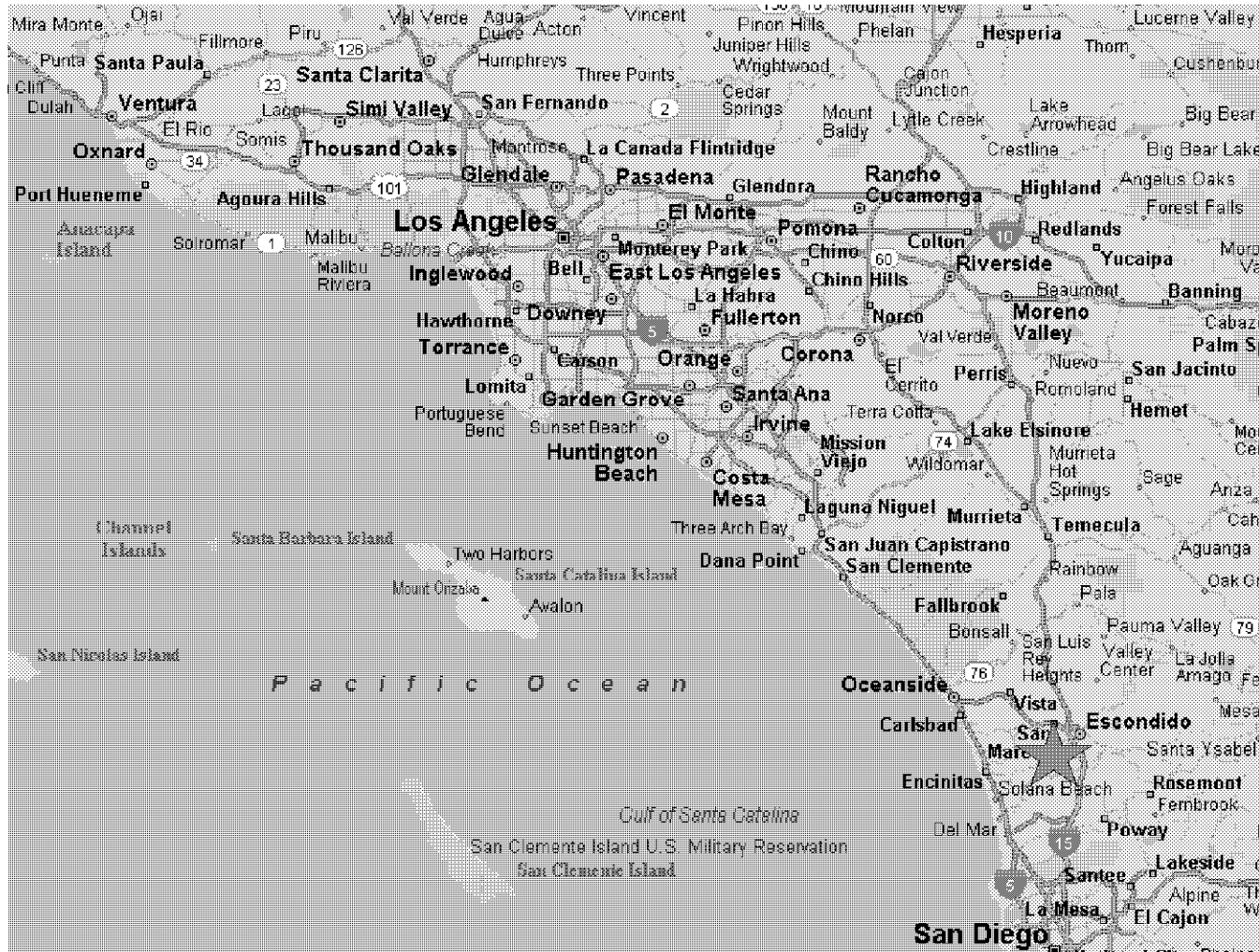
Expected Market-entry: During 2019

- Martingale
- Hillside Compound

B. SOUTHERN CALIFORNIA MARKET REGION

“GREEN STAR”

APPROXIMATE LOCATION OF CFD NO. 2008-1 HARMONY GROVE VILLAGE



OVERVIEW OF THE HARMONY GROVE AND ITS VICINITY

“GREEN STAR”

APPROXIMATE LOCATION OF CFD NO. 2008-1 HARMONY GROVE VILLAGE



C. ROLE OF THE MARKET STUDY IN THE BOND FINANCING

The Market Absorption Study for CFD No. 2008-1 IA-1 has a multiplicity of roles with regards to the Bond Financing; accordingly, these are now discussed.

Marketing Prospects for the Residential Projects

For each of the Eight Residential Projects
From Market-Entry to Build-Out

Market Study included in Official Statement
for Prospective Bond Purchasers

Aggregate Levels of Special Tax Revenues

Maximum Special Taxes
for the Residential Products
Conforming to the Issuer's Policies

Share of Payments:
Developer/Builder vs. Final-Users
Determined by the Absorption Schedule

Appraisal of Property

Discounted Cash Flow – Present Value
Absorption Schedules

The Issuing Agency for the Bond Issue, the County of San Diego, along with the Municipal Advisor can utilize the Market Absorption Study, Appraisal, and Special Tax Revenue to structure the Bond Issue for CFD No. 2008-1 IA-1.

D. 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. 2008-1 IA-1, Empire's Market Absorption Study conducts a systematic analysis of the following factors:

MACROECONOMIC FACTORS FOR CFD NO. 2008-1 IA-1

Critical: Employment Changes and Mortgage Rates

Other Significant: Expected Housing Price Appreciation,
Gas Prices and Notices of Default, among others

Extraordinary: Shifts in Geographical Development
Patterns for Single-Family and Apartment Products

MICROECONOMIC FACTORS FOR CFD NO. 2008-1 IA-1

Regional Development Patterns

Socioeconomic: School Quality and Neighborhood Safety

Competitive Housing Market Analysis

*Location

*Product Type

*Housing Prices

*Living Areas

*Special Taxes

*Features/Amenities

ABSORPTION SCHEDULES

*Each of the Eight Residential Projects
Market Entry to Build-Out

Therefore, the Market Absorption Study systematically proceeds from the macroeconomic analysis of the Market Region's future housing, industrial and commercial growth to the microeconomic analysis of the estimated absorption schedules for each of the residential products in CFD No. 2008-1 IA-1.

SECTION I: PRODUCT MIX CHARACTERISTICS

A. CHARACTERISTICS OF THE PROJECTS/PRODUCTS IN CFD NO. 2008-1 IA-1

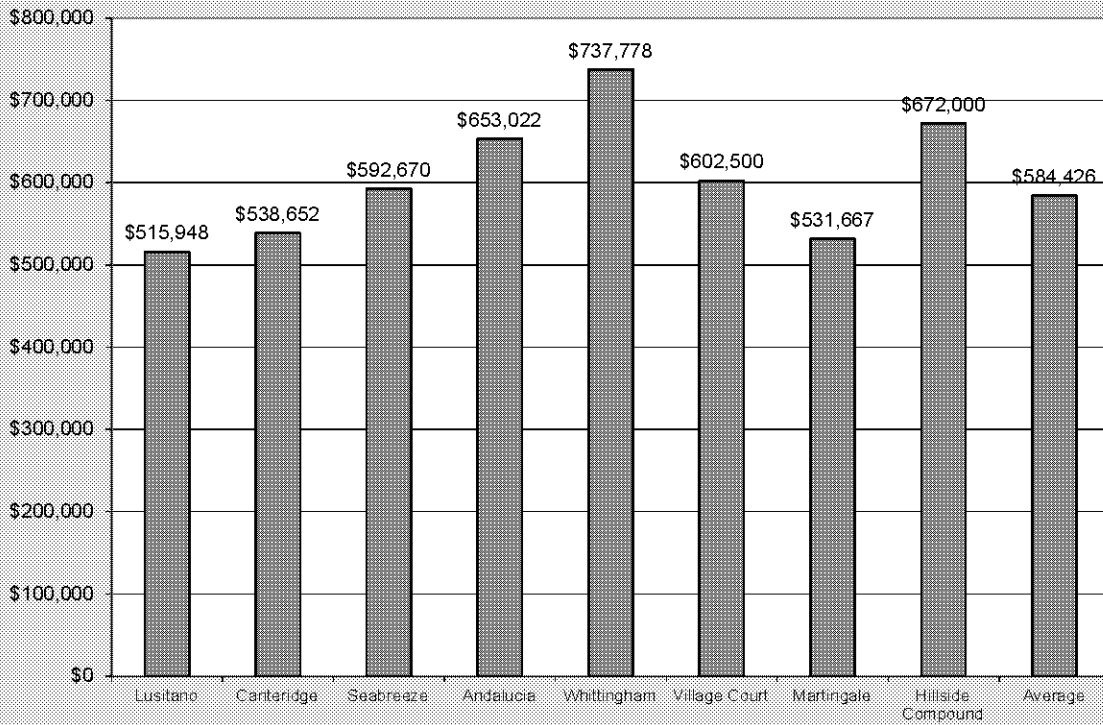
CFD No. 2008-1 IA-1 is expected to have 442 for-sale detached homes in eight projects by CalAtlantic Homes; accordingly, the specific characteristics of these projects are as follows:

- Lusitano by CalAtlantic Homes: 97 detached homes:
 - ✓ Prices: \$502,000 to \$531,000, for \$515,948/avg.
 - ✓ Living areas: 1,651 to 2,000 sq.ft., for 1,833/avg.
- Canteridge by CalAtlantic Homes: 69 detached homes:
(Note: Two parcels have pre-paid Special Taxes)
 - ✓ Prices: \$528,000 to \$541,000, for \$538,652/avg.
 - ✓ Living areas: 1,922 to 2,136 sq.ft., for 2,093/avg.
- Seabreeze by CalAtlantic Homes: 109 detached homes:
 - ✓ Prices: \$573,000 to \$620,000, for \$592,670/avg.
 - ✓ Living areas: 2,185 to 2,783 sq.ft., for 2,488/avg.
- Andalucia by CalAtlantic Homes: 49 detached homes:
 - ✓ Prices: \$649,900 to \$691,900, for \$653,022/avg.
 - ✓ Living areas: 2,980 to 3,640 sq.ft., for 3,084/avg.
- Whittingham by CalAtlantic Homes: 27 detached homes:
 - ✓ Prices: \$720,000 to \$765,000, for \$737,778/avg.
 - ✓ Living areas: 3,750 to 4,200 sq.ft., for 3,967/avg.
- Village Court by CalAtlantic Homes: 40 detached homes:
 - ✓ Prices: \$577,500 to \$627,500, for \$602,500/avg.
 - ✓ Living areas: 2,682 to 3,055 sq.ft., for 2,884/avg.
- Martingale by CalAtlantic Homes: 27 detached homes:
 - ✓ Prices: \$525,000 to \$545,000, for \$531,667/avg.
 - ✓ Living areas: 2,204 to 2,359 sq.ft., for 2,256/avg.
- Hillside Compound by CalAtlantic Homes: 24 detached homes:
 - ✓ Prices: \$635,000 to \$692,000, for \$672,000/avg.
 - ✓ Living areas: 2,953 to 3,465 sq.ft., for 3,246/avg.

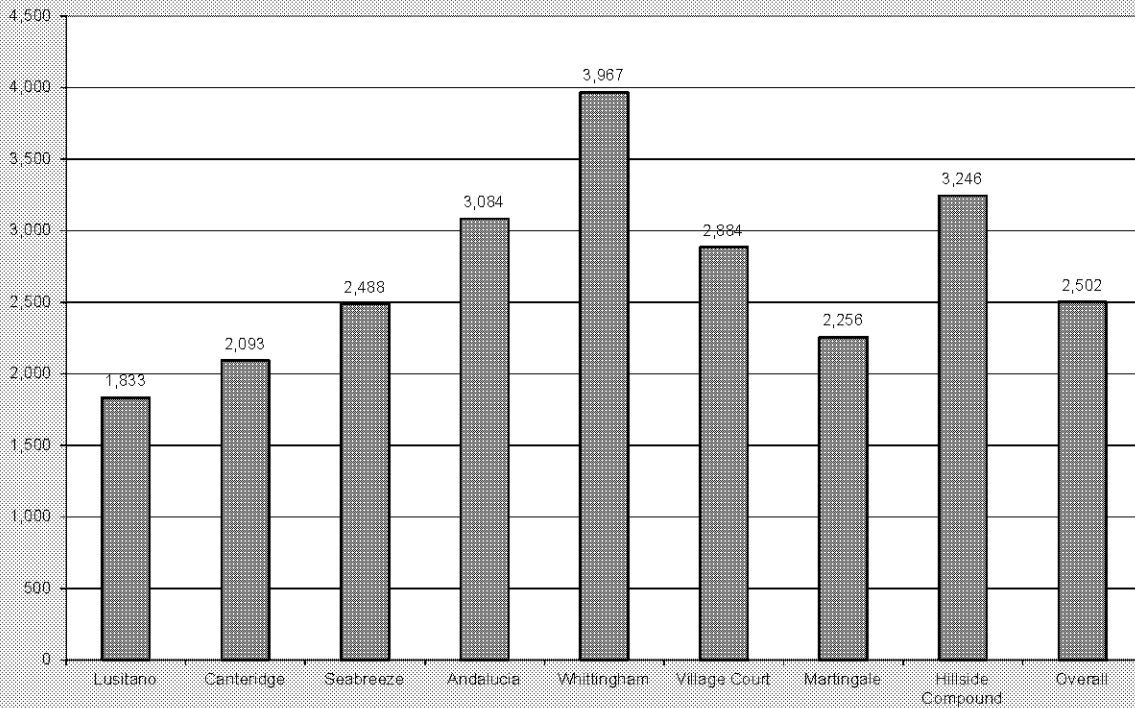
For all of the projects as a whole, their prices amount to \$584,426, on the average, and they have a range of \$502,000 to \$765,000. Their living areas amount to 2,502 sq.ft., on the average, and they have a range of 1,651 to 4,200 sq.ft.

For additional information on the expected characteristics of the residential products in CFD No. 2008-1 IA-1, please refer to the following graphs, exhibit and table.

CFD 2008-1 IMPROVEMENT AREA NO. 1
CURRENT AVERAGE BASE PRICES



CFD 2008-1 IMPROVEMENT AREA NO. 1
CURRENT AVERAGE LIVING AREAS



CFD NO. 2008-1 IA-1: CURRENTLY ACTIVE PROJECTS
OVERVIEW OF THE SITE PLAN

IMPROVEMENT AREA A IS ONLY A PORTION OF THESE LOTS



- Neighborhoods*
- A** LUSITANO MODELS
 - B** CANTERIDGE MODELS
 - C** SEABREEZE MODELS
 - D** ANDALUCIA MODELS

CFD NO. 2008-1 IA-1

CURRENT/EXPECTED RESIDENTIAL PRODUCT MIX CHARACTERISTICS

Projects >	Lunitano	Canteridge	Seabreeze	Analuia	Whittingham	Village Court	Martingale	Hillside Compound	Overall	
									Total	Averages
Product Type	Detached	Detached	Detached	Detached	Detached	Detached	Detached	Detached		
Builder	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes		
Market Entry	May 2015	May 2015	May 2015	May 2015	Fall 2017	Spring 2018	2019	2019		
Housing Units										
Totals - IA-1 and IA-2	97	69	109	129	120	64	27	56	671	
Share - IA-1 and IA-2	14.5%	10.3%	16.2%	19.2%	17.9%	9.5%	4.0%	8.3%	100.0%	
Totals - IA-1 Only	97	69	109	49	27	40	27	24	442	
Share - IA-1 Only	21.9%	15.6%	24.7%	11.1%	6.1%	9.0%	6.1%	5.4%	100%	
Development and Marketing Status for IA-1										
Escrows Closed, June 5, 2017	39	43	24	0	0	0	0	0	106	16%
Future Occupancies	58	26	85	49	27	40	27	24	336	50%
Additional Units Sold, June 5, 2017	28	14	38	0	0	0	0	0	80	12%
Number of Homes by Plan - Estimated for IA-1										
Plan # 1	31	6	37	16	7	10	9	6		
Plan # 2	33	28	34	16	7	10	9	6		
Plan # 3	33	35	36	15	7	10	9	6		
Plan # 4			2	2	6	10		6		
Plan # 5										
Plan # 6										
Totals	97	69	109	49	27	40	27	24	442	
Living Areas for IA-1										
Plan # 1	1,651	1,922	2,185	3,027	3,750	2,682	2,204	2,953		
Plan # 2	1,838	2,075	2,519	2,980	3,900	2,860	2,359	3,245		
Plan # 3	2,000	2,136	2,783	3,182	4,050	2,938	2,204	3,321		
Plan # 4			2,277	3,640	4,200	3,055		3,465		
Plan # 5										
Plan # 6										
Averages	1,833	2,093	2,488	3,084	3,967	2,884	2,256	3,246	2,502	
Current Base Prices for IA-1										
Plan # 1	\$302,000	\$528,000	\$573,000	\$649,900	\$720,000	\$577,300	\$525,000	\$635,000		
Plan # 2	\$314,000	\$538,000	\$586,000	\$643,900	\$725,000	\$597,300	\$545,000	\$672,000		
Plan # 3	\$331,000	\$541,000	\$620,000	\$660,900	\$745,000	\$607,300	\$525,000	\$690,000		
Plan # 4			\$578,000	\$691,900	\$765,000	\$627,300		\$692,000		
Plan # 5										
Plan # 6										
Averages	\$515,948	\$538,652	\$592,670	\$653,022	\$737,778	\$602,500	\$531,667	\$672,000	\$584,426	
Value Ratios	\$281	\$257	\$238	\$212	\$186	\$209	\$236	\$207	\$234	

SECTION II: MACROECONOMIC ANALYSIS DESIGNATED ECONOMIC AND REAL ESTATE FORECASTING SCENARIO

OVERVIEW OF THE METHODOLOGY

This section describes the Economic and Real Estate Model underlying the forecasts for the absorption of the residential projects in CFD No. 2008-1 IA-1 during the foreseeable future; accordingly this involves a systematic analysis of the following:

- A. Summary of the Market Conditions in the County of San Diego and the CFD Market Area
- B. Overview of the Recent/Expected Housing Market Conditions County of San Diego and the CFD Market Area
- C. Recent Employment Trends for San Diego County
- D. Critical Components of the Economic and Real Estate Forecasting Model:

Primary Factors:

- Employment as the Primary Economic Driver
- Mortgage Rates as a Significant Economic Driver

Secondary Factors:

- Notices of Default
- Sales of New and Existing Homes
- New Building Permits
- Unemployment Rates by Cities in San Diego County

Extraordinary Market Factors:

- Characteristics of Millennials
- Relative Levels of New Single-Family Homes and Apartment Units from 2013-2016
- Typical Geographical Development Patterns
- Recent Shifts in Development Patterns
- New Building Permits by Types - Single-Family vs. Apartment
- New Building Permits by Areas - Urbanized vs. Rural Areas

Conclusion on Recent/Future Housing Market Conditions

- E. Employment by Firms Located in the City of Escondido (Closest City)
- F. Conclusions on Recent/Future Housing Market Conditions for San Diego County and the CFD Market Area

A. SUMMARY OF THE MARKET CONDITIONS IN SAN DIEGO COUNTY AND THE CFD MARKET AREA

Based upon a comprehensive review of the macroeconomic factors underling the recent/future demand for housing in the County of San Diego and the CFD Market Area (cities/communities in the vicinity of the CFD); the primary findings are as follows:

1. San Diego County's economy has **recovered from the Great Recession**, and its housing market is in a recovery mode; the **rate of recovery is moderate/strong**. (*see page 12*)
2. Due to the Great Recession, San Diego County's **employment** in 2010 fell to its lowest level since 2003 but it then recovered to attain a new peak level in 2016. The County of San Diego has added ~35,000 new jobs per year from 2013-2016, growing at 2.4%/year. (*see pages 13-14*)
3. With favorable rates of employment growth, **housing price appreciation** in San Diego County is expected to continue to be moderate for the near term. (*see page 15*)
4. Since 2009, **mortgage rates** have been at historically low levels of below 5% but rates are expected to increase somewhat in the near future due to FRB's monetary policy. (*see page 16*)
5. **Notices of default** peaked during 2007-2012 but their foreclosures/short sales created a significant shadow inventory of renter-occupied single-family homes. (*see page 17*)
6. **Sales of new homes and existing homes** have remained at relatively low levels since the end of the Housing Bubble, but are expected to rise through 2018 and then stabilize. (*see page 18*)
7. **New building permits** have increased only moderately in recent years, for both single-family and multi-family/apartments, but the recovery is expected to strengthen for new single-family homes during the foreseeable future. (*see page 19*)
8. Escondido's **unemployment rate** is similar to San Diego County at ~3.8%, very favorable low rates. (*see page 20*)
9. **Extraordinary special factors related to millennials are causing market product type shifts towards apartments and geographical shifts to urbanized areas**. (*see pages 21-26*)
10. **New single-family homes** in the Inland Areas had a much higher peak level during the Housing Bubble but are now recovering at a slower pace than in the Urbanized Areas.
New apartments in Urbanized Areas recently attained new peak levels, while new apartments in Inland Areas peaked in 2004 and their recovery has been slow. (*see pages 27-28*)
11. **Firms in Escondido, the nearest city, have about 45,200 employees**, both full- and part-time; sectors with the highest shares are retail trade, construction, healthcare/social assistance and local government. Firms in Escondido have an **average payroll per employee that amounts to some \$45,216**, both full- and part-time, which is favorable. (*see pages 29 & 30*)

Overall, these economic and housing market factors amount to stable/favorable conditions for San Diego County and the CFD Market Area.

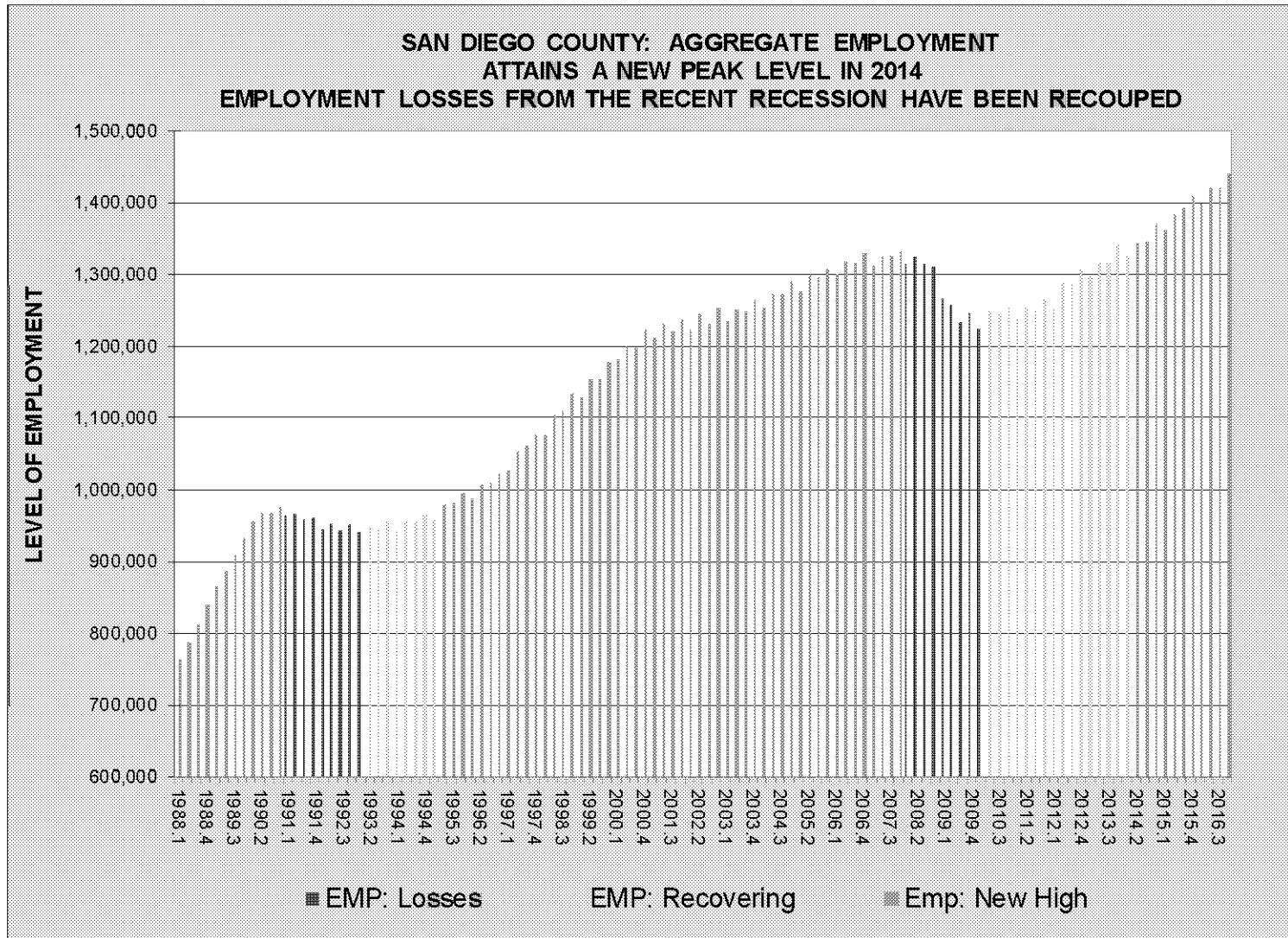
Please refer to the following pages for additional information, followed by a summary of the recent/expected economic and housing market trends/patterns (*see page 31*).

B. OVERVIEW OF THE RECENT/EXPECTED HOUSING MARKET CONDITIONS FOR SAN DIEGO COUNTY AND THE CFD MARKET AREA

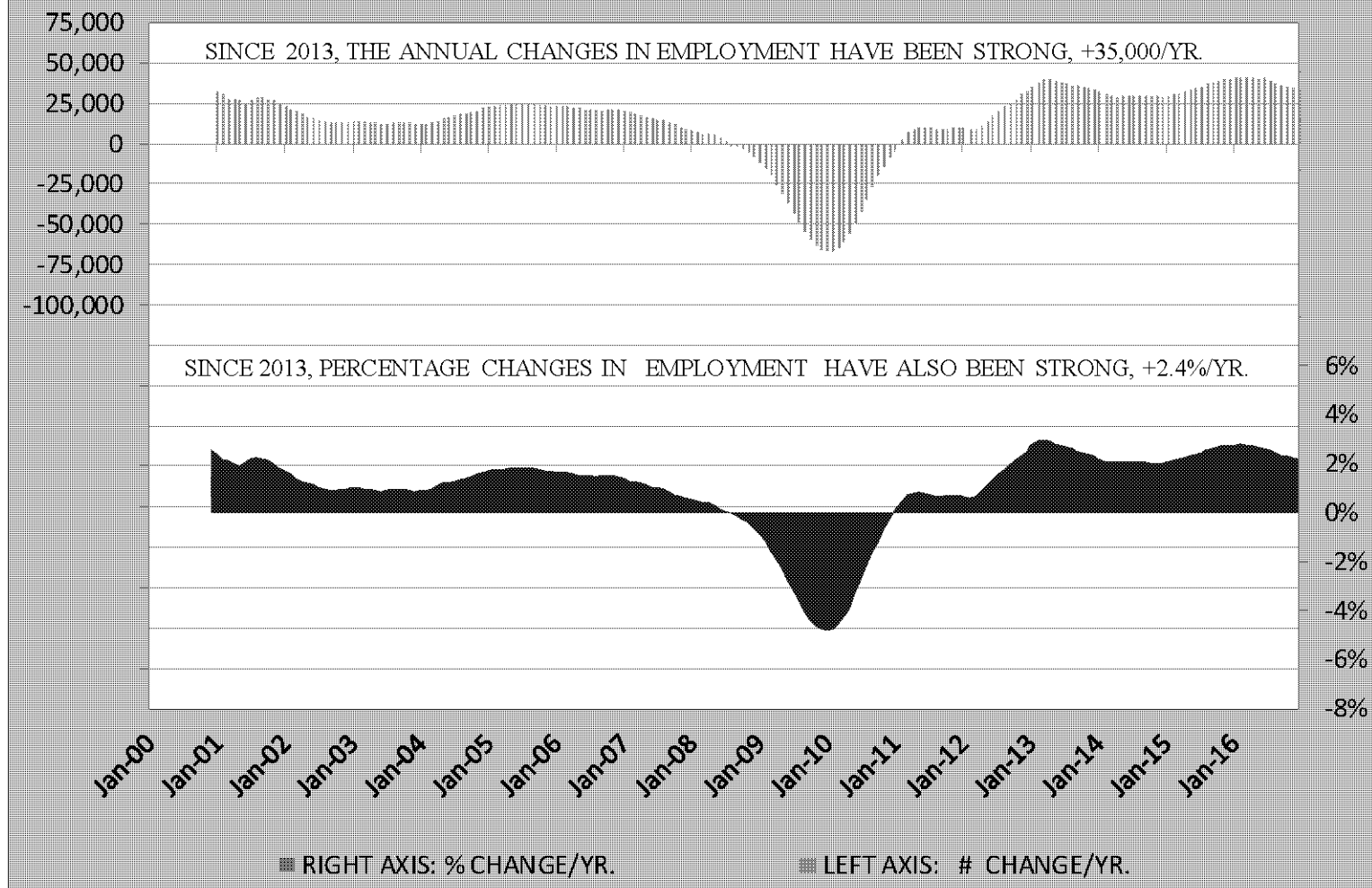
RECENT/EXPECTED REAL ESTATE MARKET TRENDS/PATTERNS FOR THE MARKET REGION AND MARKET AREA



C. RECENT/EXPECTED EMPLOYMENT GROWTH FOR SAN DIEGO COUNTY IS THE PRIMARY FACTOR UNDERLYING MORE DEMAND FOR NEW HOMES

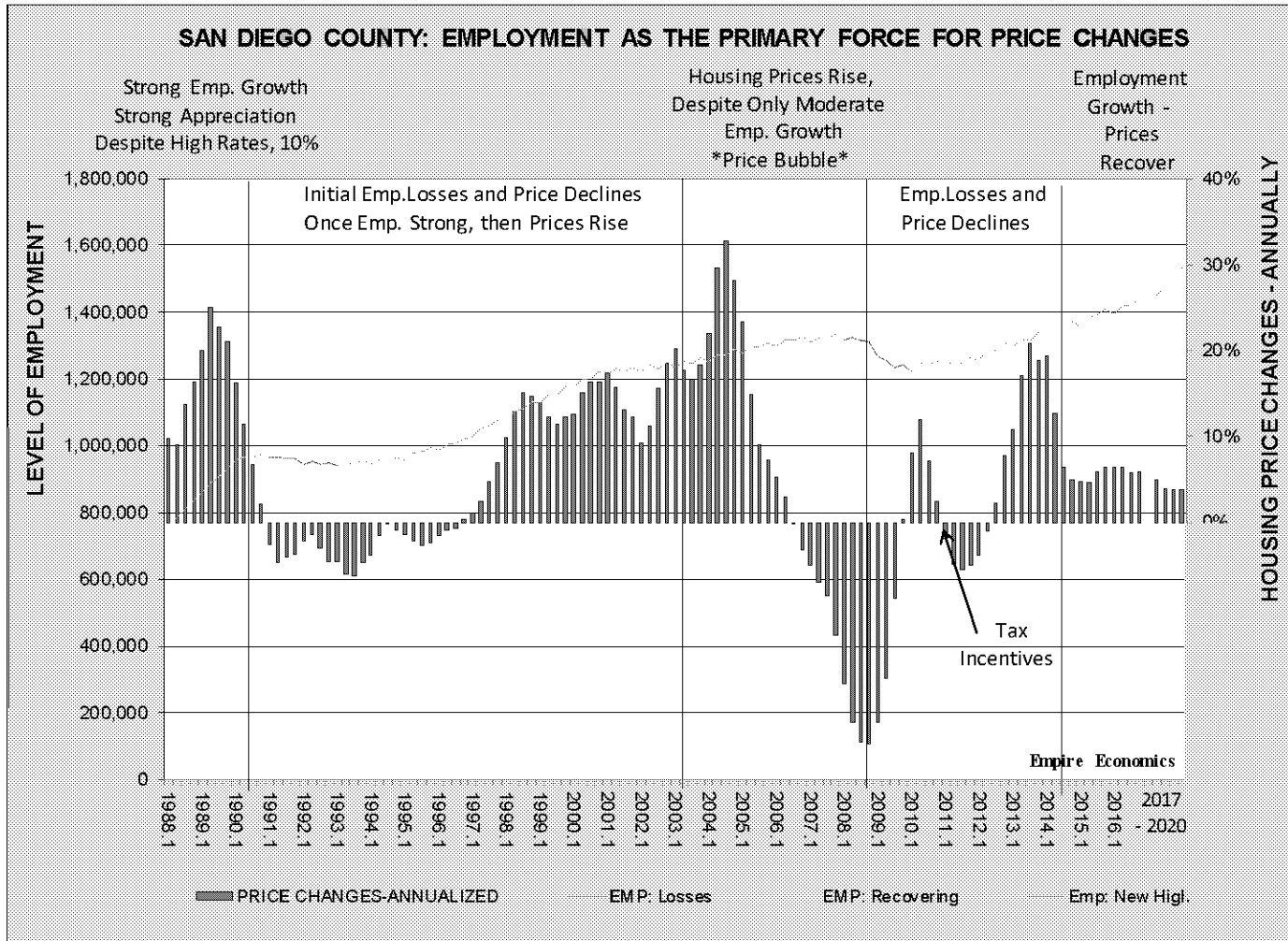


RECENT EMPLOYMENT GROWTH RATES SAN DIEGO COUNTY

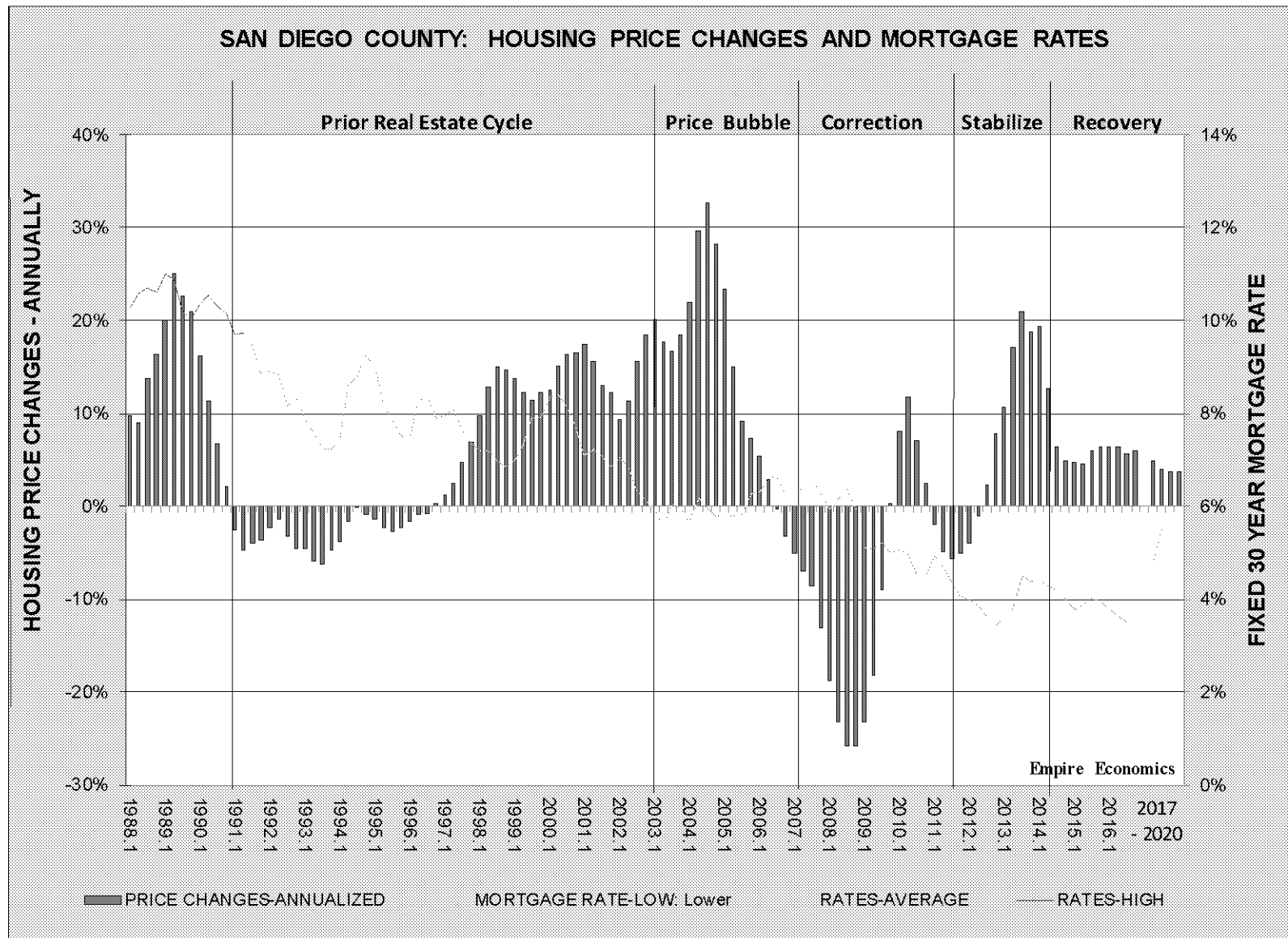


CRITICAL COMPONENTS OF THE ECONOMIC AND REAL ESTATE FORECASTING MODEL

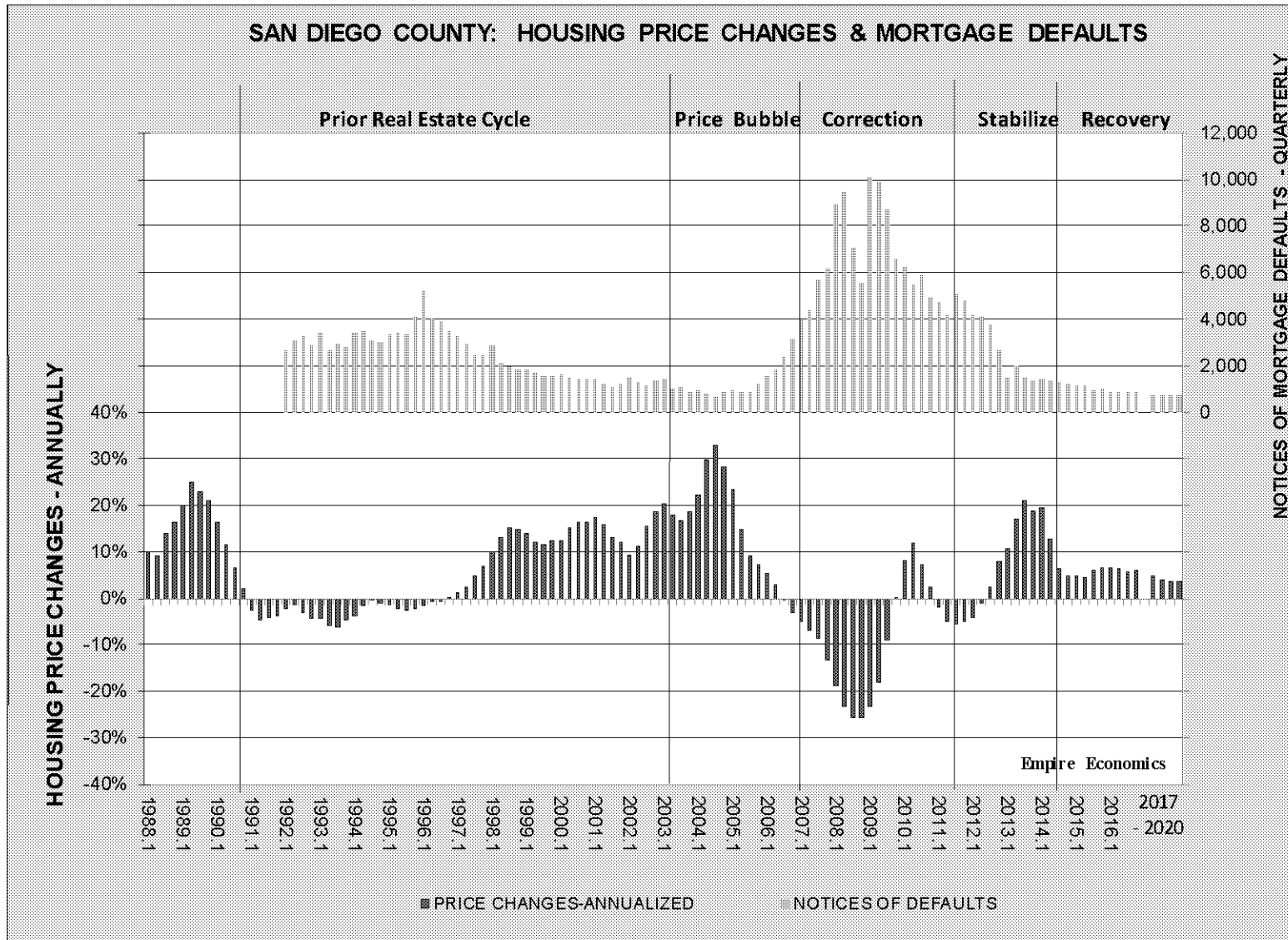
EMPLOYMENT GROWTH, THE FUNDAMENTAL ECONOMIC FACTOR UNDERLYING THE DEMAND FOR NEW HOMES IS FAVORABLE



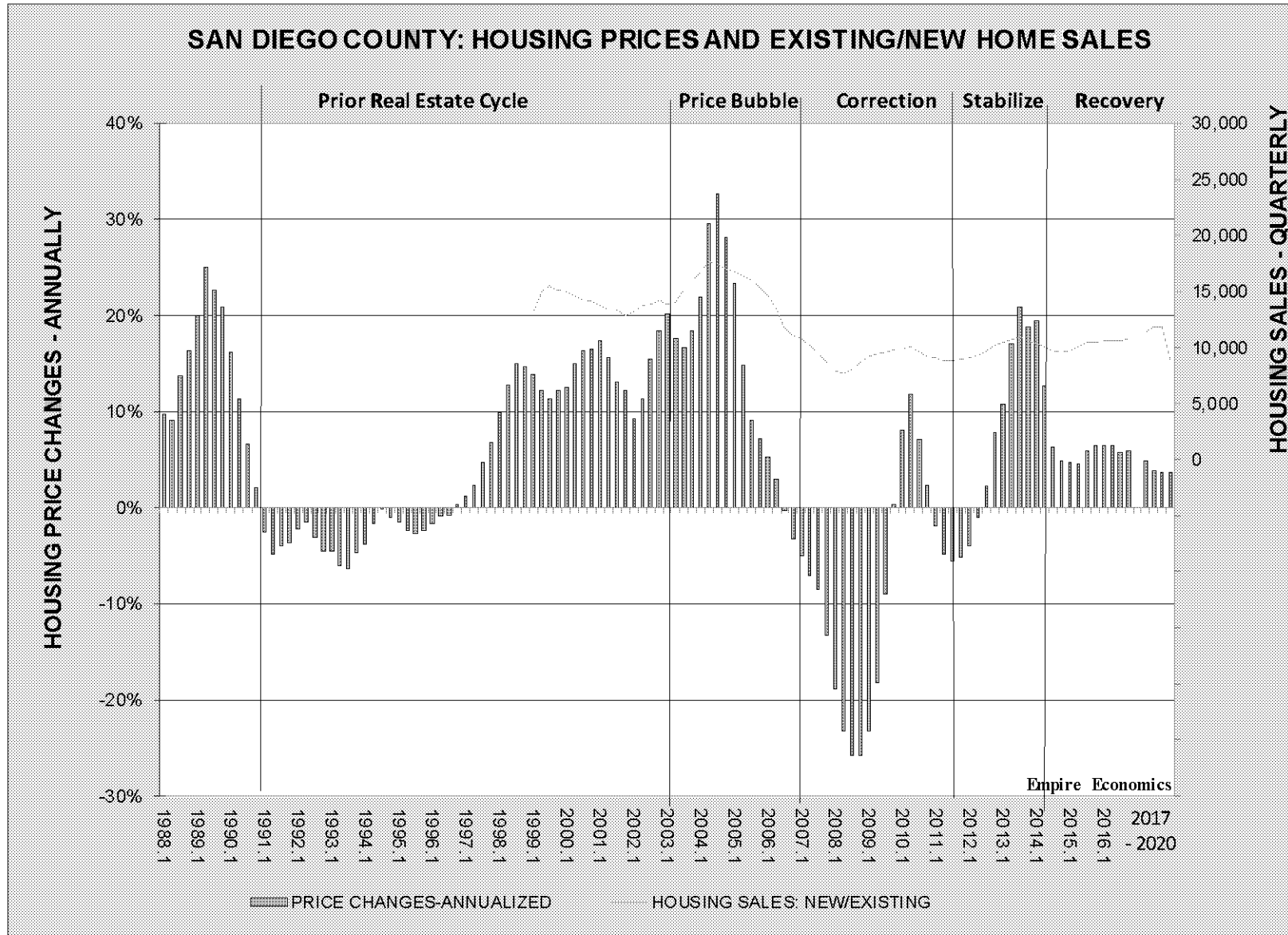
HIGHER MORTGAGE MAY SLOW THE RATE OF HOUSING PRICE APPRECIATION, BUT DEMAND WILL CONTINUE TO BE FAVORABLE DUE TO EMPLOYMENT GROWTH



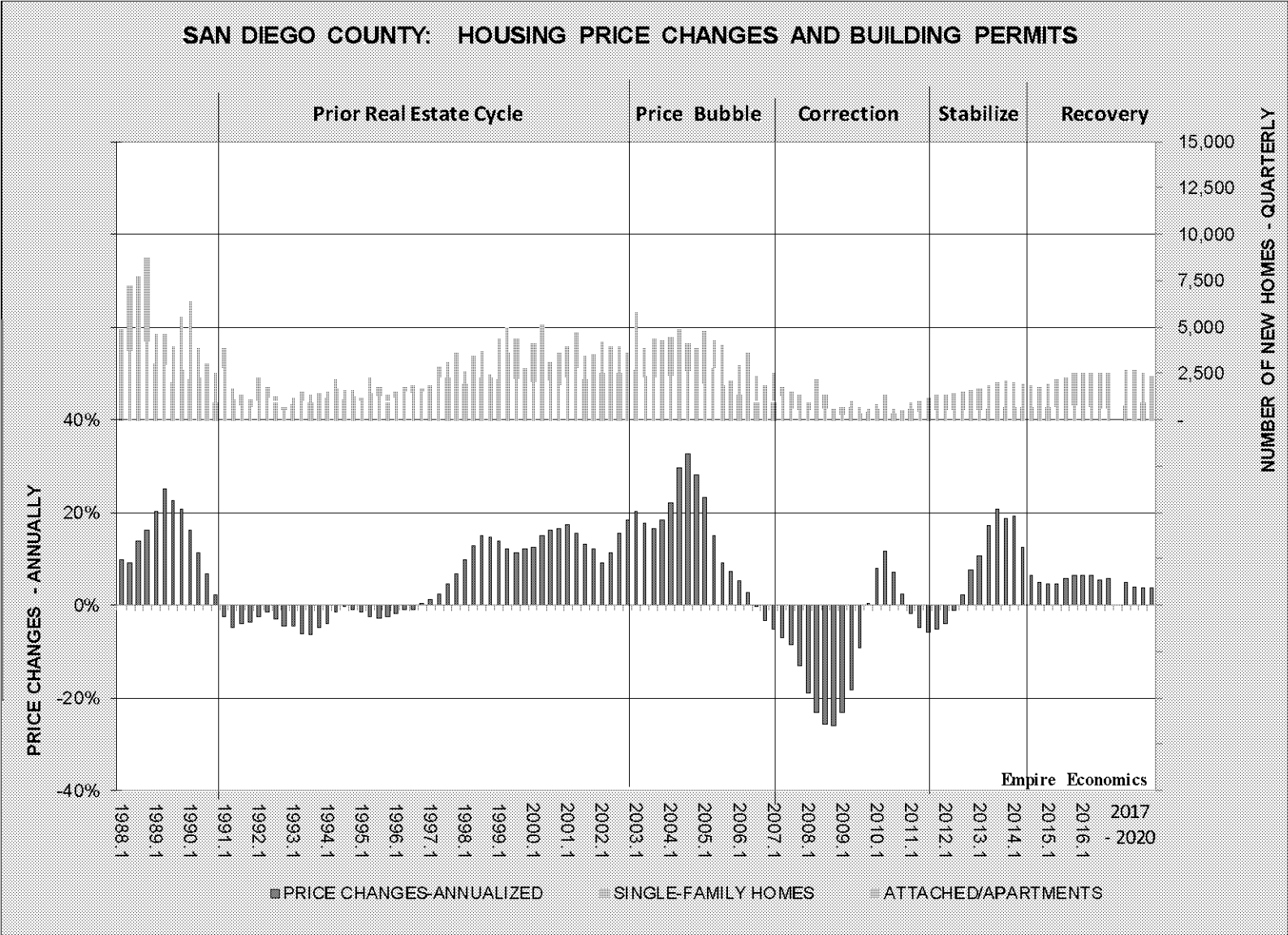
**MORTGAGE DEFAULTS HAVE DECLINED SIGNIFICANTLY IN RECENT YEARS,
DUE TO FAVORABLE EMPLOYMENT GROWTH AND LOW MORTGAGE RATES**



THE SALES OF EXISTING HOMES HAVE RECENTLY STABILIZED

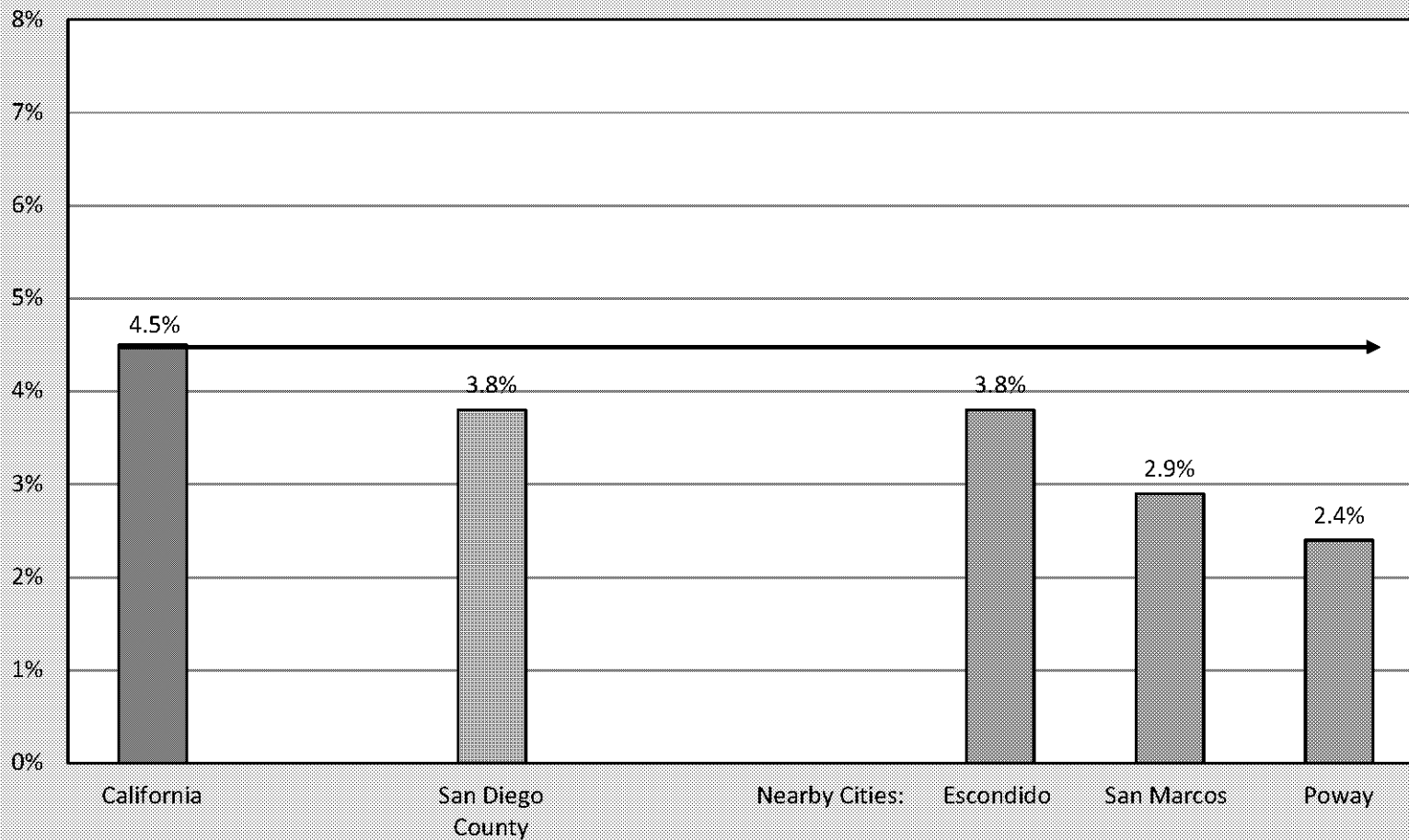


ALTHOUGH THERE HAVE RECENTLY BEEN A MUCH HIGHER SHARE OF NEW APARTMENTS VS. FOR-SALE HOMES, THEIR MARKET SHARES ARE EXPECTED TO MOVE BACK TOWARD THEIR LONG-TERM AVERAGES



SAN DIEGO COUNTY HAS A LOWER UNEMPLOYMENT RATE THAN CALIFORNIA

MOST CITIES IN THE VICINITY OF THE CFD HAVE LOWER/SIMILAR UNEMPLOYMENT RATES THAN SAN DIEGO COUNTY



EXTRAORDINARY FACTORS REDUCING THE DEMAND FOR FOR-SALE HOMES

Millennials' Impact on the Current Housing Market Recovery: Short-term Phenomenon or Long-term Structural Shift?

Strong employment growth and favorable mortgage conditions have resulted in the aggregate level of new residential construction activity approaching its long-term average. However, the housing preferences of Millennials have created a surging demand for apartments in urbanized areas which has offset the typical traditional demand for single-family homes in suburban/rural areas. *Is this recent pattern a short-term phenomenon or a long-term structural shift?*

Key Extraordinary Factor: Millennials' Preferences and Needs

The current housing market recovery is different from a traditional recovery due to complex economic, financial and cultural factors; among these, Millennials (ages ~18-34) preferences and needs appear to be a significant factor. Millennials have continued to reside in urbanized areas in apartment rentals, rather than seeking homeownership in suburban/rural areas; some of the factors underlying their decisions are as follows:

- Witnessed adverse impacts of the 2005-2007 housing bubble on their Generation X (ages ~35-54) parents
- Delaying marriage and starting families
- Attracted to apartment rental living factors:
 - ✓ Near community and urban activities
 - ✓ No yardwork or maintenance
 - ✓ Resort-like luxury amenity packages in newer apartment complexes
- Proximity to urban employment centers with copious employment opportunities enables job flexibility
- Significant student debt hinders ability to save for a down payment or qualify for a mortgage

Resulting Increased Demand for Apartments and Market Impact:

The combined impact of these social and economic factors has recently resulted in a dramatic shift towards more apartments and fewer for-sale homes. For example, in Southern California, the long-term average market shares are 61% for single-family/attached for-sale homes and 39% for apartment rentals. However, this has significantly changed during the past four years: for 2015, the share for apartment rentals amounted to 63% while single-family's share amounted to only 37%; this represents a complete reversal of recent patterns!

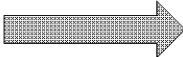
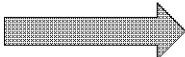
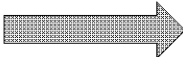
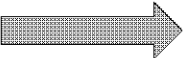
This product shift has significantly impacted geographical development patterns between the urbanized and suburban/rural areas for the Southern California and San Francisco metropolitan areas. For instance, in Southern California, new apartment units in urbanized/coastal areas reached a new peak level of more than 30,000 in 2015 while new for-sale family homes in the urbanized area amounted to only about 12,500. With regards to the suburban/rural inland areas, the housing recovery has been sluggish/minimal, both for new for-sale homes as well as new apartment rentals.

Short-Term Phenomenon or Long-Term Structural Shift?

Whether the recent shift toward more apartments in urbanized areas and fewer for-sale single-family homes in the suburban/rural areas will continue during the foreseeable future depends upon a complex set of factors which are difficult to forecast, due to their cultural aspects. Specifically, of significant interest is when Millennials start their families, whether they will be comfortable raising their children in high density housing in an urbanized area or instead follow the traditional pattern of purchasing single-family homes in suburban/rural areas; the extent of this shift will be revealed in the market over the next several years.

EXTRAORDINARY FACTORS REDUCING THE DEMAND FOR FOR-SALE HOMES (CON'T.)

OTHER FACTORS POTENTIALLY RESTRAINING THE DEMAND FOR SINGLE-FAMILY HOMES

- | | | |
|---|--|--|
| 1. HOMEOWNERSHIP HAS DECLINED FROM 60%-2005 TO 54%-2015 |  | REDUCED DEMAND FOR NEW SINGLE-FAMILY HOMES |
| 2. INCREASES IN SINGLE FAMILY RENTALS |  | REFLECT A TRANSFORMATION OF THE EXCESS HOUSING MARKET BUBBLE |
| 3. MODERATE FUTURE PRICE EXPECTATIONS |  | SINGLE-FAMILY OWNERSHIP TO RENTALS RESTRAINED BUYER CONFIDENCE |
| 4. SIGNIFICANT SUPPLY OF NEW APARTMENT PROJECTS IN THE PIPELINE |  | WILL CONTINUE TO PROVIDE COMPETITIVE ALTERNATIVE TO HOME OWNERSHIP |

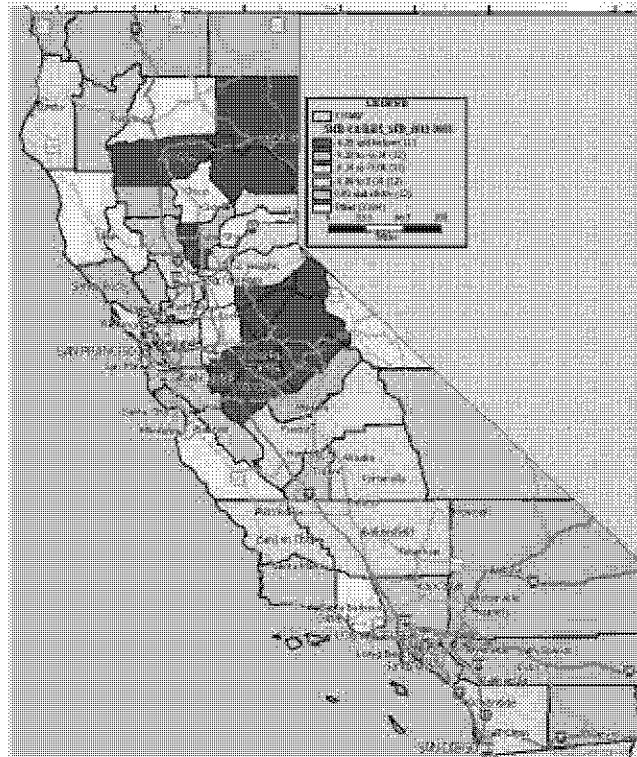
RELATIVE LEVELS OF NEW SINGLE-FAMILY HOMES AND APARTMENT UNITS FROM 2013-2016

Although California's employment growth has recently been strong, Millennials' preferences and finance factors are among a set of extraordinary factors driving higher levels of apartments in urban areas and much lower levels of single family homes in the inland areas throughout California. During 2013-2016, San Diego County had relatively high levels of BOTH new single-family homes and also new apartment units as well.

* Thematic Map Color Codes for California Counties Green = Relatively Strong Yellow = Average Red – Relatively Weak

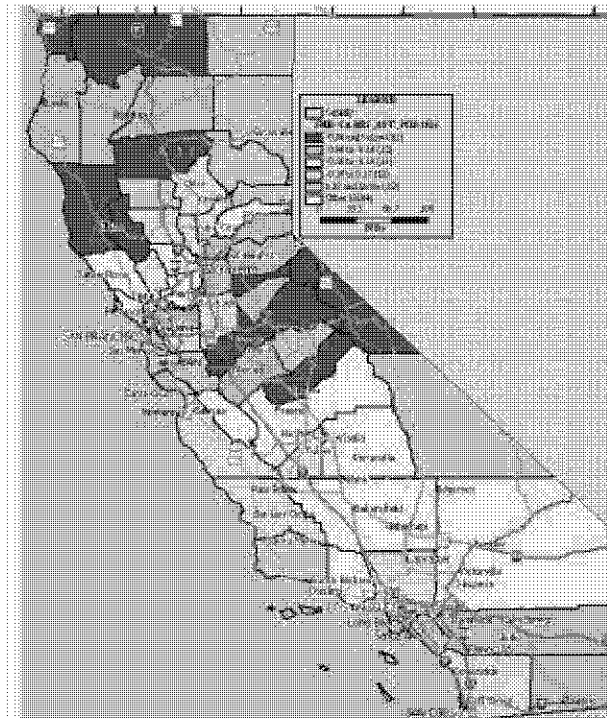
RELATIVE LEVELS OF NEW SINGLE-FAMILY HOMES 2013-2016

THE SUBURBAN/RURAL AREAS THAT HAD DEPRESSED LEVELS OF ACTIVITY DURING 2008-2012 CONTINUED TO BE DEPRESSED DURING 2013-2016



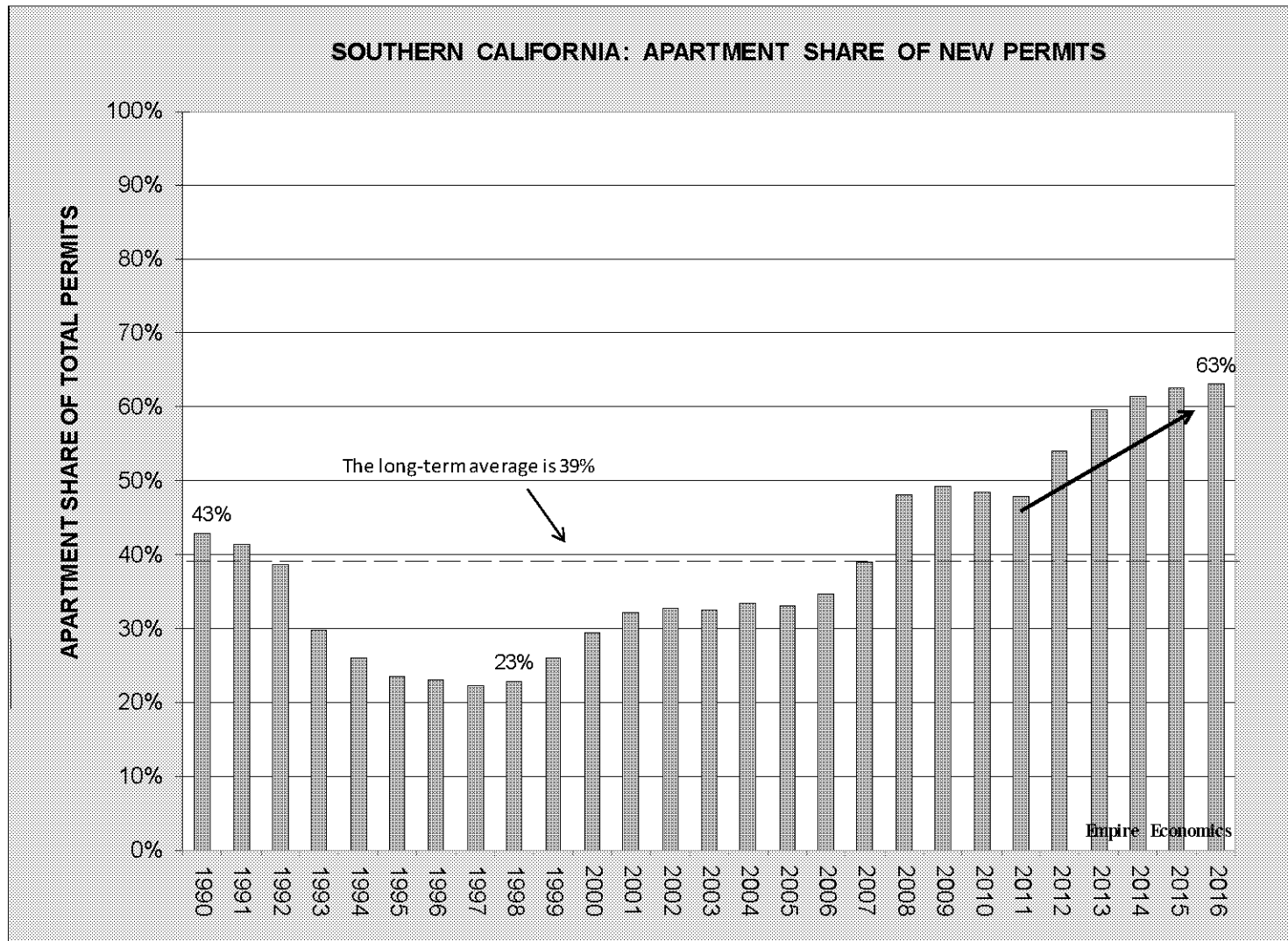
RELATIVE LEVELS OF NEW APARTMENT UNITS 2013-2016

THE URBAN AREAS HAVE HAD VERY HIGH LEVELS OF NEW APARTMENT UNITS DURING 2013-2016, DUE TO MILLENNIALS PREFERING TO RESIDE IN URBANIZED AREAS, PRIMARILY IN THE SAN FRANCISCO AND LOS ANGELES COASTAL REGIONS



COMBINED IMPACT OF FAVORABLE AND CONSTRAINING FACTORS - HIGHER SHARE OF APARTMENTS

MILLENNIALS ARE RAISING THE SHARE OF APARTMENTS TO VERY HIGH LEVELS



SOUTHERN CALIFORNIA – TYPES OF NEW HOUSING PRODUCTS BY GEOGRAPHIC AREAS

NEW FOR-SALE HOMES

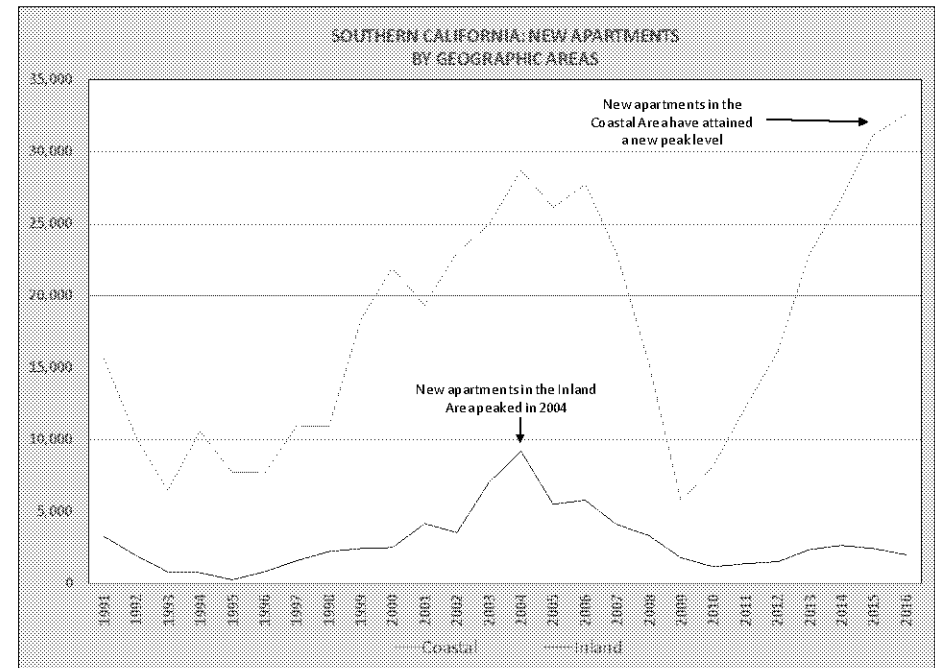
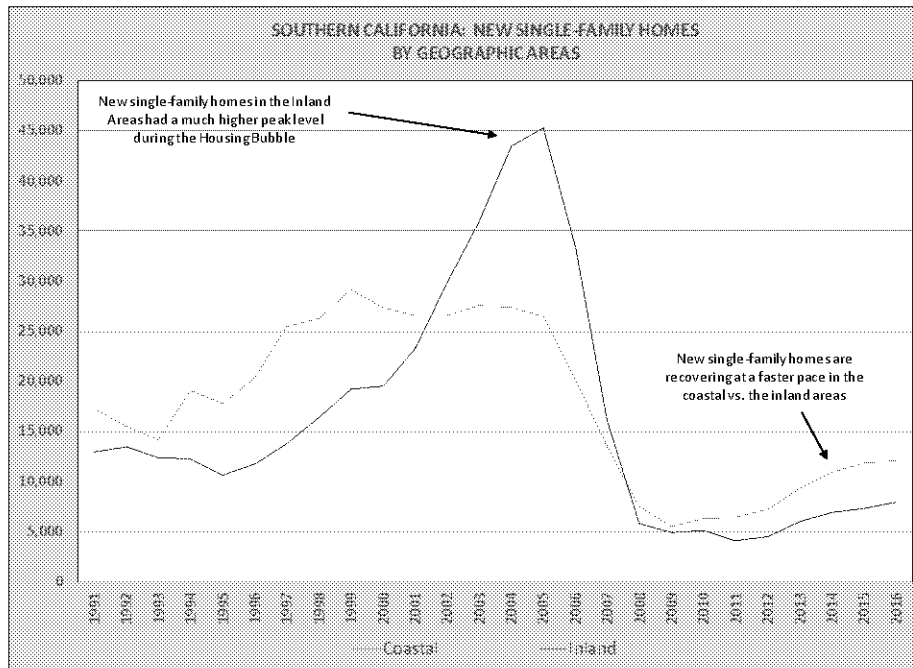
NEW FOR-SALE HOME ACTIVITY RECOVERY:

- * MODERATE PACE IN THE URBANIZED AREAS
- * BUT AT A SLOW PACE IN THE INLAND AREAS

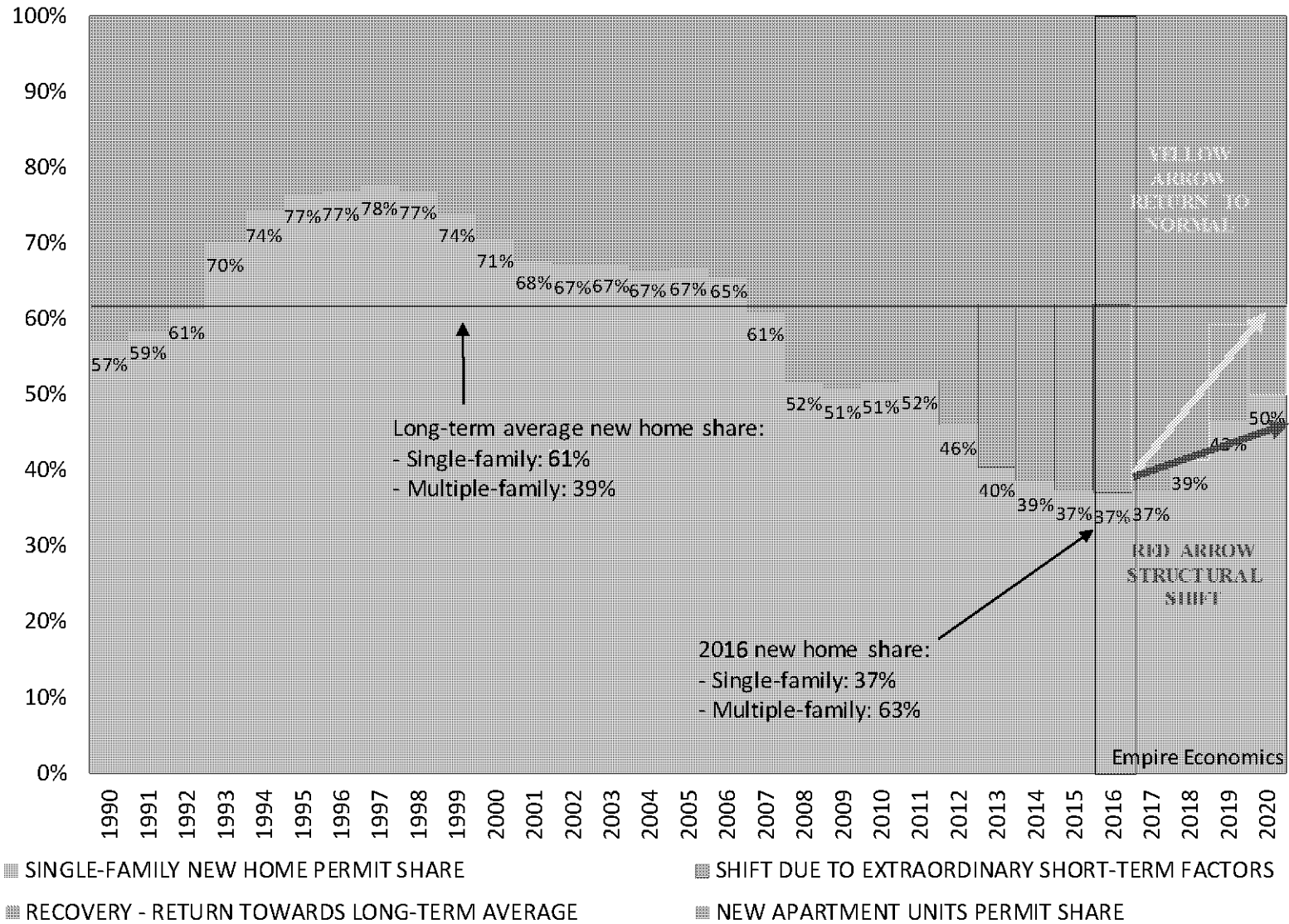
APARTMENT RENTALS

NEW APARTMENT ACTIVITY RECOVERY:

- * STRONG PACE IN THE URBANIZED AREAS,
- * BUT MINIMAL LEVELS IN THE INLAND AREAS



SOUTHERN CALIFORNIA: COMPOSITION OF NEW HOMES SINGLE-FAMILY VS. APARTMENT SHARES



E. EMPLOYMENT BY FIRMS LOCATED IN THE NEARBY CITY OF ESCONDIDO

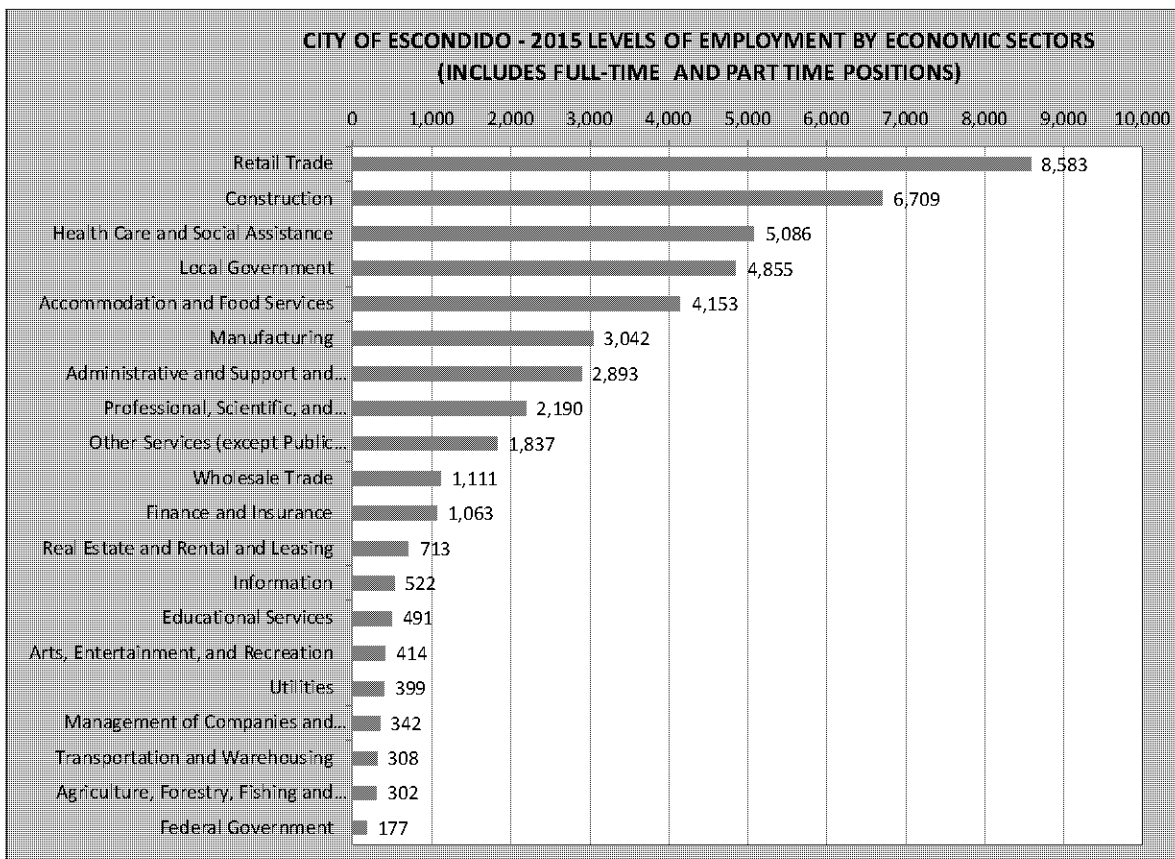
The characteristics of the economic base for the CFD No. 2008-1 local economy Information were analyzed using information compiled by the Employment Development Department (EDD) specifically for firms located in the City of Escondido, the nearest City, including the number of employees and the payroll amounts.

Note: Employment represents personnel on the payroll, and as such includes both full-time as well as part-time employees.

Composition of Employment by Sectors:

The firms in the City Escondido recently had about 45,200 employees; the sectors with the highest shares of employees are as follows:

Retail Trade:	19.0%
Construction:	14.8%
Healthcare and Social Assistance:	11.3%
Local Government:	10.7%
Accommodation and Food Service:	9.2%

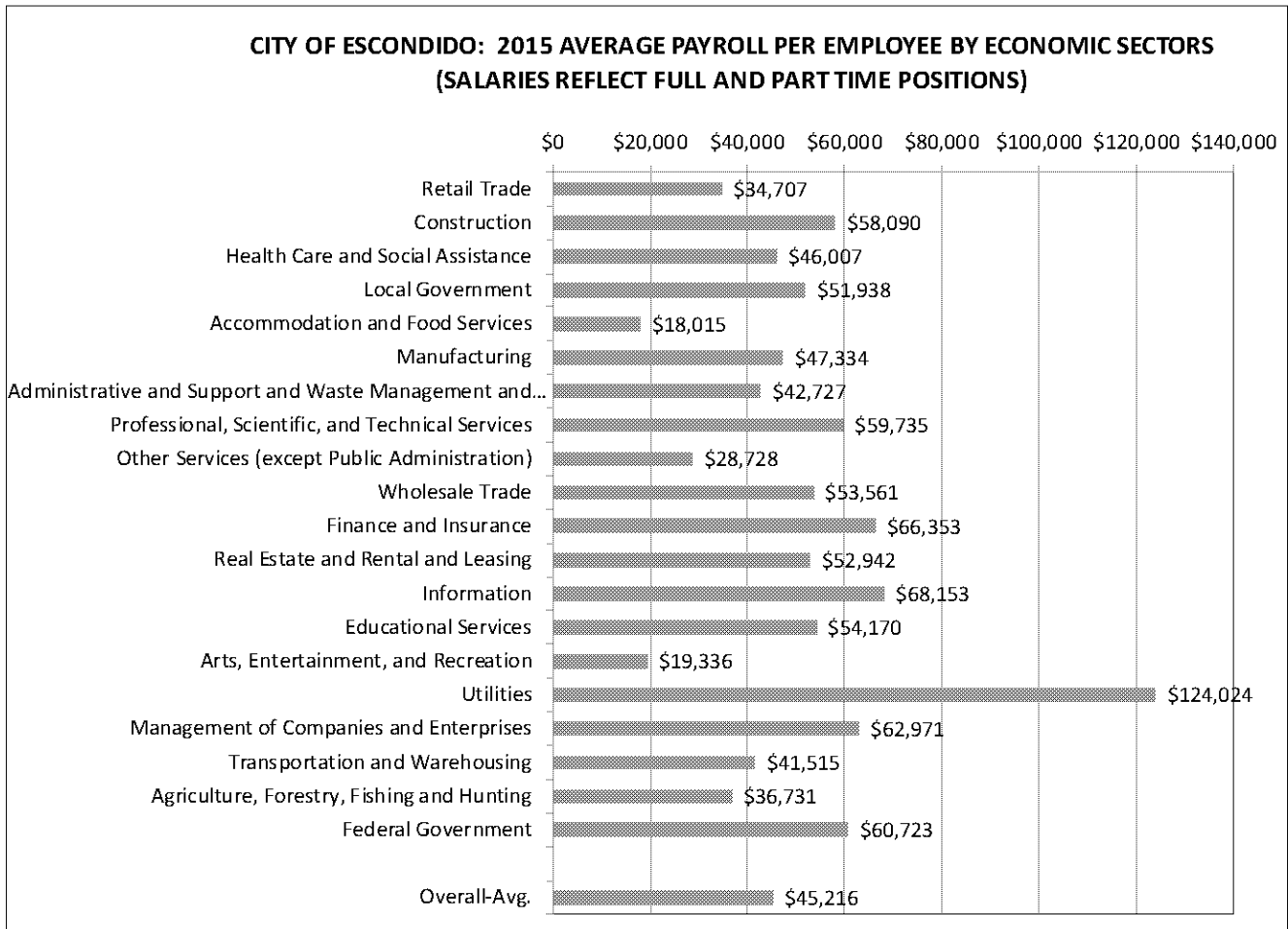


Payroll by Employment Sectors:

For the firms in the City of Escondido, the average recent payroll per employee amounted to some \$45,216, on the average, for full and part-time employees.

The sectors with the highest payrolls per employee (full & part-time), according to EDD, are as follows:

Utilities:	\$124,024	(only 342 employees)
Information:	\$68,153	
Finance and Insurance:	\$66,353	
Management:	\$62,971	
Federal Government:	\$60,723	



G. CONCLUSIONS ON RECENT / FUTURE HOUSING MARKET CONDITIONS FOR SAN DIEGO COUNTY AND THE CFD MARKET AREA

The recent trends/patterns for the economy and housing market in County of San Diego and the Market Area, along with Empire's forecast for economic growth and housing demand based upon its Designated Economic and Real Estate Scenario, are now discussed.

Housing Price Bubble: Starting in 2002, housing prices began to appreciate as mortgage rates declined, and then the rate of appreciation accelerated during 2004 to 2006 due to the pervasive use of non-conventional (creative) financing structures. During this time period, these financing structures and related financing factors, rather than employment growth, were the primary driving forces underlying the extraordinary rate of housing price appreciation for California, and also for San Diego County.

Price Bubble Implosion: During 2007 to 2009, housing prices decreased significantly, pushing a substantial proportion of homeowners who purchased their homes during the price bubble into a position of negative equity, especially those that had high loan to value ratios. The enormous number of homeowners under duress caused an over-supply of homes which, in turn, severely depressed new development activity.

Foundation for Recovery: Starting in 2010, and continuing through 2012, housing prices were relatively stable, and this enabled the housing market to go through a consolidation phase:

- Many homeowners with negative equity went through foreclosures and short sales.
- These homes, in turn, were purchased by new bona-fide homeowners as well as investors that benefited from lower prices.
- Although mortgage rates were very favorable, mortgage lending criteria were tighter for households and many investors were cash buyers.

Market Recovery During 2013-2014: The housing market moved into a recovery phase, with the return of employment growth, and housing prices increased by some 20% during 2013.

Normal Market Conditions During 2015-2017+: Employment, the traditional driver of housing price appreciation, has reached a new peak level, thereby recovering the jobs that were lost during the Great Recession. During the foreseeable future, employment is expected to increase at a moderate rate, and this will enable the housing market to return to its "historical" rate of price appreciation. However, the near-term recovery is not expected to be as robust as the typical recovery, due to the following macroeconomic conditions:

- Millennials have a preference to reside in urbanized areas and rent apartments, rather than commute to the suburban/rural areas to purchase moderately priced single-family homes.
- Reducing the Federal Deficit through higher tax rates and lower spending.
- Federal Reserve Board re-balancing its accounts by selling recently purchased securities.

County of San Diego's Expected Employment and Housing Market Conditions: The City of Escondido has established a strong employment base, with local firms having some 45,200 employees. Furthermore, the Project Market Area benefits from a strong employment base in San Diego County, with commuters coming to the area due to more moderately priced housing. Consequently, the San Diego housing market recovery will continue to strengthen as employment gains generate a stronger demand for new homes, thereby providing support for the residential projects in CFD No. 2008-1 IA-1.

SECTION III: MICROECONOMIC ANALYSIS

A. METHODOLOGY UNDERLYING THE MICROECONOMIC ANALYSIS OF THE RESIDENTIAL PROJECTS IN CFD NO. 2008-1 IA-1

The microeconomic analysis focuses upon the competitiveness of the residential projects in CFD No. 2008-1 IA-1 with regards to the regional geographical development patterns within San Diego County and also the currently active comparable projects within the Project Market Area.

B. Competitiveness of CFD No. 2008-1 IA-1 from a Geographical Regional Perspective

* Location of CFD No. 2008-1 IA-1:

- Relative to Employment Centers/Business Parks
- Commuting Patterns: Employment Centers to Residential Areas

C. Recent Construction Activity/Trends in San Diego County

- Residential: Single-family and Multiple-family
- Industrial, Office and Retail

D. Socioeconomic Characteristics

- Crime Levels and Safety
- Quality of Schools and Education

E. Competitive Housing Market Analysis of the Projects in CFD No. 2008-1 IA-1

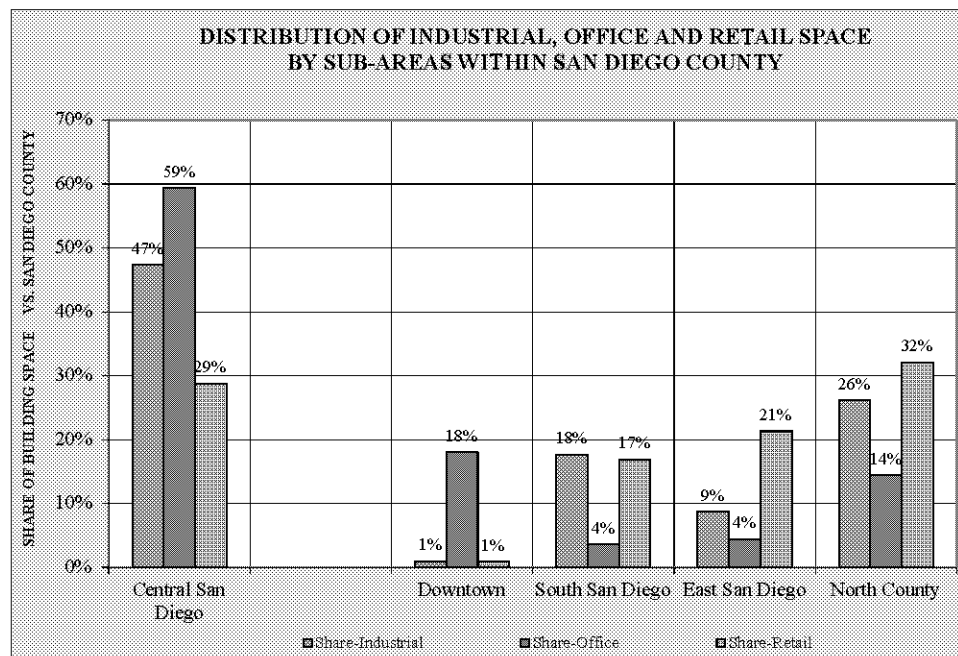
- Identification of Currently Active Residential Projects
Selection of the Comparable Projects
- Location of CFD No. 2008-1 IA-1 and Market Comparables
- Competitive Market Analysis of the Projects in CFD No. 2008-1 IA-1:
Statistical Analysis of the Prices, Living Areas and Special Taxes

B. COMPETITIVENESS OF CFD NO. 2008-1 IA-1 FROM A REGIONAL PERSPECTIVE

From a regional perspective, the competitiveness of CFD No. 2008-1 IA-1's residential projects are influenced by the development patterns for employment and housing within the Southern California Market Region (MR), and their interrelationships with the CFD No. 2008-1 IA-1 Market Area. Specifically, Business Parks generate industrial-office development while Planned Communities generate residential and commercial-retail development; additionally, the flow of traffic between them is facilitated by the freeways and highways.

➤ Expansion of Employment Centers and Business Parks

The currently established major employment center in San Diego County is Central San Diego County. North San Diego County, which includes CFD No. 2008-1 IA-1, has second largest economic base in San Diego County, and it has capacity to accommodate future employment expansion as well.



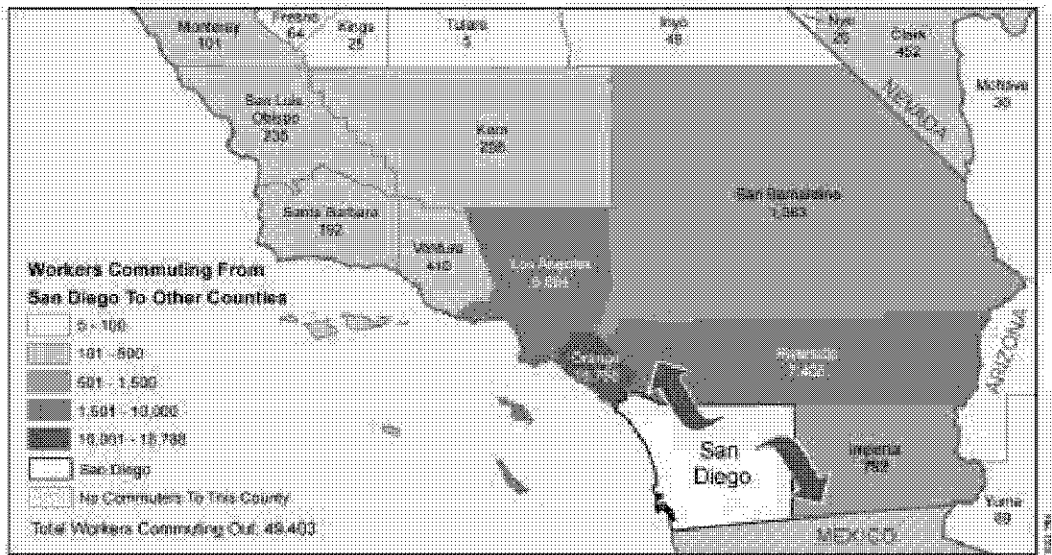
➤ Commuting Patterns: Employment Centers to Residential Areas

Some of the households employed in central San Diego reside in northern San Diego County since it offers more moderately priced housing; these commuting patterns are based upon the freeways/highways that link the San Diego central employment centers to the Market Area.

The spillover of housing demand from San Diego County's major economic bases extends further along the 15 Freeway into southern Riverside County, to cities such as Temecula that offer more moderately priced housing.

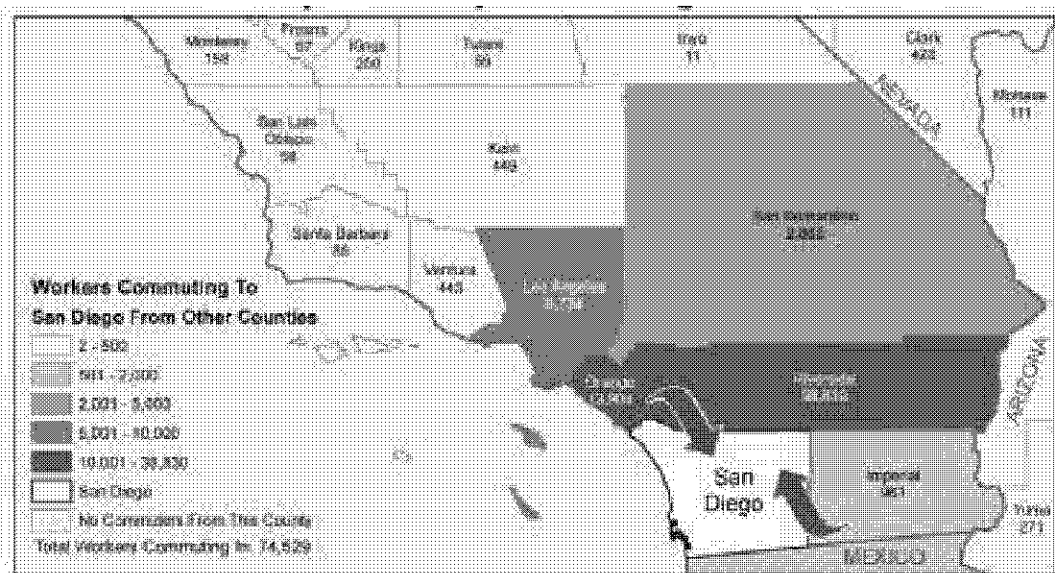
SAN DIEGO COUNTY COMMUTING PATTERNS

Based upon the most recent data available (2006-2010), some 1,371,498 workers lived and worked in San Diego; of these, 49,403 commuted to other counties for work. So, about 4% of all people who resided/lived in San Diego County commuted to their place of work outside of the county. The largest number of such commuters went to Orange County, 18,788, due to its large employment center that provides numerous additional employment opportunities.



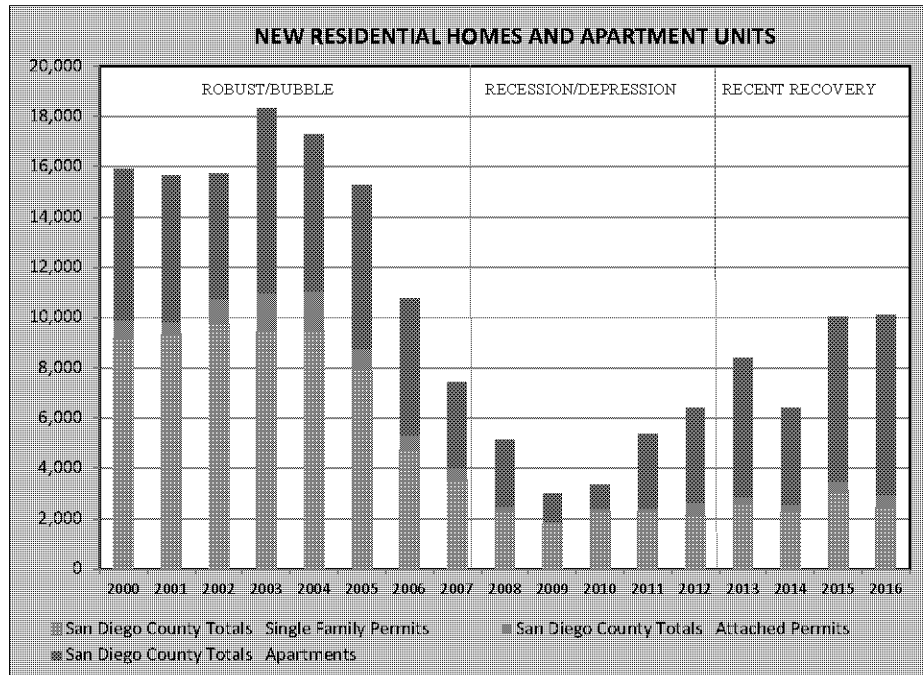
Total Workers That Live And Work in San Diego: 1,371,498

Conversely, some 74,529 workers who resided outside of San Diego County commuted into San Diego, with over half of these (38,830) coming from Riverside County. These workers are attracted to the strong employment opportunities in San Diego but reside in Riverside County due to more moderately priced housing.

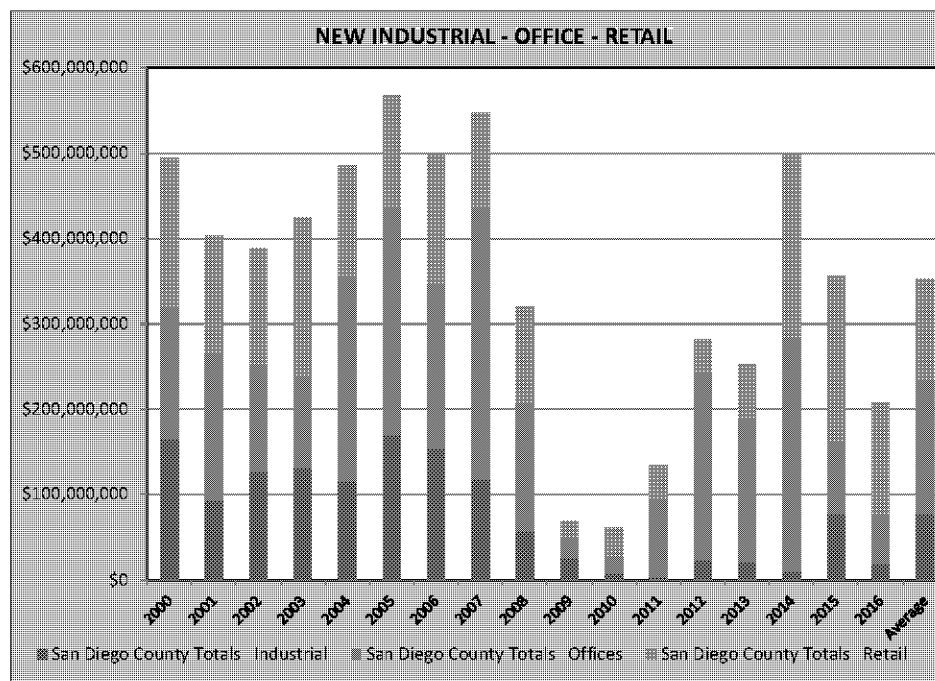


C. RECENT CONSTRUCTION ACTIVITY TRENDS/PATTERNS IN SAN DIEGO COUNTY

DURING 2008-2012, LOW NEW RESIDENTIAL ACTIVITY
STARTING IN 2013, INCREASING LEVELS OF APARTMENTS
BUT STILL LOW LEVELS OF SINGLE FAMILY



DURING 2009-2011, MINIMAL NEW NON-RESIDENTIAL ACTIVITY
IN 2014 AND 2015, HIGHER LEVELS OF NON-RESIDENTIAL ACTIVITY



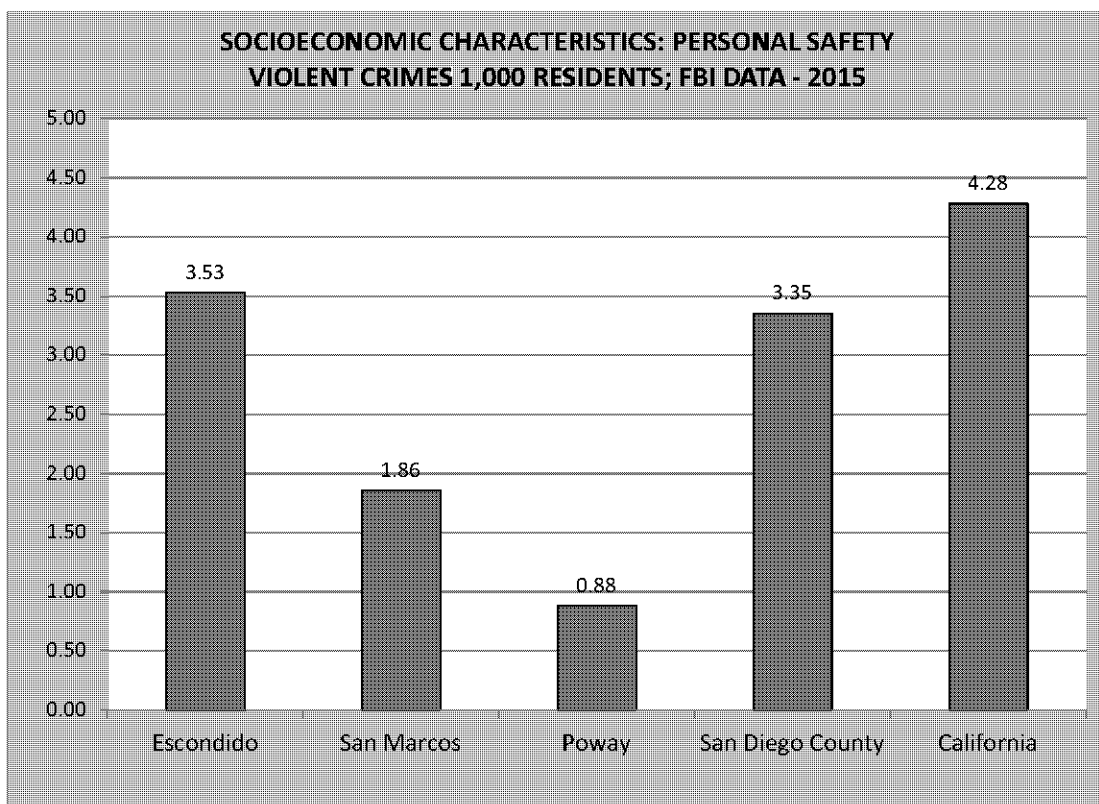
D. SOCIOECONOMIC CHARACTERISTICS: CRIME LEVELS AND THE QUALITY OF SCHOOLS

When households consider the purchase of a home, the primary factors are the location of the residence relative to their place of employment and also the prices that they can afford; furthermore, secondary socioeconomic factors that are significant include neighborhood/personal safety as well as the quality of the schools; accordingly, these are now discussed.

1. Crime Levels and Safety

To gauge the safety of the CFD No. 2008-1 IA-1 Market Area, information on crime levels was obtained utilizing the most recent data available from the Federal Bureau of Investigation (FBI) Index which covers 2015, with a focus on “Violent Crimes”.

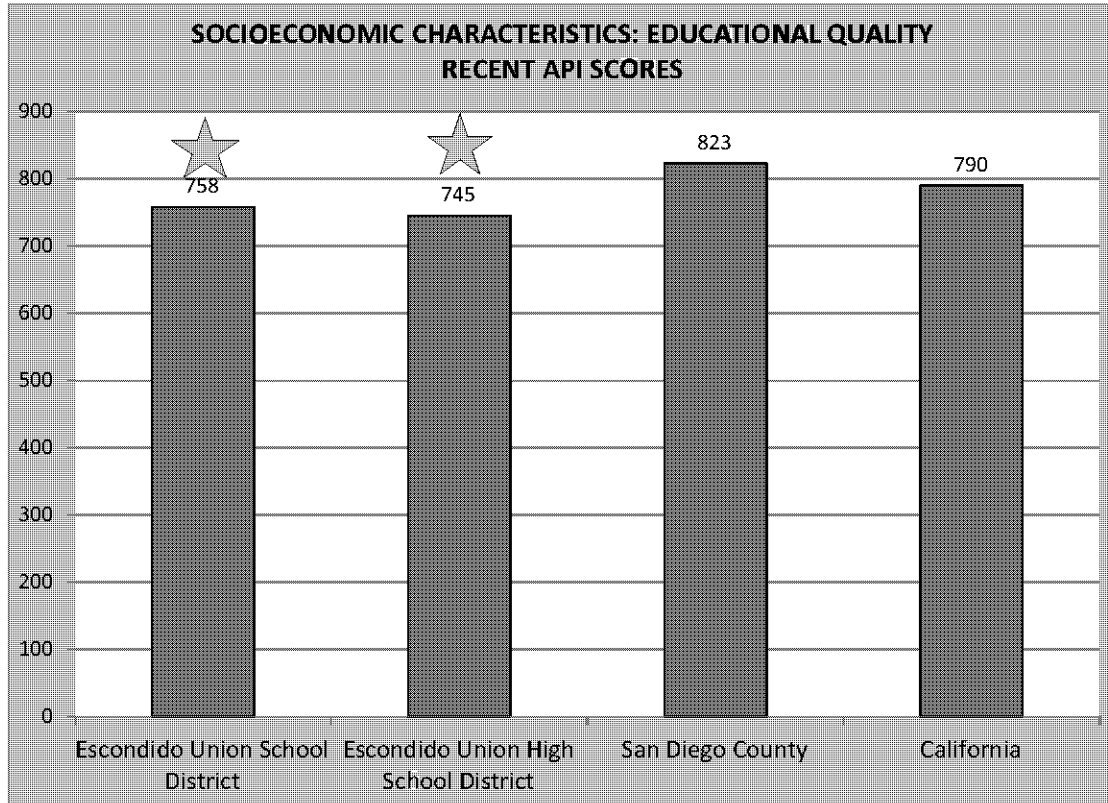
- **California – Statewide:** The violent crime rate is 4.28 per 1,000 people per year.
- **County of San Diego:** The violent crime rate is significantly lower at 3.35 per 1,000 people per year.



The County of San Diego has a relatively low violent crime rate as compared to California. The nearby cities of San Marcos and Poway have lower levels of violent crime rates than the County, but Escondido has a higher crime rate than the County.

2. Quality of Schools and Education

To gauge the quality of schools in the CFD No. 2008-1 IA-1 Market Area and its vicinity, information was compiled on educational achievement, utilizing the Academic Performance Index Scores (API), published by the California Department of Education, reflecting the most recent report available.



Accordingly, Escondido Union School District and Escondido Union High School District both have API scores that are somewhat lower than California and San Diego County.

On the California School Dashboard, Escondido Union High received a Green rating on graduation rate performance level (2nd highest level out of five).

Conclusions

From a socioeconomic perspective, the cities closest to Harmony Grove have a similar or lower crime rates than San Diego County and California. The relevant school districts have a somewhat lower API scores as compared to San Diego County and California. But the high school district has an above average graduation rates as compared to San Diego County and California. Overall, the CFD has favorable socioeconomic factors which will support the demand for its housing products.

E. MARKET ANALYSIS OF THE PROJECTS IN THE CFD NO. 2008-1 IA-1 COMPETITIVE HOUSING MARKET AREA

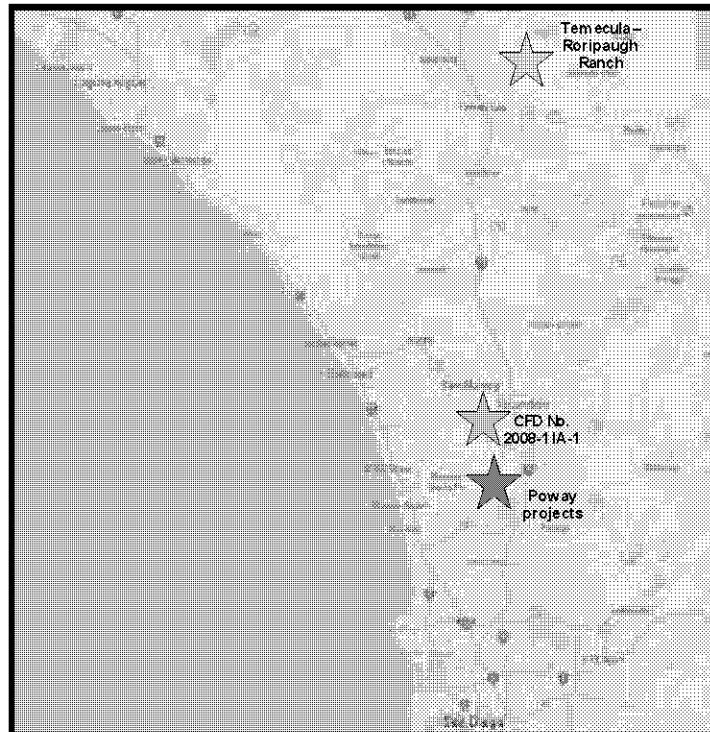
The purpose of this section is to provide an overview of the currently active comparable projects in the Competitive Housing Market Area, and then to compare their characteristics to the active/forthcoming projects in CFD No. 2008-1 IA-1.

- Harmony Grove Village: Currently Active Projects
 - ✓ Lusitano
 - ✓ Canteridge
 - ✓ Seabreeze

(Note: Andalucia - Model Complex in IA-1 but Housing Sales Currently in IA-2)

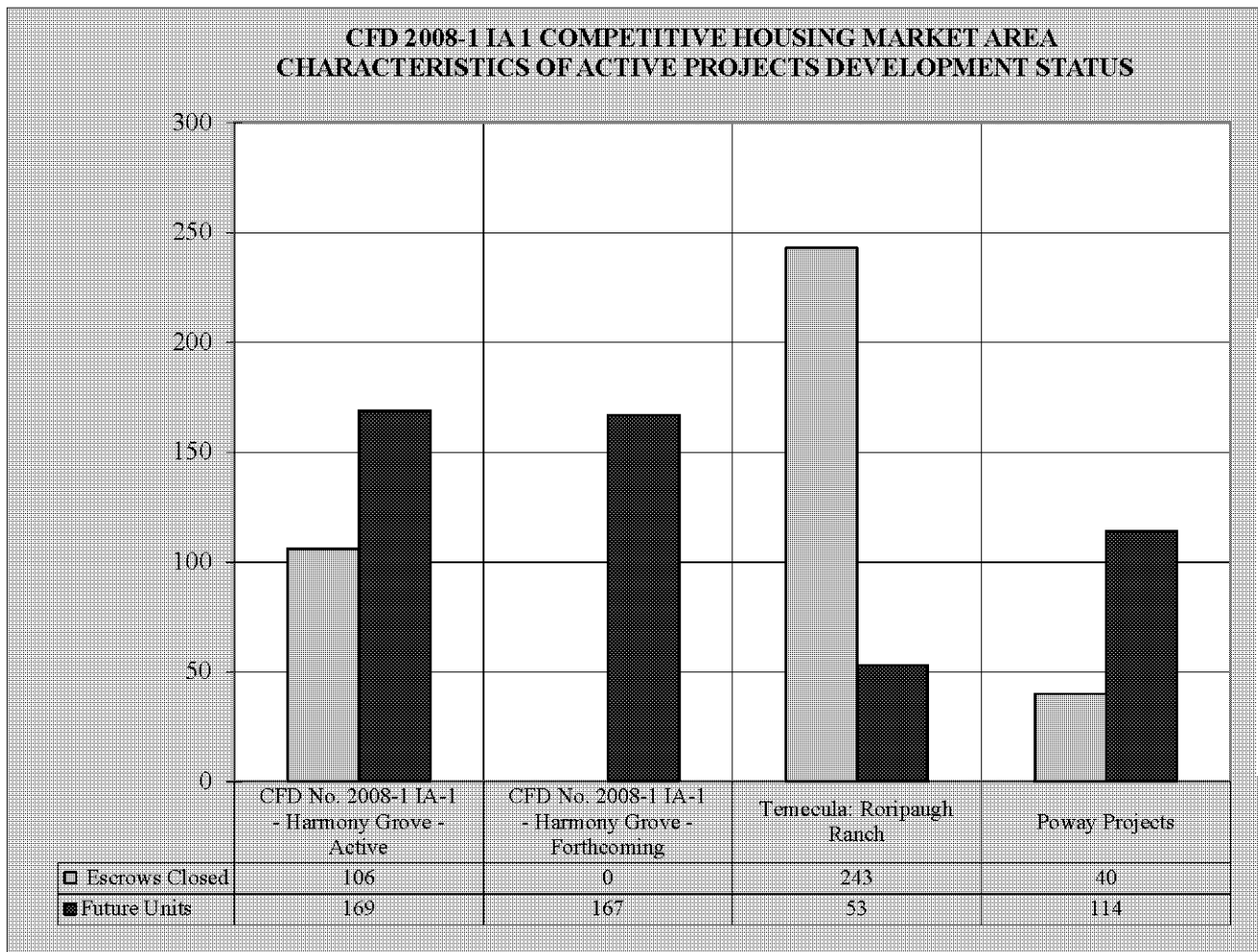
- Roripaugh Ranch in Temecula; three single-family detached projects:
 - ✓ The Pinnacle
 - ✓ Montego
 - ✓ Cambridge
- Projects in the City of Poway; two single-family detached projects:
 - ✓ Avery Point at Veridian
 - ✓ Sur 33 at Del Sur

COMPETITIVE HOUSING MARKET AREA: RELEVANT CITIES APPROXIMATE LOCATIONS



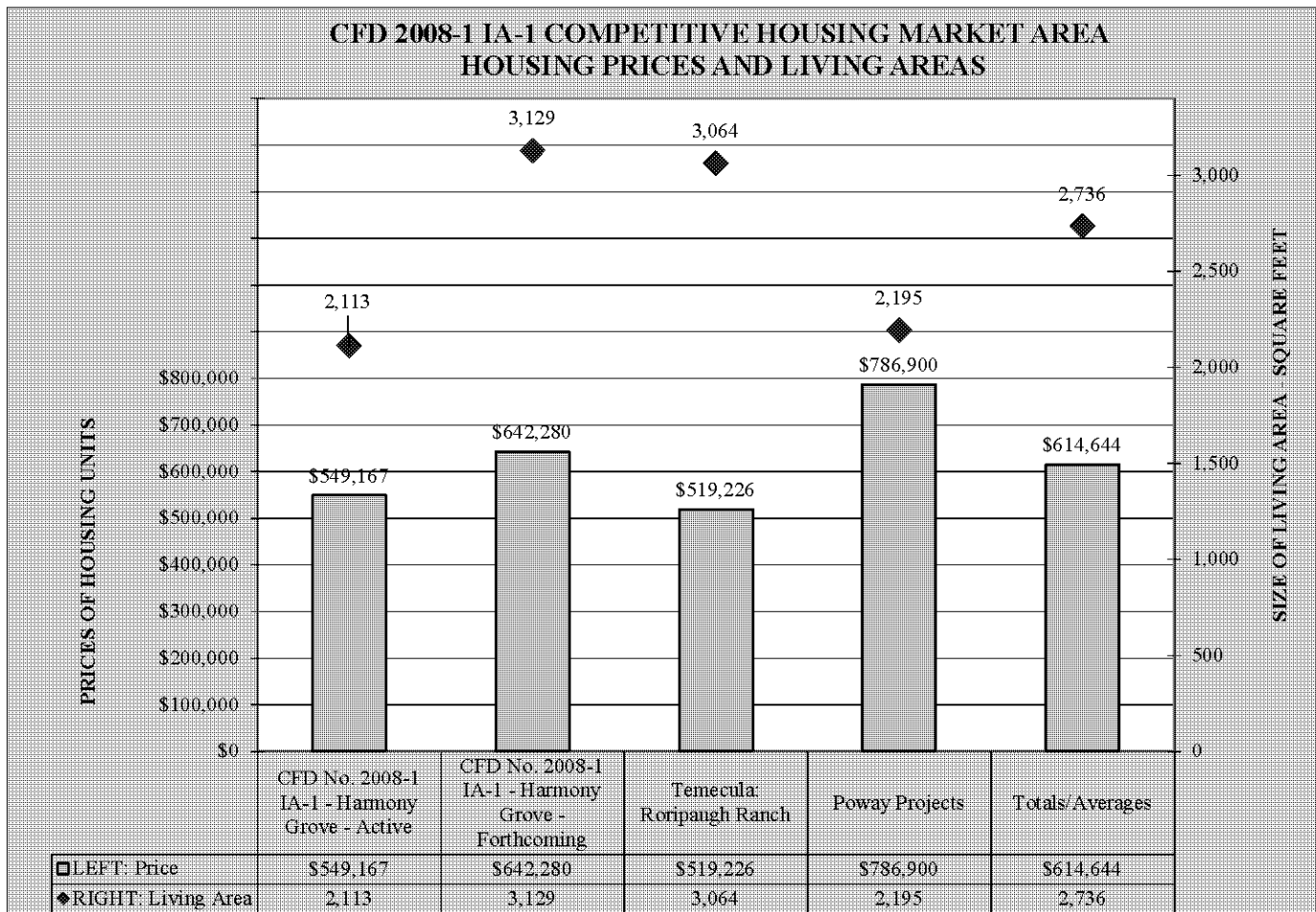
These 13 projects (10 active and 5 forthcoming) have entitlements for 894 homes; their marketing status is as follows:

- CFD No. 2008-1 IA-1 has 8 projects, three active selling homes IA-1 and another 5 forthcoming, with a total of 442 planned homes; of these, 106 have closed escrow.
- Roripaugh Ranch in Temecula 3 projects with 296 planned homes; of these, 243 have closed escrow.
- Poway has 2 projects with 154 planned homes; of these, 40 have closed escrow.



The prices of homes in these projects, including the currently active comparable projects and also the active/forthcoming projects in CFD No. 2008-1 IA-1, are some \$614,664 for some 2,734 sq.ft., on the average:

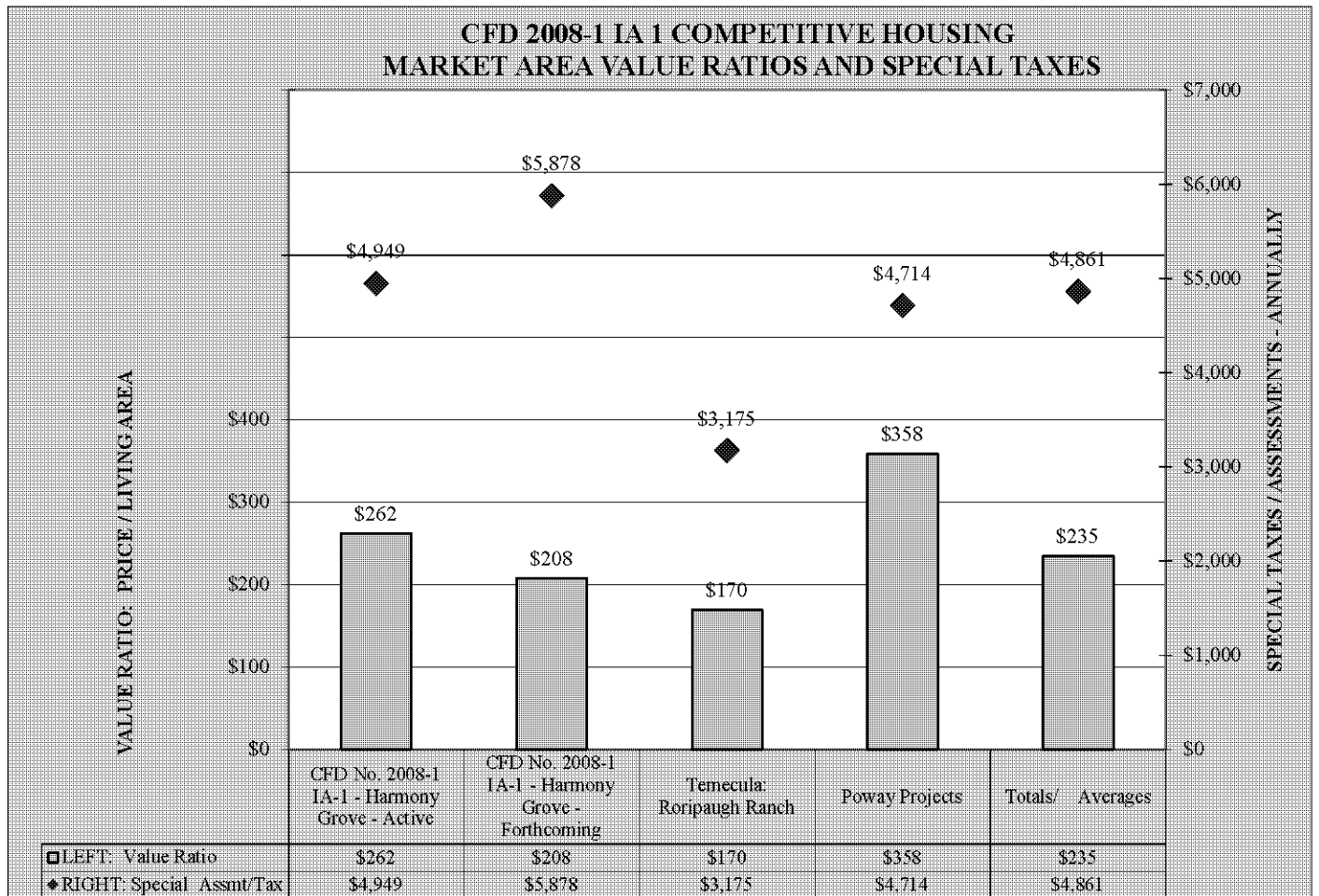
- CFD No. 2008-1 IA-1 Active: \$549,167 for some 2,113 sq.ft. of living area
- CFD No. 2008-1 IA-1 Forthcoming: \$642,280 for some 3,129 sq.ft. of living area; these are larger and higher priced than the CFD No. 2008-1 IA-1 active projects
- Temecula – Roripaugh Ranch: \$519,226 for some 3,064 sq.ft. of living area; these are larger but lower priced.
- Poway Projects: \$786,900 for some 2,195 sq.ft. of living area; these have similar sizes but much higher priced.



To compare the prices of the homes in these projects, their value ratios are utilized, the price per sq. ft. of living area, since this effectively makes adjustments for differences in their sizes of living areas. The value ratios for all of the projects amount to \$235 per sq. ft. of living area.

Their Special Taxes/Assessments amount to some \$4,861/yr. or 0.79% as a ratio to the housing prices.

- CFD No. 2008-1 IA - Active projects have a value ratio of \$262. The expected Special Taxes amount to \$4,949 per year. (0.90%).
- CFD No. 2008-1 IA – Forthcoming projects have a value ratio of \$208. The expected Special Taxes amount to \$5,878 per year. (0.91%).
- Temecula – Roripaugh Ranch has a value ratio of \$170 and their Special Taxes/Assessments amount to \$3,175/yr. (0.61%).
- Poway Projects have a value ratio of \$358 and their Special Taxes/Assessments amount to \$4,714/yr. (0.60%).

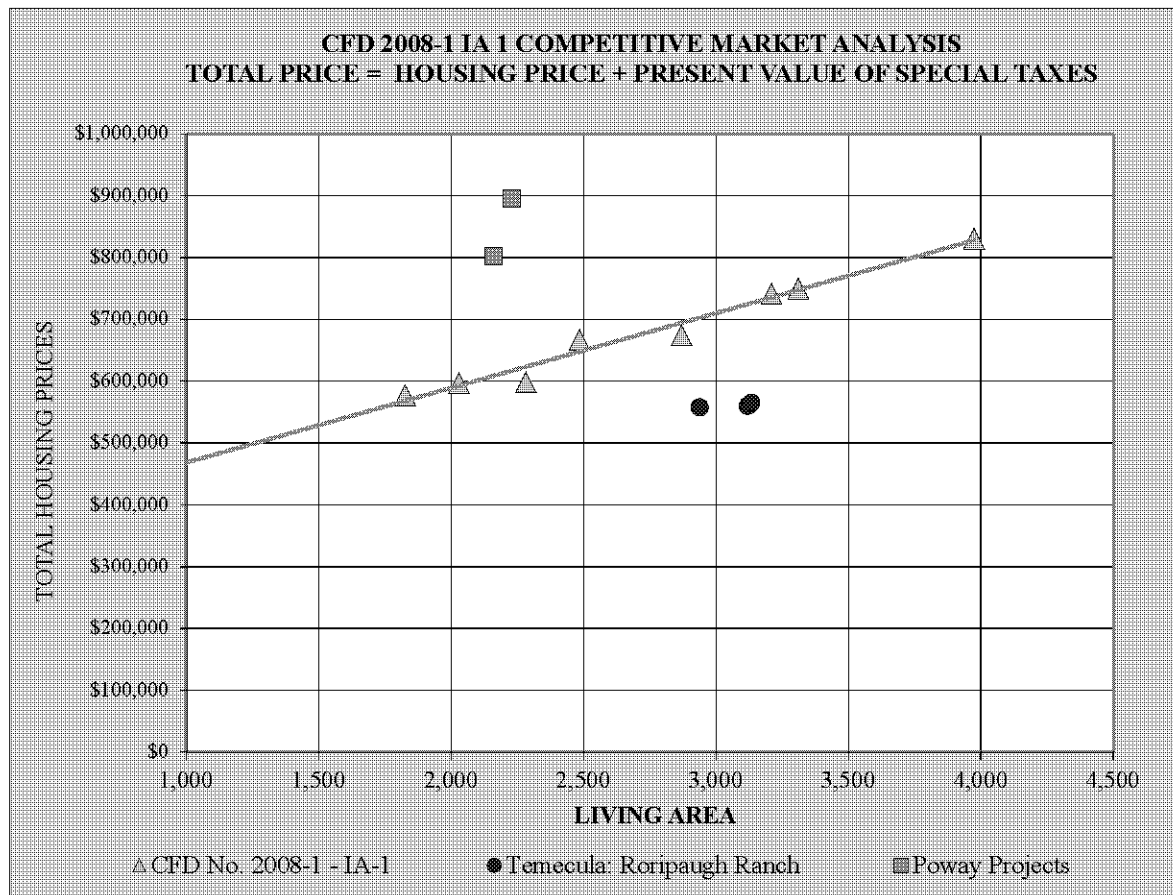


Competitive Market Analysis

The Competitive Market Analysis involves a statistical comparison of the currently active project in CFD No. 2008-1 IA-1, using their total housing prices (base price less incentives plus special tax liens) and their sizes of living area.

Comparable Projects: The projects to the south in Poway that are closer to the central San Diego employment center have higher prices and lower square footages. Conversely, the projects to the north in Temecula have lower prices than the CFD No. 2008-1 IA-1 reflecting their more distant location from the central San Diego employment center. These are shown by blue circles for the Temecula projects and orange squares for the Poway projects.

CFD No. 2008-1 IA-1 Projects: These eight active/forthcoming projects are represented by green triangles. These green triangles are between the Poway and Temecula project price points, so the prices/special taxes for the currently active projects in CFD No. 2008-1 IA-1 are regarded as being competitive in the marketplace.



**CHARACTERISTICS OF THE ACTIVE/FORTHCOMING PROJECTS IN CFD NO. 2008-1 IA-1
AND OTHER COMPARABLE PROJECTS IN THE COMPETITIVE MARKET AREA**

Project Locations	Project	Builder	Product Type	Project Size and Sales				Housing Prices.			Incentives	Size of Living Area			Value	Special Assessments/Taxes	
				Total	Escrows	Future	Escrow	Lower	Average	Upper	Builder Only	Lower	Average	Upper	Ratio	Amount/	Ratio/
					Estimated Closed; June 5, 2017	June 5, 2017 +	Closing Rate/Yr.										Year
CFD No. 2008-1 IA-1 - Harmony Grove - Active	Lustano	CalAtlantic Homes	Detached	97	39	58	34	\$502,000	\$516,500	\$531,000	\$0	1,651	1,826	2,000	\$283	\$4,664	0.90%
CFD No. 2008-1 IA-1 - Harmony Grove - Active	Canteridge	CalAtlantic Homes	Detached	71	45	26	30	\$528,000	\$534,500	\$541,000	\$0	1,922	2,029	2,136	\$263	\$4,800	0.90%
CFD No. 2008-1 IA-1 - Harmony Grove - Active	Seabreeze	CalAtlantic Homes	Detached	109	24	85	31	\$573,000	\$596,500	\$620,000	\$0	2,185	2,484	2,783	\$240	\$5,382	0.90%
CFD No. 2008-1 IA-1 - Harmony Grove - Forthcoming	Andalucia	CalAtlantic Homes	Detached	49	0	49	N/A	\$643,900	\$667,900	\$691,900	\$0	2,980	3,310	3,640	\$202	\$6,250	0.94%
CFD No. 2008-1 IA-1 - Harmony Grove - Forthcoming	Whittingham	CalAtlantic Homes	Detached	27	0	27	N/A	\$720,000	\$742,500	\$765,000	\$0	3,750	3,975	4,200	\$187	\$6,755	0.91%
CFD No. 2008-1 IA-1 - Harmony Grove - Forthcoming	Village Court	CalAtlantic Homes	Detached	40	0	40	N/A	\$577,500	\$602,500	\$627,500	\$0	2,682	2,869	3,055	\$210	\$5,481	0.91%
CFD No. 2008-1 IA-1 - Harmony Grove - Forthcoming	Martingale	CalAtlantic Homes	Detached	27	0	27	N/A	\$525,000	\$535,000	\$545,000	\$0	2,204	2,282	2,359	\$234	\$4,867	0.91%
CFD No. 2008-1 IA-1 - Harmony Grove - Forthcoming	Hillside Compound	CalAtlantic Homes	Detached	24	0	24	N/A	\$635,000	\$663,500	\$692,000	\$0	2,953	3,209	3,465	\$207	\$6,036	0.91%
Temecula: Roripaugh Ranch	The Pinnacle	KB Home	Detached	97	65	32	47	\$441,990	\$517,490	\$592,990	\$0	2,060	3,120	4,180	\$166	\$3,244	0.63%
Temecula: Roripaugh Ranch	Montego	CalAtlantic Homes	Detached	99	89	10	27	\$441,900	\$516,900	\$591,900	\$0	2,399	2,939	3,479	\$176	\$3,100	0.60%
Temecula: Roripaugh Ranch	Cambridge	CalAtlantic Homes	Detached	100	89	11	27	\$510,928	\$523,288	\$535,648	\$0	3,059	3,133	3,207	\$167	\$3,181	0.61%
Poway Projects	Avery Point at Veridian	CalAtlantic Homes	Attached	58	40	18	45	\$705,900	\$746,400	\$786,900	\$0	1,765	2,160	2,554	\$346	\$4,226	0.57%
Poway Projects	Sur 33 at Del Sur	CalAtlantic Homes	Detached	96	0	96	60	\$807,900	\$827,400	\$846,900	\$0	2,021	2,230	2,438	\$371	\$5,200	0.63%
Statistical Summary																	
		Sales/Project - Annually															
CFD No. 2008-1 IA-1 - Harmony Grove - Active		32	3	277	108	169	95	\$534,333	\$549,167	\$564,000	\$0	1,919	2,113	2,306	\$262	\$4,949	0.90%
CFD No. 2008-1 IA-1 - Harmony Grove - Forthcoming		N/A	5	167	0	167	0	\$620,280	\$642,280	\$664,280	\$0	2,914	3,129	3,344	\$208	\$5,878	0.91%
Temecula: Roripaugh Ranch		34	3	296	243	53	101	\$464,939	\$519,226	\$573,513	\$0	2,506	3,064	3,622	\$170	\$3,175	0.61%
Poway Projects		53	2	154	40	114	105	\$756,900	\$786,900	\$816,900	\$0	1,893	2,195	2,496	\$358	\$4,714	0.60%
Totals/Averages			13	894	391	503	301	\$585,617	\$614,644	\$643,672	\$0	2,433	2,736	3,038	\$235	\$4,861	0.79%

SECTION IV: ESTIMATED ABSORPTION SCHEDULES FOR THE PROJECTS IN CFD NO. 2008-1 IA-1

The purpose of this section is to estimate the absorption schedules for each of the eight residential projects in CFD No. 2008-1 IA-1; accordingly, this is based upon a consideration of the macroeconomic and microeconomic factors discussed above along with the characteristics of the projects in CFD No. 2008-1 IA-1.

Potential Demand for Homes:

The demand for the projects/homes in CFD No. 2008-1 IA-1 will come from the following sources:

- San Diego County is expected to continue to have favorable employment growth during the foreseeable future; additionally, the City of Escondido has also established a secondary economic base as well; these are favorable since employment growth is the primary factor driving the demand for new homes.
- Based upon a market analysis of the competing projects, including their locations, prices, living areas and special taxes, the currently active projects in CFD No. 2008-1 IA-1 regarded as being competitive in the marketplace
- Some households employed in the central portion of San Diego seek moderately priced single-family housing in the northern portion of the county; the projects in CFD No. 2008-1 IA-1 are competitively priced to capture a portion of this demand.

Actual/Expected Market-Entry of Projects

- With regards to the market entry of the projects, four entered the marketplace in May 2015; however, one of these, Andalusia, is currently selling homes in IA-2. Consequently, as a safeguard, Empire assumes that all of the homes that Andalusia has in IA-2 are marketed prior to the absorption of the homes in Andalusia in IA 1.
- For the remaining four projects, their market entry times are expected to be as follows: one in Fall 2017, another in Spring 2018 and the final two during 2019.

Timing of Infrastructure and Construction of Homes by CalAtlantic Homes

- The developer/builder, CalAtlantic Homes, provided Empire Economics with their anticipated development schedule, with regards to the timing of pulling building permits for the construction of the homes.
- Accordingly, Empire considered CalAtlantic's development/construction schedule in arriving at its estimated absorption schedules for each of the projects, to ensure that forecasted absorption (escrow closings) did not exceed the supply of available homes.

Estimated Absorption Schedules: All Projects

Therefore, based upon an analysis of the economic and real estate conditions in the CFD Market Area along with the characteristics of the residential projects in CFD No. 2008-1 IA-1 as well as CalAtlantic Homes' phasing schedule, the estimated absorption schedules are as follows:

As of June 5, 2017:	106 escrows closed
June 5 – Dec. 31, 2017:	estimated 80 escrows closed, based upon homes sold but not yet closed
January-December 2018:	88 more escrow closings
January-December 2019:	60 escrow closings, as projects start to close out
January-December 2020:	52 escrow closings
January-December 2021:	45 escrow closings
January-December 2022:	the final 11 escrow closings, as all of the projects are closed-out

Estimated Absorption Schedules for CFD No. 2008-1 IA-1, Starting June 5, 2017: Each Project

Lusitano:	39 Escrows Closed; remaining 58 homes by early 2019
Canteridge:	43 Escrows Closed; remaining 26 homes by Dec. 2018
Seabreeze:	24 Escrows Closed; remaining 85 homes by mid-2019
Andalucia:	0 Escrows Closed; Absorption of 49 homes during 2020-2021 (Note: Absorption commences after all of the homes in IA-B are closed-out)
Whittingham:	0 Escrows Closed; Absorption of 27 homes during 2018-2020
Village Court:	0 Escrows Closed; Absorption of 40 homes during 2018-2019
Martingale:	0 Escrows Closed; Absorption of 27 homes during 2020-2022
Hillside Compound:	0 Escrows Closed; Absorption of 24 homes during 2020-2022

For additional information on the estimated absorption schedules for the residential products in the CFD No. 2008-1 IA-1, please refer to the following table and graphs.

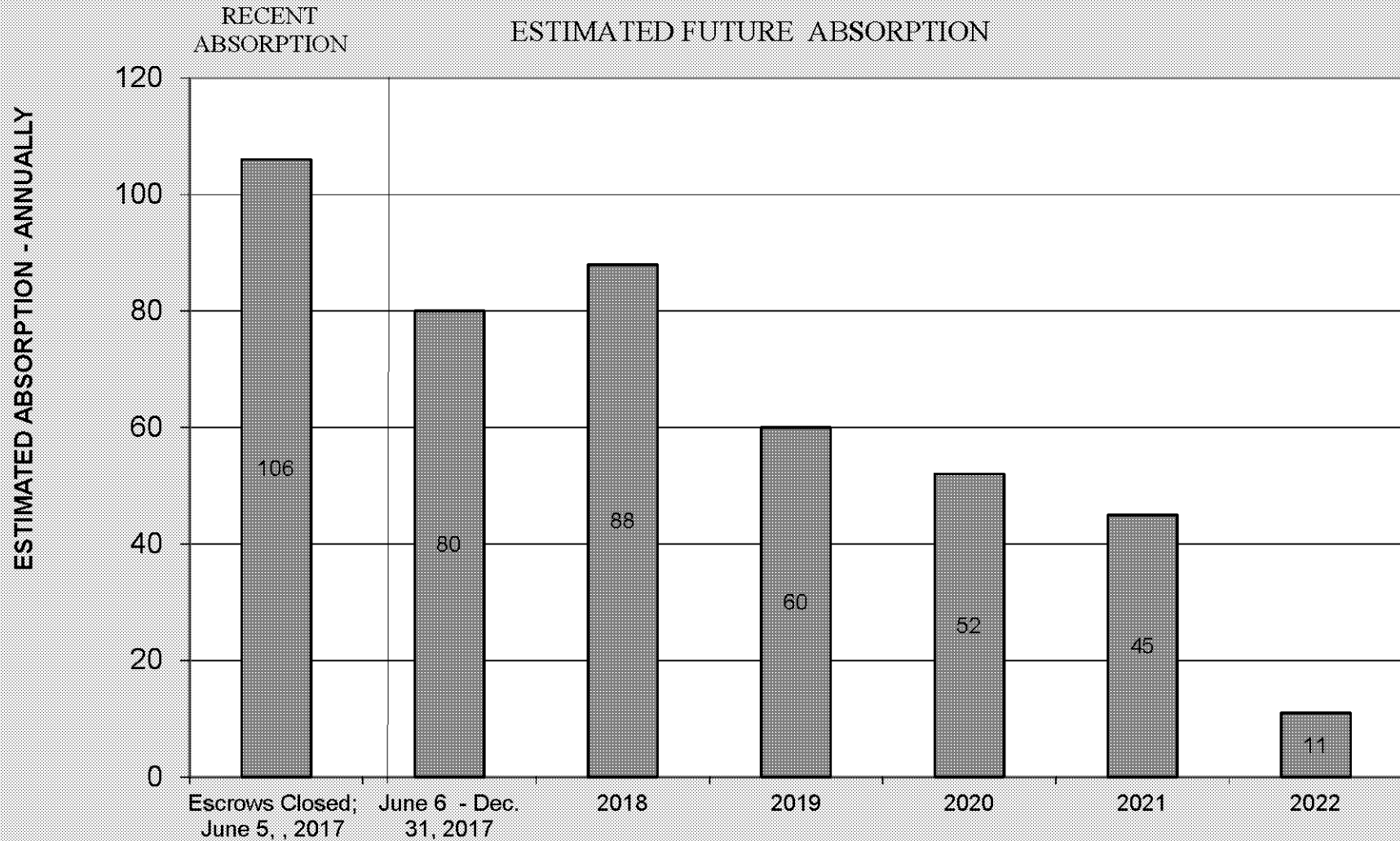
Potential Risk Factors

With respect to potential macroeconomic-financial risk factors, the primary driver of the housing market is employment growth, and the prospects for continued growth appear to be favorable. With regards to the potential impacts of higher mortgage rates, gradual increases over time do not have a significant adverse impact. Empire has analyzed the role of mortgage rates during 2007 to 2015, and this appears in the following section.

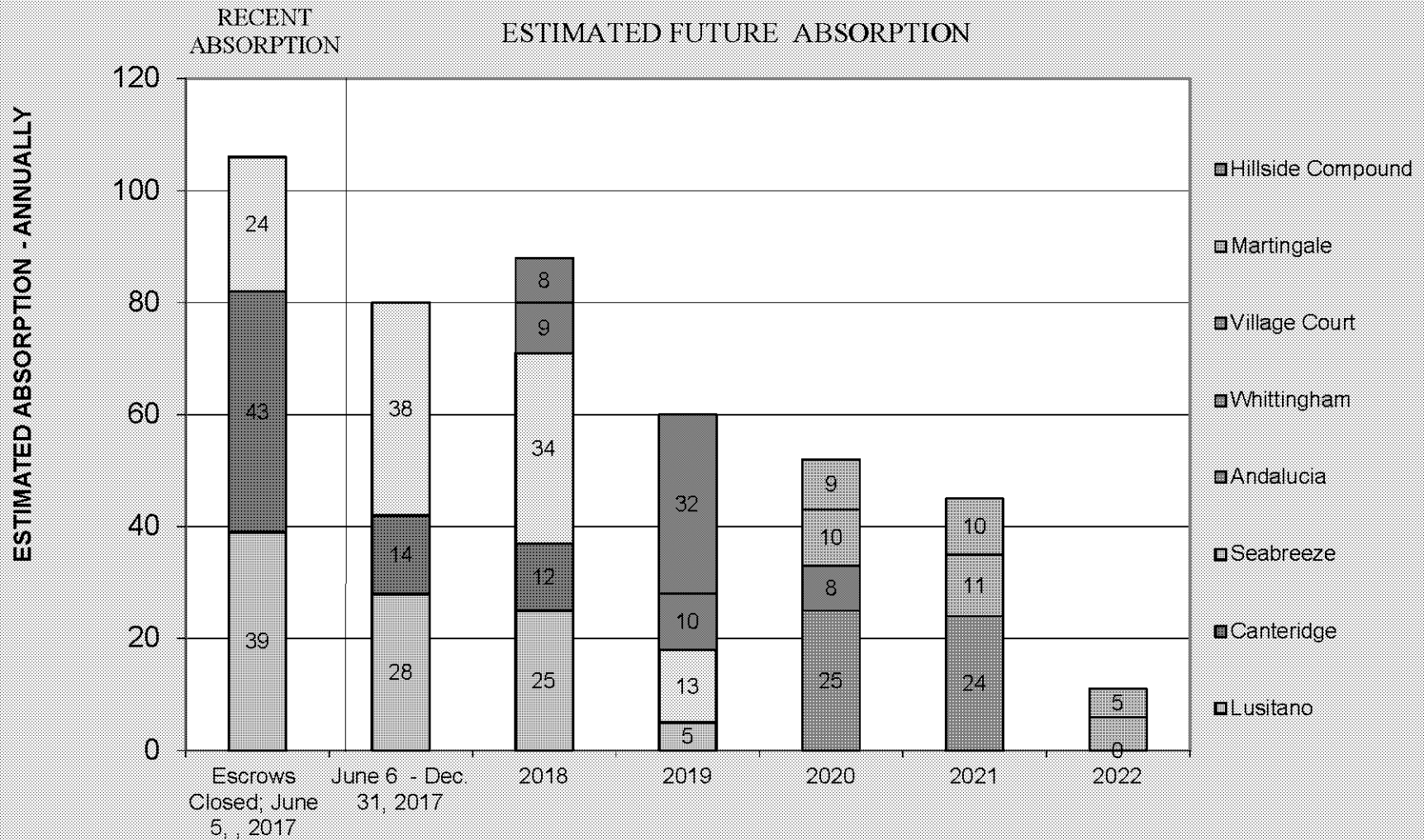
CFD NO. 2008-1 IA-1: ESTIMATED ABSORPTION SCHEDULES

Projects >	Lustano	Canteridge	Seabreeze	Andalucia	Whittingham	Village Court	Martingale	Hillside Compound	Overall	
									Totals	Averages
Product Type	Detached	Detached	Detached	Detached	Detached	Detached	Detached	Detached		
Builder	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes	CalAtlantic Homes		
Market Entry	May 2015	May 2015	May 2015	May 2015	Fall 2017	Spring 2018	2019	2019		
Housing Units										
Totals - IA-1 and IA-2	97	69	109	129	120	64	27	56	671	
Share - IA-1 and IA-2	14.5%	10.3%	16.2%	19.2%	17.9%	9.5%	4.0%	8.3%	100.0%	
Totals - IA-1 Only	97	69	109	49	27	40	27	24	442	
Share - IA-1 Only	21.9%	15.6%	24.7%	11.1%	6.1%	9.0%	6.1%	5.4%	100%	
Development and Marketing Status for IA-1										
Escrows Closed, June 5, 2017	39	43	24	0	0	0	0	0	106	16%
Future Occupancies	58	26	85	49	27	40	27	24	336	50%
Additional Units Sold, June 5, 2017	28	14	38	0	0	0	0	0	80	12%
Number of Homes by Plan - Estimated for IA-1										
Totals	97	69	109	49	27	40	27	24	442	
Living Areas for IA-1										
Averages	1,833	2,093	2,488	3,084	3,967	2,884	2,256	3,246		2,502
Current Base Prices for IA-1										
Averages	\$515,948	\$538,652	\$592,670	\$653,022	\$737,778	\$602,500	\$531,667	\$672,000		\$584,426
Value Ratios	\$281	\$257	\$238	\$212	\$186	\$209	\$236	\$207		\$234
Empire's Estimated Absorption Schedules for IA-1 (Escrow Closings)										
					----- Escrow Closings -----					----- Empire Closings -----
As of June 5, 2017	39	43	24	0	0	0	0	0	106	106
June 6 - Dec. 31, 2017	28	14	38	0	0	0	0	0	80	186
2018	25	12	34	0	9	8	0	0	88	274
2019	5	0	13	0	10	32	0	0	60	334
2020	0	0	0	25	8	0	10	9	52	386
2021	0	0	0	24	0	0	11	10	45	431
2022	0	0	0	0	0	0	6	5	11	442

CFD 2008-1 IMPROVEMENT AREA NO. 1: ESCROW CLOSINGS AND ESTIMATED ABSORPTION SCHEDULES



CFD 2008-1 IMPROVEMENT AREA NO. 1: ESCROW CLOSINGS AND ESTIMATED ABSORPTION SCHEDULES



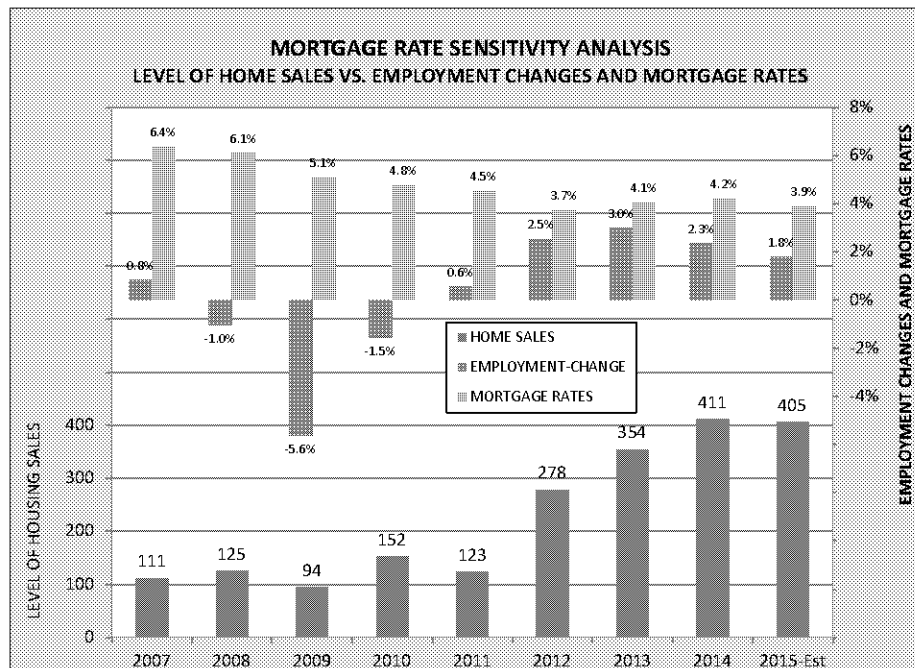
SECTION V: SENSITIVITY ANALYSIS: EMPLOYMENT CHANGES AND MORTGAGE RATES

The purpose of this section is to perform an analysis of the impacts that employment changes and levels of mortgage rates had on sales for homes. To analyze this, the Planned Community of The Villages of Valencia in the Santa Clarita area is utilized, since this has a significant amount of data on market conditions during the 2007-2015 time period.

- Sales of homes for the projects in The Villages of Valencia were relatively low during 2007 to 2011, but then increased dramatically during 2012 through 2015.
- Employment changes were negative/minimal during 2007 to 2011, ranging from -5.6% to +0.8%. But then starting in 2012 and continuing thereafter, employment rose by 1.8% to 3.0% per year.
- Mortgage rates started at a level of 6.4% in 2007 and declined to 4.5% in 2011, a decrease of -1.9%. By comparison, from 2011 to 2015, mortgage rates declined from 4.5% to 3.9%, a change of only -0.6%.

Therefore, the increases in home sales during 2012 and 2015 was driven primarily by strong employment growth; additionally, mortgage rates were favorable as well, resulting in lower monthly payment levels.

Conversely, during 2007 to 2011, when mortgage rates declined to low levels but employment was decreasing, housing sales did not rise substantially, and so mortgage rates are regarded as a secondary factor. Please refer to the graph below for the supporting empirical data.



This relationship has parallels to what occurred in San Diego County during 1988 and 1989: housing prices rose by about 20% per year, despite mortgage rate levels of some 10.5% because employment was increasing at a strong rate of more than 5% per year.

SECTION VI: ASSUMPTIONS AND LIMITING CONDITIONS

The Market Absorption Study for CFD No. 2008-1 IA-1 is based upon various assumptions and limiting conditions; accordingly, these are as follows:

Title to Property

No opinion as to title is rendered. Data related to ownership and legal description, obtained from governmental records related to the formation of the District that forms the basis for identifying the boundaries of CFD No. 2008-1 IA-1 are considered reliable. Title is assumed to be marketable and free and clear of all liens, encumbrances, easements and restrictions except those specifically discussed in the report. The property is evaluated assuming to be under responsible ownership and competent management and available for development to highest and best use.

Property Boundaries

No survey or engineering analysis of CFD No. 2008-1 IA-1 property has been made by the market analyst; the District Engineer's report utilized for the Bond is deemed to be reliable. The market analyst assumes the existing boundaries to be correct, that no encroachments exist and assumes no responsibility for any condition not readily observable from customary investigation and inspection of the premises, which might affect the valuation, excepting those items which were specifically mentioned in the report.

Accuracy of Information from Others

In preparing this report, the market analyst was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either expressed or implied, is given by the market analyst for the accuracy of such information and the market analyst assumes no responsibility for information relied upon and later found to have been inaccurate. The market analyst reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Date of Study

The date to which the conclusions and opinions expressed in this report apply as set forth in the study. Furthermore, the dollar amount of any price/value opinion rendered was based upon the purchasing power of the American dollar existing on that date.

Hidden or Unapparent Conditions

The market analyst assumes no responsibility for hidden or unapparent conditions of the property, subsoil, groundwater or structures that render the subject property more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

Opinions of a Legal/Specialized Nature

No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by the market analyst.

Right of Publication of Report

Possession of this report, or a copy of it, does not carry with it the right of publication except for the party to whom it is addressed. Without the written consent of the market analyst, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose.

Soil and Geological Studies

No detailed soil studies or geological studies or reports were made available to the market analyst. Assumptions employed in this report regarding soils and geologic qualities of the subject property have been provided to the client. However, such assumptions are not conclusive and the market analyst assumes no responsibility for soils or geologic conditions discovered to be different from the conditions assumed unless otherwise stated in this report.

Earthquakes and Seismic Hazards

The property which is the subject of this market analysis is within a geographic area prone to earthquakes and seismic disturbances. Except as specifically indicated in the report, no seismic or geologic studies have been provided to the market analyst concerning the geologic and/or seismic condition of the subject property. The market analyst assumes no responsibility for the possible effect on the subject property of seismic activity and/or earthquakes.

Testimony or Court Attendance

Testimony or attendance in court or at any other hearing is not required by reason of rendering this market analysis, unless such arrangements are made a reasonable time in advance of said hearing. Separate arrangements would need to be made concerning compensation for the market analyst's time to prepare for and attend any such hearing.

Maps and Exhibits

Maps, plat and exhibits included in this report 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 the report.

Environmental and Other Regulations

The property is evaluated assuming it to be in full compliance with all applicable federal, state and local environmental regulations and laws, unless otherwise stated.

Required Permits and Other Governmental Authority

Unless otherwise stated, the property evaluated is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization that have been or can be obtained or renewed for any use on which the evaluation analysis contained in this report is based upon.

Liability of Market Analyst

The liability of Empire Economics, the market analyst responsible for this report, is limited to the client only and to the fee actually received by the market analyst. Further, there is no accountability, obligation or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussion. The market analyst is in no way to be responsible for any costs incurred to discover or correct any deficiencies or any type present in the property--physical, financial, and/or legal.

Presence and Impact of Hazardous Material

Unless otherwise stated in the report, the market analyst did not become aware of the presence of any hazardous material or substance during the market analyst's general inspection of the subject property. However, the market analyst is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the evaluation of the subject property. The evaluation in this report is predicated on the assumption that no such material or substance is present on or in the subject property or in such proximity thereto that it would cause a change in the evaluation analysis. The market analyst assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes that subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Structural Deficiencies of Improvements

The market analyst has not performed a thorough inspection of the subject property, and except as noted in this report has not found obvious evidence of structural deficiencies in any improvements located on the subject property. Consequently, the market analyst assumes no responsibility for hidden defects or nonconformity with specific governmental requirements, such as fire, building and safety, earthquake or occupancy codes, unless inspections by qualified independent professions or governmental agencies were provided to the market analyst. Further, the market analyst is not a licensed engineer or architect and assumes no responsibility for structural deficiencies not apparent to the market analyst at the time of their inspection.

Presence of Asbestos

The market analyst is not aware of the existence of asbestos in any existing improvements on the subject property. However, the market analyst is not trained to discover the presence of asbestos and assumes no responsibility should asbestos be found in or at the subject property. For the purposes of this report, the market analyst assumes the subject property is free of asbestos and the subject property meets all federal, state and local laws regarding asbestos abatement.

Acreage of Property

The acreage has been abstracted from the documents relating to the District which is assumed to be accurate. If the Assessor's map or legal description is subsequently found to be in error, we reserve the right to amend the market analysis.

Designated Economic Scenario

The Market Absorption Study focuses upon the expected absorption schedules for the products in CFD No. 2008-1 IA-1 according to the designated economic scenario. Specifically, this scenario represents the economic and real estate conditions for the Market Region and also the Market Area during the foreseeable future according to the most probable conditions, and this is regarded as being appropriate for the Bond Financing. However, the economic and market conditions which actually materialize on a year by year basis may differ from those presented according to the designated economic scenario, as a result of exogenous factors which are difficult to forecast/quantify. Accordingly, the designated scenario should be utilized as an economic framework for evaluating the marketing prospects of the properties within CFD No. 2008-1 IA-1 rather than a "literal" representation of what is expected to occur on a year/year basis during the foreseeable future.

Provision of the Infrastructure; Role of Coordinator

The Market Absorption Study assumes that the governmental agencies that supply public facilities and services, including water, provide these in a timely manner so that the proposed projects/products in CFD No. 2008-1 IA-1 can respond to the expected market demand for their products. Otherwise, if the required infrastructure is not available in a timely manner, then the absorption of the projects/products could be adversely impacted.

Property Owner/Builder Responsiveness to Market Conditions

The Market Absorption Study assumes that the property owner/builder in CFD No. 2008-1 IA-1 respond to the market conditions with products that are competitively priced and have the features/amenities that are desired by the purchasers. This is an especially critical assumption since some of the homes in the projects/products in CFD No. 2008-1 IA-1 have yet entered the marketplace, and so the specific characteristics of their products cannot be identified until they actually offer products on the marketplace. Consequently, to the extent that future projects/products have prices/features that differ from the competitive market standards, then their absorption schedules would need to be modified from those presented according to the designated economic scenario.

Financial Strength of the Project Property owner/Builder

The Market Absorption Study assumes that Project property owner/builder in CFD No. 2008-1 IA-1 (and also their lenders) have sufficient financial strength to adequately fund their projects, including paying their Special Taxes/Assessments, and that they have sufficient financial reserves which could be utilized to supplement their cash flow positions, in the event that adverse economic or market conditions occur.

Market Absorption Study Timeliness of Results

The Market Absorption Study performs a comprehensive analysis of the relevant land-use, economic and residential market conditions that are expected to influence the marketing success of the projects/products in CFD No. 2008-1 IA-1. Nevertheless, the Study should be updated on a six-month basis, or even sooner, should these land-use and/or economic market conditions change significantly.

APPENDIX A: CREDENTIAL/QUALIFICATIONS OF EMPIRE ECONOMICS

Resume: Joseph T. Janczyk, Ph.D. President of Empire Economics

Education: University of California, Riverside, Ph.D. in Economics, Completed in 1976
Specializations in Urban Economics, Mathematical Modeling and Econometric Analysis

State University of New York at Buffalo, Bachelors, Completed in 1970
Dual Majors: Economics and Psychology

Prior Employment: California State University, Tenured Economics Professor: 1976-1985
Courses Taught: Microeconomics, Macroeconomics, Urban Economics,
Regional Economics, Computer Modeling, Econometrics, among others

Empire Economics: Chairman and President: 1986-Present

- Perform Independent Real Estate Consulting Services Primarily for Land Secured Financings
- Work for Public Entities including Counties, Cities, School Districts and Water Districts
- Long-term Relationships with Many Clients, including San Diego County, 25+ years
- Well Established Relationships with Numerous Professionals in the Municipal Finance Industry
- Performed 500+ Studies on behalf of Public Entities for \$15B+ in municipal financing
 - Land Secured Financings for Planned Communities, Business Parks and Retail Centers for 500+ CFDs/ADs for \$10B bonds
 - Price Point Studies – Establish Special Taxes that conform to public entities' policies
 - Market Absorption Studies - Provide timelines for phasing infrastructure
 - Homeowner Equity Studies and Forecasts of Assessed Values
 - Economic Forecasting Studies: Forecast Employment and Housing Demand
- Socioeconomic Studies Orange County Transportation Corridors: 2 studies \$2.75B bonds
 - Designated as Municipal Bond Issue of the Year for 1999
 - Rating Agency and Bond Insurer Presentations – Trips to New York City
- Mortgage Revenue Bond Issues: Lower Mortgage Rates 50+ studies for \$1.7B bonds
- Other Municipal Bond Issues: 35+ studies \$2B+ bonds; Certificates of Participation, others
- Forthcoming Bond Issues: 30+ studies for \$500M+ future bond sales

Industry Contributions – Regular Speaker/Panelist at Following Events:

- State Treasurer, Mr. John Chiang: Council of Economic Advisors: January 2015 – Present
 - Bi-annual meetings and published articles in the Treasurer's Newsletter, Intersections
- UCLA Municipal Bond Financing Seminars (10+ times, as Featured Speaker)
- Bond Buyer Conference
- League of Cities
- Municipal Bond Industry Association
- Best Practices for Continuing Disclosure
- Appraisal Standards for Land Secured Financing by CDIAC
- Meetings with Municipal Bond Funds

Dedicated to Public Sector: Certifications Provided in each Study:

- Empire has not performed any consulting services for the CFD/AD property owners nor the developers/builders, during the past thirty years.
- Empire will not perform any consulting services for the CFD/AD property owners nor the developers/builders, during the next five years.

CDIAC Recommended Qualifications for Market Absorption Consultants

The California Debt and Investment Advisory Commission (CDIAC), of which the State Treasurer serves as chair, published the Appraisal Standards for Land-Secured Financings (CDIAC Standards), with the input of municipal finance professionals. Many California issuers have recognized the CDIAC Standards as a basis for appraisals under the Mello-Roos Act, as well as providing standards for market absorption studies. Empire Economics surpasses the minimum recommended qualifications as proposed by CDIAC for market absorption studies, with respect to independence as well as qualifications and experience.

CDIAC Recommendations

Empire Economics

Independence

1. Avoid Conflicts of Interest: Knowing that developers and builders may influence the outcome of a market absorption study, market absorption analysts should describe their business relations with developers and builders during the past three years in the market absorption study.

1. Empire Economics conducts market absorption studies only for governmental entities, and this has provided numerous public entities with a high level of comfort. By comparison, other firms that provide services to developers/builders may encounter “conflicts of interest” in trying to represent both the private and public sectors.

2. Empire Economics, as part of the market absorption study, signs a Certification of Independence which includes the following:

* Empire Economics has not performed any consulting services for the District’s property owners nor the developers/builders during the past thirty years.

* Empire Economics will not perform any consulting services for the District’s property owners nor developers/builders during the next five years.

Qualifications and Experience

1. Educational Qualifications: The market absorption analysts should possess at least a Bachelor’s degree but preferably an advanced degree with courses in real estate and economics.

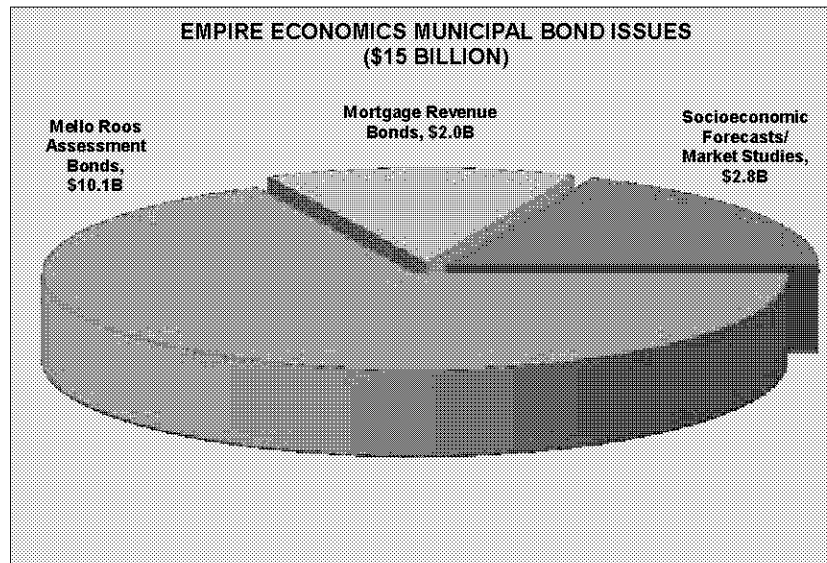
1. Dr. Janczyk received his Doctorate in Economics from the University of California. As a tenured Economics Professor at California State University, he taught courses in microeconomics, macroeconomics, regional economics, and computer modeling. Dr. Janczyk has been a featured speaker at numerous seminars including the California Debt Advisory Commission, Bond Buyer Conference, League of Cities, Municipal Bond Analysts, California Association of Realtors, and Moody’s Investor Services, among others.

2. Experience with Land-Secured Financings: The market absorption analysts should possess a minimum of five years of experience in performing market studies for land-secured financings. Additionally, they should be well versed in analyzing economic and real estate data that relates to the pricing and absorption of properties contained within a CFD and through this experience be capable of addressing issues unique to land-secured financing, including the use of Price Points in the Rate and Method of Apportionment.

2. During the past thirty years, Dr. Joseph T. Janczyk, president of Empire Economics, has prepared market absorption studies for more than five hundred land-secured Bond Issues, providing the comfort level required for numerous California counties, cities, school districts, water districts and other special districts to finance over \$15 billion worth of capital improvement projects.

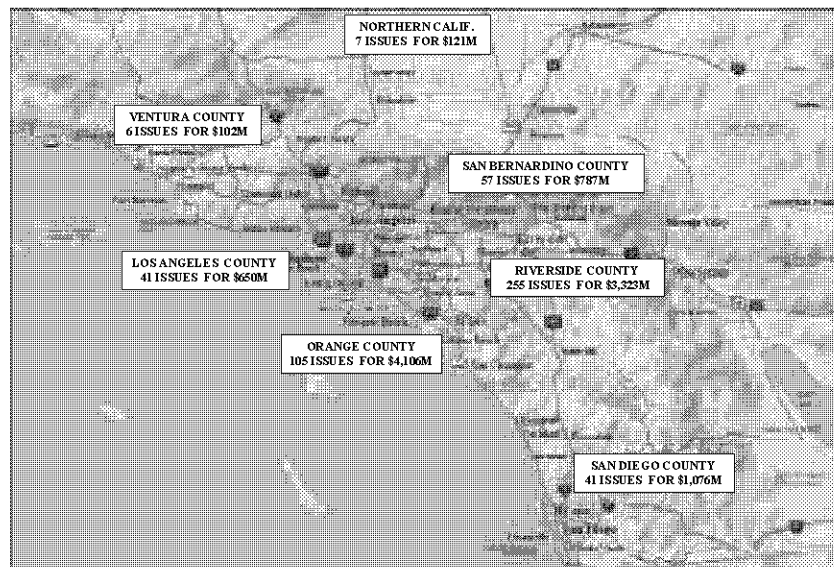
Empire Economics Bond Financing Experience

Empire Economics has competed more than \$15 billion of municipal bond financing during the past thirty years for public entities located throughout California:



Empire Economics has participated in numerous land secured financings throughout Southern California counties; the distribution of these by counties has been as follows:

EMPIRE ECONOMICS: LAND-SECURED FINANCINGS



Consequently, the Municipal Bond Funds and Rating Agencies are familiar with Empire Economics and also the Price Point and Market Absorption studies that it has conducted for Planned Communities, Business Parks and Retail Centers in Southern California. This is beneficial to the forthcoming Bond Issues since these Market Studies have enabled Empire Economics to establish a high degree of credibility with the municipal Bond Funds and Rating Agencies.

**APPENDIX E
RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX**

**Appendix E-1
Rate and Method of Apportionment of Special Tax as originally adopted**

**Appendix E-2
Restatement of Section D of Rate And Method of Apportionment for County of San Diego
Community Facilities District No. 2008-01 Improvement Area No. 1 (Harmony Grove Village)**

**Appendix E-3
Certificate To Amend Special Tax A**

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Appendix E-1
Rate and Method of Apportionment of Special Tax as originally adopted

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**RATE AND METHOD OF APPORTIONMENT FOR
COUNTY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT No. 2008-01
IMPROVEMENT AREA No. 1 (HARMONY GROVE VILLAGE)**

A Special Tax shall be levied on all Assessor's Parcels of Taxable Property in Improvement Area No. 1 of County of San Diego Community Facilities District No. 2008-01 (Harmony Grove Village) ("CFD No. 2008-01 (IA No. 1)") and collected each Fiscal Year commencing in Fiscal Year 2008-2009, in an amount determined through the application of this Rate and Method of Apportionment as described below. All of the real property in CFD No. 2008-01 (IA No. 1), unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acreage" means the land area in acres 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 in acres shown on the applicable final map, parcel map, condominium plan, or other map or plan recorded with the County. The square footage of an Assessor's Parcel is equal to the Acreage of such parcel multiplied by 43,560.

"Act" means the Mello-Roos Community Facilities Act of 1982, being Chapter 2.5, Part 1, Division 2 of Title 5 of the California Government Code.

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2008-01 (IA No. 1): the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the County or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the County, CFD No. 2008-01 (IA No. 1) or any designee thereof of complying with arbitrage rebate requirements; the costs to the County, CFD No. 2008-01 (IA No. 1) or any designee thereof of complying with disclosure requirements of the County, CFD No. 2008-01 (IA No. 1) or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the County, CFD No. 2008-01 (IA No. 1) or any designee thereof related to an appeal of the Special Tax; the costs of the County, CFD No. 2008-01 (IA No. 1) or any designee thereof related to the Special Tax Buydown in accordance with Section D.4 below; the costs associated with the release of funds from an escrow account; and the County's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the County or CFD No. 2008-01 (IA No. 1) for any other administrative purposes of CFD No. 2008-01 (IA No. 1), including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

"Assessor's Parcel" means a lot or parcel to which an Assessor's parcel number is assigned as determined from an Assessor Parcel Map or the applicable assessment roll.

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

"Authorized Facilities" means those facilities eligible to be funded by CFD No. 2008-01.

"Authorized Services" means those authorized services proposed to be financed by CFD No. 2008-01 pursuant to the Act including, but not limited to, fire protection services, ambulance and paramedic services, maintenance of parks, parkways, and open space, and flood and storm protection services.

"Board" means the Board of Supervisors of the County.

"Certificate of Occupancy" means a certificate issued by the County that authorizes the actual occupancy of a dwelling unit for habitation by one or more residents.

"CFD Administrator" means an official of the County, or designee thereof, responsible for determining the Special Tax Requirement for Facilities and the Special Tax Requirement for Services, and providing for the levy and collection of the Special Taxes.

"CFD No. 2008-01" means County of San Diego Community Facilities District No. 2008-01 (Harmony Grove Village).

"CFD No. 2008-01 (IA No. 1)" means Improvement Area No. 1 of CFD No. 2008-01 as identified on the boundary map for CFD No. 2008-01 and further set forth in the Resolution of Formation.

"CFD No. 2008-01 (IA No. 1) Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2008-01 and secured solely by the Special Tax A levy on property within the boundaries of CFD No. 2008-01 (IA No. 1) under the Act.

"Consumer Price Index" means, for each Fiscal Year, the Consumer Price Index published by the U.S. Bureau of Labor Statistics for "All Urban Consumers" in the Los Angeles - Anaheim - Riverside Area, measured as of the month of December in the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Consumer Price Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Consumer Price Index for the City of Los Angeles.

"County" means the County of San Diego.

"Developed Property" means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Public Property and Taxable Property Owner Association Property, for which a building permit for new construction was issued after January 1, 2008 and on or before May 1 of the Fiscal Year preceding the Fiscal Year for which the Special Taxes are being levied.

"Final Mapped Property" means, for each Fiscal Year, all Taxable Property, exclusive of Developed Property, Taxable Property Owner Association Property or Taxable Public Property, subject to Final Subdivision recorded as of January 1 of the Fiscal Year preceding the Fiscal Year for which the Special Taxes are being levied.

"Final Subdivision" means a subdivision of property by recordation of a final map, parcel map, or lot line adjustment, approved by the County 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, in either case, 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.

"Future Excluded Area" means the area geographically identified as such on the map and legal description attached hereto as Exhibit "A".

"Indenture" means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which CFD No. 2008-01 (IA No. 1) Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

"Intermediate Maximum Special Tax A" means the intermediate maximum Special Tax A, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor's Parcel of Final Mapped Property and Undeveloped Property.

"Land Use Class" means any of the classes listed in Table 1, Table 2 or Table 3 below.

"Maximum Special Tax" means the Maximum Special Tax A and/or Maximum Special Tax B, as applicable.

"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 of Taxable Property.

"Maximum Special Tax B" means the maximum Special Tax B, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor's Parcel of Taxable Property.

"Non-Residential Floor Area" means the total building square footage of the non-residential building(s) located on an Assessor's Parcel, measured from outside wall to outside wall, not including space devoted to stairwells, basement storage, required corridors, public restrooms, elevator shafts, light courts, vehicle parking and areas incident thereto, mechanical equipment incidental to the operation of such building, and covered public pedestrian circulation areas, including atriums, lobbies, plazas, patios, decks, arcades and similar areas, except such public circulation areas or portions thereof that are used solely for commercial purposes. The determination of Non-Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel and/or to the appropriate records kept by the Department of Planning and Land Use, as reasonably determined by the CFD Administrator.

"Non-Residential Property" means all Assessor's Parcels of Developed Property for which a building permit permitting the construction of one or more non-residential units or facilities has been issued by the County.

"Outstanding Bonds" means all CFD No. 2008-01 (IA No. 1) Bonds which are outstanding under an Indenture.

"Property Owner Association Property" means, for each Fiscal Year, (i) any property within the boundaries of CFD No. 2008-01 (IA No. 1) for which the owner of record, as determined from the County Assessor's secured tax roll for the Fiscal Year in which the Special Tax is being levied, is a property owner's association, including any master or sub-association, (ii) any property located in a Final Subdivision that was recorded as of the January 1 preceding the Fiscal Year in which the Special Tax is being levied and which, as determined from such Final Subdivision, is or will be open space, a common area recreation facility, or a private street, or (iii) any property which, as of the May 1 preceding the Fiscal Year for which the Special Tax is being levied, has been conveyed, irrevocably dedicated, or irrevocably offered to a property owner's association, including any master or sub-association, provided such conveyance, dedication, or offer is submitted to the CFD Administrator by May 1 preceding the Fiscal Year for which the Special Tax is being levied.

"Proportionately" means, for Developed Property, that the ratio of the actual Special Tax A levy to the Maximum Special Tax A is equal for all Assessor's Parcels of Developed Property and that the ratio of the actual Special Tax B levy to the Maximum Special Tax B is equal for all Assessor's Parcels of Developed Property. For Final Mapped Property, "Proportionately" means that the ratio of the actual Special Tax A levy per acre to the Intermediate Maximum Special Tax A per acre is equal for all Assessor's Parcels of Final Mapped Property. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax A levy per acre to the Intermediate Maximum Special Tax A per acre is equal for all Assessor's Parcels of Undeveloped Property. The term "Proportionately" may similarly be applied to other categories of Taxable Property as listed in Section E below. Notwithstanding the above, Assessor's Parcels that have been delinquent in paying their Special Taxes may be taxed disproportionately to cover the shortfall generated by their delinquency.

"Public Property" means, for each Fiscal Year, any property within the boundaries of CFD No. 2008-01 (IA No. 1) that (i) is owned by, irrevocably offered or dedicated to the federal government, the State, the County, or any local government or other public agency, provided that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified according to its use; or (ii) is encumbered by a public utility easement making impractical its use for any purpose other than that set forth in the easement.

"Resolution of Formation" means the resolution establishing CFD No. 2008-01 (IA No. 1).

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

determination shall be final following the issuance of a Certificate of Occupancy for the dwelling unit.

"Residential Property" means all Assessor's Parcels of Developed Property for which a building permit permitting the construction thereon of one or more residential dwelling units has been issued by the County.

"Special Tax" means the Special Tax A and/or Special Tax B, as applicable.

"Special Tax A Buydown" means a mandatory bond principal buydown payment made by a property owner to reduce the amount of Outstanding Bonds to compensate for a loss of Special Tax A revenues resulting from the construction of fewer residential dwelling units, smaller residential dwelling units, or a modified amount of Non-Residential Floor Area, as determined in accordance with Section D below.

"Special Tax A" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property within CFD No. 2008-01 (IA No. 1) to fund the Special Tax Requirement for Facilities.

"Special Tax B" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property within CFD No. 2008-01 (IA No. 1) to fund the Special Tax Requirement for Services.

"Special Tax Requirement for Facilities" means that amount required in any Fiscal Year for CFD No. 2008-01 (IA No. 1) to: (i) pay debt service on all Outstanding Bonds due in the calendar year commencing in such Fiscal Year; (ii) pay periodic costs with respect to the CFD No. 2008-01 (IA No. 1) Bonds, including but not limited to, costs of credit enhancement and federal rebate payments due in the calendar year commencing in such Fiscal Year; (iii) pay a proportionate share of Administrative Expenses payable or expected to be payable in the calendar year commencing in such Fiscal Year; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay for reasonably anticipated Special Tax A delinquencies based on the delinquency rate for the Special Tax A levy in the previous Fiscal Year; (vi) pay directly for the acquisition or construction of Authorized Facilities to the extent that the inclusion of such amount does not increase the Special Tax A levy on Final Mapped Property and/or Undeveloped Property; less (vii) a credit for funds available to reduce the annual Special Tax A levy, as determined by the CFD Administrator pursuant to the Indenture.

"Special Tax Requirement for Services" means that amount required in any Fiscal Year for CFD No. 2008-01 (IA No. 1) to (i) pay directly for Authorized Services due in the calendar year commencing in such Fiscal Year; (ii) pay a proportionate share of Administrative Expenses payable or expected to be payable in the calendar year commencing in such Fiscal Year; (iii) pay for reasonably anticipated Special Tax B delinquencies based on the delinquency rate for the Special Tax B levy in the previous Fiscal Year; less (iv) a credit for funds available to reduce the annual Special Tax B levy, as determined by the CFD Administrator.

"State" means the State of California.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 2008-01 (IA No. 1) which are not exempt from the Special Tax pursuant to applicable law or Section F below.

"Taxable Property Owner Association Property" means all Assessor's Parcels of Property Owner Association Property that are not exempt pursuant to Section F below.

"Taxable Public Property" means all Assessor's Parcels of Public Property that are not exempt pursuant to Section F below.

"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, Final Mapped Property, Taxable Property Owner Association Property, or Taxable Public Property.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within CFD No. 2008-01 (IA No. 1) shall be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property, Final Mapped Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with this Rate and Method of Apportionment determined pursuant to Sections C and E below.

C. MAXIMUM SPECIAL TAX RATE

1. Special Tax A

Residential Property shall be assigned to Land Use Classes 1 through 10 as listed in Table 1 below based on the Residential Floor Area for each unit. Non-Residential Property shall be assigned to Land Use Class 11. Prior to the issuance of CFD No. 2008-01 (IA No. 1) Bonds, the Maximum Special Tax A on Developed Property (set forth in Table 1) may be reduced in accordance with, and subject to the conditions set forth in this paragraph. If it is reasonably determined by the CFD Administrator that the overlapping debt burden (as defined in the Local Goals and Policies concerning the use of the Mello-Roos Community Facilities Act of 1982 adopted by the Board, the "Goals and Policies") calculated pursuant to the Goals and Policies based upon the Maximum Special Tax A on Developed Property exceeds the County's maximum level objective set forth in such document, the Maximum Special Tax A on Developed Property for a Land Use Class may be reduced to the amount necessary to satisfy the County's objective with respect to the maximum overlapping debt burden level with the written consent of the CFD Administrator. Each Maximum Special Tax A reduction for a Land Use Class shall be calculated separately, as reasonably determined by the CFD Administrator, and it shall not be required that such reduction be proportionate among Land Use Classes. The reductions permitted pursuant to this paragraph shall be reflected in an amended notice of Special Tax lien which the County shall cause to be recorded by executing a certificate in substantially the form attached herein as Exhibit "B".

a. **Developed Property**

(1). Maximum Special Tax A

The Maximum Special Tax A for each Assessor's Parcel classified as Developed Property is shown below in Table 1.

TABLE 1
Maximum Special Tax A for Developed Property
Improvement Area No. 1 of CFD No. 2008-01
Fiscal Year 2008-2009

Land Use Class	Description	Residential Floor Area (square feet)	Maximum Special Tax A
1	Residential Property	4,250 or greater	\$4,821 per unit
2	Residential Property	3,925 to less than 4,250	\$4,398 per unit
3	Residential Property	3,600 to less than 3,925	\$3,974 per unit
4	Residential Property	3,275 to less than 3,600	\$3,702 per unit
5	Residential Property	2,950 to less than 3,275	\$3,434 per unit
6	Residential Property	2,625 to less than 2,950	\$3,160 per unit
7	Residential Property	2,300 to less than 2,625	\$2,885 per unit
8	Residential Property	1,975 to less than 2,300	\$2,432 per unit
9	Residential Property	1,650 to less than 1,975	\$2,159 per unit
10	Residential Property	Less than 1,650	\$1,979 per unit
11	Non-Residential Property	NA	\$0.250 per square foot of Non-Residential Floor Area

(2). Increase in the Maximum Special Tax A

The Fiscal Year 2008-2009 Maximum Special Tax A, identified in Table 1 above, shall increase thereafter, commencing on July 1, 2009 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

(3). Multiple Land Use Classes

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Class. The Maximum Special Tax A levied on an Assessor's Parcel shall be the sum of the Maximum Special Tax A for all Land Use Classes located on that Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

b. Final Mapped Property, Undeveloped Property, Taxable Property Owner Association Property, and Taxable Public Property

(1). Intermediate Maximum Special Tax A

The Fiscal Year 2008-2009 Intermediate Maximum Special Tax A for each Assessor's Parcel of Final Mapped Property and Undeveloped Property shall be \$21,297 per acre, and shall increase thereafter, commencing on July 1, 2009 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Intermediate Maximum Special Tax A for the previous Fiscal Year.

(2). Maximum Special Tax A

The Fiscal Year 2008-2009 Maximum Special Tax A for each Assessor's Parcel of Final Mapped Property, Undeveloped Property, Taxable Property Owner Association Property, and Taxable Public Property shall be \$26,129 per acre, and shall increase thereafter, commencing on July 1, 2009 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Maximum Special Tax A for the previous Fiscal Year.

2. Special Tax B

For purposes of the Special Tax B, Residential Property in CFD No. 2008-01 (IA No. 1) shall be assigned to Land Use Class 1. For purposes of the Special Tax B, Non-Residential Property in CFD No. 2008-01 (IA No. 1) shall be assigned to Land Use Class 2.

a. Developed Property

The Fiscal Year 2008-2009 Maximum Special Tax B for each Land Use Class of Developed Property is shown below in Table 2.

TABLE 2
Maximum Special Tax B for Developed Property
Improvement Area No. 1 of CFD No. 2008-01
Fiscal Year 2008-2009

Land Use Class	Description	Maximum Special Tax B
1	Residential Property	\$845 per unit
2	Non-Residential Property	\$0.300 per square foot of Non-Residential Floor Area

b. Increase in the Special Tax B

On each July 1, commencing on July 1, 2009, the Maximum Special Tax B shall be increased based on the percentage change in the Consumer Price Index, with a maximum annual increase of six percent (6%) and a minimum annual increase of two percent (2%) per Fiscal Year.

D. SPECIAL TAX A BUYDOWN

All of the requirements of this Section D, which describes the need for a Special Tax A Buydown that may result from a change in development as determined pursuant to this Section D, shall only apply after the issuance of the first series of CFD No. 2008-01 (IA No. 1) Bonds. Prior to the issuance of the first series of CFD No. 2008-01 (IA No. 1) Bonds, the terms of the Special Tax A Buydown shall not apply.

The following additional definitions apply to this Section D:

"Certificate of Satisfaction of Special Tax A Buydown" means a certificate from the CFD Administrator stating that the property described in such certificate has met the Special Tax A Buydown Requirement for such property as calculated under this Section D.

"Letter of Compliance" means a letter from the CFD Administrator allowing the issuance of building permits based on the prior submittal of a request for Letter of Compliance by a property owner.

"Special Tax A Buydown Requirement" means the total amount of Special Tax A Buydown necessary to be prepaid in order to permit the issuance of building permits listed in a request for Letter of Compliance, as calculated under this Section D.

"Update Property" means an Assessor's Parcel of Final Mapped Property or Undeveloped Property for which a building permit has been issued. For purposes of all calculations in this Section D, Update Property shall be taxed as if it were already Developed Property during the current Fiscal Year.

1. Request for Letter of Compliance

After the issuance of the first series of CFD No. 2008-01 (IA No. 1) Bonds, a property owner shall, as a precondition to the issuance of a building permit for construction of any residential and/or non-residential development for a specific Assessor's Parcel or lot, submit a Letter of Compliance for the construction of the development on such Assessor's Parcel or lot. If a Letter of Compliance has not yet been issued, the property owner must first request a Letter of Compliance from the CFD Administrator. The request from the property owner shall contain a list of all building permits for which the property owner is requesting a Letter of Compliance. The property owner shall also submit the Assessor's Parcels or tract and lot numbers on which the construction is to take place, and the Residential Floor Area (for each residential dwelling unit) or the Non-Residential Floor Area (for each non-residential parcel) associated with each prospective building permit.

2. Issuance of Letter of Compliance

Upon the receipt of a request for a Letter of Compliance, the CFD Administrator shall assign each building permit identified in such request to Land Use Classes 1 through 11 as listed in Table 3 below based on the type of use and, if applicable, the Residential Floor Area identified for each such building permit. If the CFD Administrator determines (i) that the number of building permits requested for each Land Use Class, plus those building permits previously

issued for each Land Use Class, will not cause the total number of residential dwelling units or Non-Residential Floor Area within any such Land Use Class to exceed the number of residential dwelling units or Non-Residential Floor Area for such Land Use Class identified in Table 3 below, and (ii) that the total number of residential dwelling units anticipated to be constructed pursuant to the current development plan for CFD No. 2008-01 (IA No. 1) shall not be less than 417 and the amount of Non-Residential Floor Area will not be less than 20,000 square feet, then a Letter of Compliance shall be submitted to the County and/or property owner by the CFD Administrator approving the issuance of the requested building permits for the subject property. This Letter of Compliance shall be submitted to the County and/or property owner by the CFD Administrator within ten days of the submittal of the request for Letter of Compliance by the property owner. However, should (i) the building permits requested, plus those previously issued, cause the total number of residential dwelling units or the amount of Non-Residential Floor Area within any such Land Use Class to exceed the number of residential dwelling units or the amount of Non-Residential Floor Area for such Land Use Class identified in Table 3 below, or (ii) the CFD Administrator determines that changes in the development plan may cause a decrease in the number of residential dwelling units within CFD No. 2008-01 (IA No. 1) to below 417 residential dwelling units or a decrease in the amount of Non-Residential Floor Area to below 20,000 square feet, then a Letter of Compliance will not be issued and the CFD Administrator will be directed to determine if a Special Tax A Buydown shall be required. The number of residential dwelling units and Non-Residential Floor Area, as listed in Table 3 below, may be updated by the CFD Administrator prior to the issuance of the first series of CFD No. 2008-01 (IA No. 1) Bonds.

TABLE 3

Expected Residential Dwelling Units per Land Use Class and Non-Residential Floor Area Improvement Area No. 1 of CFD No. 2008-01

Land Use Class	Description	Residential Floor Area (square feet)	Number of Units/SF
1	Residential Property	4,250 or greater	0 units
2	Residential Property	3,925 to less than 4,250	0 units
3	Residential Property	3,600 to less than 3,925	28 units
4	Residential Property	3,275 to less than 3,600	24 units
5	Residential Property	2,950 to less than 3,275	49 units
6	Residential Property	2,625 to less than 2,950	0 units
7	Residential Property	2,300 to less than 2,625	109 units
8	Residential Property	1,975 to less than 2,300	96 units
9	Residential Property	1,650 to less than 1,975	71 units
10	Residential Property	Less than 1,650	40 units
11	Non-Residential Property	NA	20,000 square feet

3. Calculation of Special Tax A Buydown

If a Special Tax A Buydown calculation is required as determined by the CFD Administrator

pursuant to paragraph 2 above, the CFD Administrator shall review the current development plan for CFD No. 2008-01 (IA No. 1) in consultation with the current property owners for all remaining Final Mapped Property and Undeveloped Property in CFD No. 2008-01 (IA No. 1), and shall prepare an updated version of Table 3 identifying the revised number of residential dwelling units or the amount of Non-Residential Floor Area anticipated within each Land Use Class. The CFD Administrator shall not be responsible for any delays in preparing the updated Table 3 that results from a refusal on the part of one or more current property owners of Final Mapped Property or Undeveloped Property to provide information on their future development. The CFD Administrator shall then review the updated Table 3 and determine the Special Tax A Buydown Requirement, if any, to be applied to the property identified in the request for Letter of Compliance to assure CFD No. 2008-01 (IA No. 1)'s ability to collect the Maximum Special Tax A equal to 110% debt service coverage on the Outstanding Bonds, plus Administrative Expenses. The calculations shall be undertaken by the CFD Administrator, based on the data in the updated Table 3, as follows:

- Step 1. Compute the sum of the Maximum Special Tax A authorized to be levied on all Developed Property and Update Property within CFD No. 2008-01 (IA No. 1), plus the sum of the Maximum Special Tax A authorized to be levied on all future development as identified in the current development plan as determined by the CFD Administrator in consultation with the property owner(s).
- Step 2. Determine the amount of Maximum Special Tax A required to provide 110% debt service coverage on the Outstanding Bonds, plus any other payments included in the Special Tax Requirement for Facilities.
- Step 3. If the total sum computed pursuant to step 1 is greater than or equal to the amount computed pursuant to step 2, then no Special Tax A Buydown will be required and a Letter of Compliance shall immediately be issued by the CFD Administrator for all of the building permits currently being requested. If the total sum computed pursuant to step 1 is less than the amount computed pursuant to step 2, then continue to step 4.
- Step 4. Determine the Maximum Special Tax A shortfall by subtracting the total sum computed pursuant to step 1 from the amount computed pursuant to step 2. Divide this Maximum Special Tax A shortfall by the amount computed pursuant to step 2.
- Step 5. The Special Tax A Buydown Requirement shall be calculated using the prepayment formula described in Section J.1, with the following exceptions: (i) skip Paragraphs 1, 2 and 3, and begin with Paragraph 4; (ii) the Bond Redemption Amount in Paragraph 4 of the prepayment formula described in Section J.1 shall equal the product of the quotient computed pursuant to step 4 above times the Previously Issued Bonds, as defined in Section J.1; (iii) the Capitalized Interest Credit described in Paragraph 14 of Section J.1 shall be \$0; and (iv) any payments of the Special Tax A Buydown (less Administrative Fees and Expenses) shall be disbursed pursuant to the Fiscal Agent Agreement.

The Special Tax A Buydown computed under step 5 shall be billed directly to the property owner of each Assessor's Parcel identified in the request for Letter of Compliance and shall be due within 30 days of the billing date. If the Special Tax A Buydown is not paid within 45 days of the billing date, a delinquent penalty of 10 percent shall be added to the Special Tax A Buydown. Upon receipt of the Special Tax A Buydown payment, the CFD Administrator shall issue a Letter of Compliance and a Certificate of Satisfaction of Special Tax A Buydown for the subject property.

4. Costs and Expenses Related to Implementation of Special Tax A Buydown

The costs of the CFD Administrator or other consultants required to review the application for building permits and issue Letters of Compliance, as identified in step 1 and step 2 above, shall be paid out of the administrative expenses account as defined in the Indenture. The property owner of each Assessor's Parcel identified in the request for Letter of Compliance shall pay all costs of the CFD Administrator or other consultants required to calculate the Special Tax A Buydown, issue Letters of Compliance and any other actions required under step 3. Such payments shall be due 30 days after receipt of invoice by such property owner. A deposit may be required by the CFD Administrator prior to undertaking work related to the Special Tax A Buydown pursuant to step 3.

E. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

1. Special Tax A

Commencing with Fiscal Year 2008-2009 and for each following Fiscal Year, the Board or its designee shall determine the Special Tax Requirement for Facilities and levy the Special Tax A until the amount of Special Tax A levy equals the Special Tax Requirement for Facilities. The Special Tax A shall be levied each Fiscal Year as follows:

First: The Special Tax A shall be levied on each Assessor's Parcel of Developed Property in an amount equal to 100% of the applicable Maximum Special Tax A;

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

Third: If additional monies are needed to satisfy the Special Tax Requirement for Facilities after the first two steps have been completed, the Special Tax A shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Intermediate Maximum Special Tax A for Undeveloped Property;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement for Facilities after the first three steps have been completed, then the levy of the Special Tax A on each Assessor's Parcel of Final Mapped Property and Undeveloped Property shall be increased in equal percentages from the Intermediate Maximum Special Tax A up to 100% of the Maximum Special Tax A for Final Mapped Property and Undeveloped Property;

Fifth: If additional monies are needed to satisfy the Special Tax Requirement for Facilities after the first four steps have been completed, then the Special Tax A shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property and Taxable Property Owner Association Property at up to 100% of the Maximum Special Tax A for Taxable Public Property and Taxable Property Owner Association property.

Notwithstanding the above, the Board or its designee may, in any Fiscal Year, levy Proportionately less than 100% of the Maximum Special Tax A in step one (above), when (i) the Board or its designee is no longer required to levy the Special Tax A pursuant to steps two through five above in order to meet the Special Tax Requirement for Facilities; and (ii) all authorized CFD No. 2008-01 (IA No. 1) Bonds have already been issued or the Board has covenanted that it will not issue any additional CFD No. 2008-01 (IA No. 1) Bonds (except refunding bonds) to be supported by the Special Tax A.

Further notwithstanding the above, under no circumstances will the Special Tax A levied against any Assessor's Parcel of Residential Property for which a Certificate of Occupancy has been issued be increased by more than ten percent above the amount that would have been levied in that Fiscal Year had there never been any such delinquencies or defaults as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2008-01 (IA No. 1).

2. Special Tax B

Commencing with Fiscal Year 2008-2009 and for each following Fiscal Year, the Board or its designee shall levy the Special Tax B until the total Special Tax B levy equals the Special Tax Requirement for Services. The Special Tax B shall be levied Proportionately each Fiscal Year on each Assessor's Parcel of Developed Property at up to 100% of the applicable Maximum Special Tax B as needed to satisfy the Special Tax Requirement for Services.

Further notwithstanding the above, under no circumstances will the Special Tax B levied against any Assessor's Parcel of Residential Property for which a Certificate of Occupancy has been issued be increased by more than ten percent above the amount that would have been levied in that Fiscal Year had there never been any such delinquencies or defaults as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2008-01 (IA No. 1).

F. EXEMPTIONS

1. Special Tax A

No Special Tax A shall be levied on up to 139.60 acres of Public Property and/or Property Owner Association Property in CFD No. 2008-01 (IA No. 1), and up to 36.72 acres of Future Excluded Area. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property in CFD No. 2008-01 (IA No. 1) becomes Public Property or Property Owner Association Property. However, should an Assessor's Parcel no longer be classified as Public Property or Property Owner Association Property, it will, from that point forward, be subject to the Special Tax.

Public Property or Property Owner Association Property that is not exempt from the Special Tax A under this section shall be subject to the levy of the Special Tax A and shall be taxed Proportionately as part of the fifth step in Section E.1 above, at up to 100% of the applicable Maximum Special Tax A for Taxable Public Property or Taxable Property Owner Association Property.

2. Special Tax B

No Special Tax B shall be levied on Public Property, Property Owner Association Property, Final Mapped Property, and Undeveloped Property in CFD No. 2008-01 (IA No. 1).

G. RELEASE OF PROPERTY

Upon recordation of a map which creates separate legal lots for such property, all property within the Future Excluded Area shall be released from the obligation to pay the Special Tax for CFD No. 2008-01 (IA No. 1) and the County shall cause (i) a suitable notice to be recorded in compliance with the Act to indicate the release of the Special Tax lien on such property, and (ii) an amended boundary map to be recorded in compliance with the Act to indicate that such property is not in CFD No. 2008-01 (IA No. 1).

H. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that the Board may directly bill the Special Tax, and/or may collect Special Taxes at a different time or in a different manner if necessary to meet financial obligations, and, to the extent of Special Tax A, may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels. The Special Tax A Buydown shall be directly billed to the property owner at the time such Special Tax A Buydown is being levied.

I. APPEALS AND INTERPRETATIONS

Any landowner or resident who feels that the amount of the Special Tax levied on their Assessor's Parcel is in error may submit a written appeal to the CFD Administrator. The CFD Administrator shall review the appeal and if the CFD Administrator concurs, the amount of the Special Tax levied shall be appropriately modified through an adjustment to the Special Tax levy in the following Fiscal Year. No refunds shall be given.

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

J. PREPAYMENT OF SPECIAL TAX A

The following additional definitions apply to this Section J:

"Buildout" means, for CFD No. 2008-01 (IA No. 1), that all expected building permits for dwelling units and/or non-residential development to be constructed in CFD No. 2008-01 (IA No. 1) have been issued, as reasonably determined by the CFD Administrator.

"CFD Public Facilities Costs" means either \$15,055,000 in 2008 dollars, which shall increase by the Construction Inflation Index on July 1, 2009, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide funding for all of the Authorized Facilities, or (ii) shall be determined by the Board concurrently with a covenant that it will not issue any more CFD No. 2008-01 (IA No. 1) Bonds (except refunding bonds) to be supported by the Special Tax A levy under this Rate and Method of Apportionment as described in Section E.

"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 month of December in the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the 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 Costs minus (i) costs of Authorized Facilities previously paid from the Improvement Fund, (ii) moneys currently on deposit in the Improvement Fund available to pay costs of Authorized Facilities, (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance the costs of Authorized Facilities, and (iv) the amount the CFD Administrator reasonably expects to derive from the reinvestment of these funds.

"Improvement Fund" means a fund or account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct Authorized Facilities.

"Previously Issued Bonds" means, for any Fiscal Year, all Outstanding Bonds that are outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

1. Prepayment in Full

The obligation of the Assessor's Parcel to pay the Special Tax A may be prepaid and permanently satisfied as described herein, provided that a prepayment may be made only for Assessor's Parcels of Developed Property, or an Assessor's Parcel of Final Mapped Property or Undeveloped Property for which a building permit has been issued, and only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax 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 for such Assessor's Parcel. The CFD Administrator may charge such owner a reasonable fee for providing this service. Prepayment must be made not less than 30 days prior to a date that notice of redemption of CFD No. 2008-01 (IA No. 1) Bonds from the proceeds of such prepayment may be given by the Trustee pursuant to the Indenture that is specified in the report of the Special Tax A Prepayment Amount.

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

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance Amount
plus	Administrative Fees and Expenses
less	Reserve Fund Credit
less	Capitalized Interest Credit
Total:	equals Special Tax A Prepayment Amount

As of the proposed date of prepayment, the Special Tax A Prepayment Amount shall be calculated as follows:

Paragraph No.:

1. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
2. For Assessor's Parcels of Developed Property, compute the Maximum Special Tax A for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Final Mapped Property or Undeveloped Property for which a building permit has been issued, compute the Maximum Special Tax A 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 such Assessor's Parcel.
3. Divide the Maximum Special Tax A computed pursuant to paragraph 2 by the total estimated Maximum Special Tax A levy for CFD No. 2008-01 (IA No. 1) based on the Developed Property Maximum Special Tax A levy which could be levied in the current Fiscal Year on all expected development through Buildout of CFD No. 2008-01 (IA No. 1), excluding any Assessor's Parcels which have been prepaid, and
4. Multiply the quotient computed pursuant to paragraph 3 by the Previously Issued Bonds to compute the amount of Previously Issued 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 (e.g., the redemption price-100%), if any, on the Previously Issued Bonds to be redeemed (the "Redemption Premium").
6. Compute the current Future Facilities Costs.
7. Multiply the quotient computed pursuant to paragraph 3 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 redemption date for the Previously Issued Bonds specified in the report of the Special Tax A Prepayment Amount.

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 Special Tax A Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses (defined below) from the date of prepayment until the redemption date for the Previously Issued 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. The administrative fees and expenses of CFD No. 2008-01 (IA No. 1) are as calculated by the CFD Administrator and include the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming CFD No. 2008-01 (IA No. 1) Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
13. The reserve fund credit (the "Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Previously Issued Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Previously Issued Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero. No Reserve Fund Credit shall be granted if the amount then on deposit in the reserve fund for the Previously Issued Bonds is below 100% of the reserve requirement (as defined in the Indenture).
14. If any capitalized interest for the Previously Issued Bonds will not have been expended as of the date immediately following the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the quotient computed pursuant to paragraph 3 by the expected balance in the capitalized interest fund or account under the Indenture after such first interest and/or principal payment date (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 "Special Tax A Prepayment Amount").

From the Special Tax A 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 CFD No. 2008-01 (IA No. 1) Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Improvement Fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 2008-01 (IA No. 1).

The Special Tax A Prepayment Amount may be insufficient to redeem a full \$5,000 increment of CFD No. 2008-01 (IA No. 1) 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 CFD No. 2008-01 (IA No. 1) Bonds or to make debt service payments.

Upon confirmation 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 County shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of the 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.

Notwithstanding the foregoing, no Special Tax A prepayment shall be allowed unless, at the time of such proposed prepayment, the amount of Maximum Special Tax A that may be levied on Taxable Property within CFD No. 2008-01 (IA No. 1) (after excluding 139.60 acres of Public Property and Property Owner Association Property as set forth in Section F) both prior to and after the proposed prepayment is at least equal to the sum of (i) the Administrative Expenses, as defined in Section A above, and (ii) 1.10 times annual debt service, in each remaining Fiscal Year on the Outstanding Bonds.

2. Prepayment in Part

The obligation of the Assessor's Parcel to pay the Special Tax A may be partially prepaid as described herein, provided that a partial prepayment may be made only for Assessor's Parcels of Developed Property, or an Assessor's Parcel of Final Mapped Property or Undeveloped Property for which a building permit has been issued, and only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of partial prepayment. The amount of the prepayment shall be calculated as in Section J.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = [(PE - A) \times F] + A$$

These terms have the following meaning:

PP = the partial prepayment.

PE = the Special Tax A Prepayment Amount calculated according to Section J.1.

F = the percentage, expressed as a decimal, by which the owner of the Assessor's Parcel is partially prepaying the Special Tax A.

A = the Administrative Fees and Expenses calculated according to Section J.1.

The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator of such owner's intent to partially prepay the Special Tax A and the percentage by which the Special Tax A shall be prepaid. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax A for an Assessor's Parcel within 30 days of the request and may charge a reasonable fee for providing this service. With respect to any Assessor's Parcel that is partially prepaid, the CFD

Administrator shall (i) distribute or cause to be distributed the funds remitted to it according to Section J.1, and (ii) indicate in the records of CFD No. 2008-01 (IA No. 1) that there has been a partial prepayment of the Special Tax A and that a portion of the Special Tax A with respect to such Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax A, shall continue to be levied on such Assessor's Parcel pursuant to Section E.

K. TERM OF SPECIAL TAX

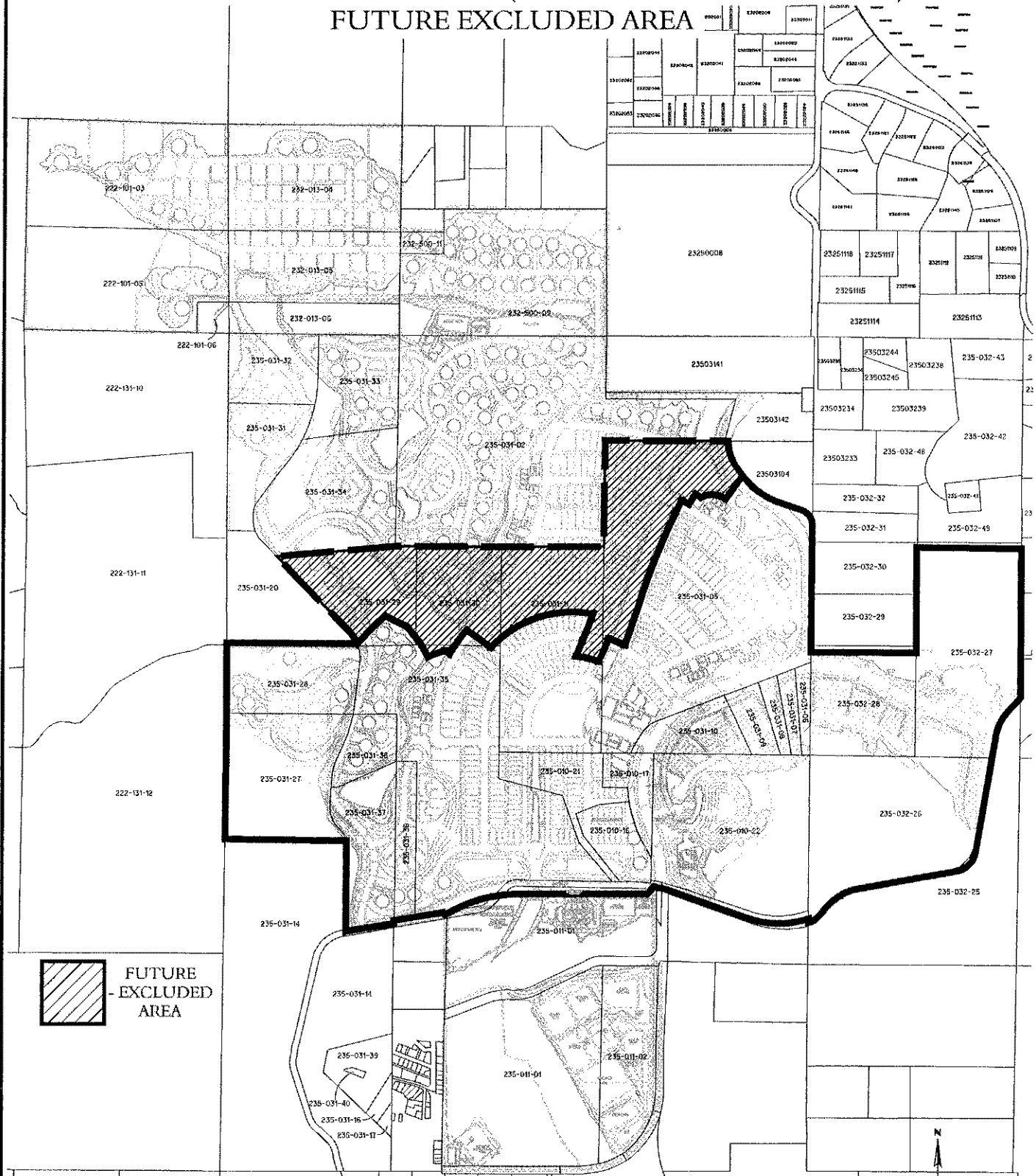
The Special Tax A shall be levied for a period not to exceed fifty years commencing with Fiscal Year 2008-2009, provided however that the Special Tax A will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined that all required interest and principal payments on the CFD No. 2008-01 (IA No. 1) Bonds have been paid. The Special Tax B shall be levied in perpetuity to fund the Special Tax Requirement for Services, unless no longer required as determined at the sole discretion of the Board.

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Revised: 6/2/08*

EXHIBIT A

FUTURE EXCLUDED AREA

COUNTY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT NO. 2008-1
 IMPROVEMENT AREA NO. 1 (HARMONY GROVE VILLAGE)
 FUTURE EXCLUDED AREA



 FUTURE EXCLUDED AREA

RICK
 ENGINEERING COMPANY
 San Diego

5620 FRIARS ROAD
 SAN DIEGO, CA 92110
 619.291.0707
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rickengineering.com
 Riverside Sacramento Orange Phoenix Tucson

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COUNTY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT NO. 2008-1
IMPROVEMENT AREA NO. 1 (HARMONY GROVE VILLAGE)
FUTURE EXCLUDED AREA – LEGAL DESCRIPTION

Those portions of Section 30, Township 12 South, Range 2 West, San Bernardino Meridian, in the County of San Diego, State of California, being more particularly described as follows:

Beginning at the Southwest corner of Parcel 1 of Parcel Map No. 6377, said point being the beginning of a non-tangent 250.05 foot radius curve concave Southwesterly, to which a radial line bears North 68°23'34" East;

- 1) thence along the Westerly line of Parcel 1 of Parcel Map No. 6377 Northwesternly along the arc of said curve through a central angle of 21°21'32" a distance of 93.21 feet;
- 2) thence continuing along said Westerly line and its prolongation North 42°57'58" West 659.51 feet to a point on the Northerly line of said Parcel 1;
- 3) thence leaving said Westerly line and along said Northerly line North 84°34'08" East 754.87 feet;
- 4) thence continuing along said Northerly line South 89°54'46" East 658.19 feet;
- 5) thence continuing along said Northerly line South 89°35'12" East 659.63 feet to a point on the Westerly line of Lot 2 of said Section 30;
- 6) thence along said Westerly line of Lot 2 of said Section 30 North 00°38'35" East 663.36 feet to a point on the Northerly line of Lot 2 of said Section 30;
- 7) thence along said Northerly line of said Lot 2 South 89°45'07" East 782.10 feet to a point on the Easterly line of Lot 2 of said Section 30, said point being the beginning of a non-tangent 283.95 foot radius curve concave Northeasterly, to which a radial line bears North 89°48'30" West;
- 8) thence along said Easterly line Southeasterly along the arc of said curve through a central angle of 36°06'13" a distance of 178.92 feet;

- 9) thence continuing along said Easterly line South $35^{\circ}54'44''$ East 53.74 feet to the beginning of a tangent 500.00 foot radius curve concave Northeasterly;
- 10) thence continuing along said Easterly line Southeasterly along the arc of said curve through a central angle of $01^{\circ}03'26''$ a distance of 9.23 feet;
- 11) thence leaving said Easterly line South $35^{\circ}14'04''$ West 183.73 feet to the beginning of a non-tangent 150.00 foot radius curve concave Southerly, to which a radial line bears North $35^{\circ}14'04''$ East;
- 12) thence Westerly along the arc of said curve through a central angle of $63^{\circ}36'17''$ a distance of 166.52 feet;
- 13) thence North $56^{\circ}11'18''$ West 40.34 feet;
- 14) thence South $33^{\circ}48'42''$ West 77.60 feet to the beginning of a non-tangent 1575.00 foot radius curve concave Southwesterly, to which a radial line bears North $28^{\circ}08'46''$ East;
- 15) thence Northwesterly along the arc of said curve through a central angle of $01^{\circ}54'05''$ a distance of 52.27 feet to the beginning of a non-tangent 4519.00 foot radius curve concave Southeasterly, to which a radial line bears North $63^{\circ}11'55''$ West;
- 16) thence Southwesterly along the arc of said curve through a central angle of $08^{\circ}28'46''$ a distance of 668.79 feet;
- 17) thence South $18^{\circ}19'18''$ West 201.14 feet to the beginning of a tangent 1981.00 foot radius curve concave Northwesterly;
- 18) thence Southwesterly along the arc of said curve through a central angle of $03^{\circ}23'20''$ a distance of 117.17 feet to the beginning of a non-tangent 680.00 foot radius curve concave Southwesterly, to which a radial line bears North $26^{\circ}34'15''$ East;
- 19) thence Northwesterly along the arc of said curve through a central angle of $09^{\circ}21'44''$ a distance of 111.11 feet to the beginning of a non-tangent 1019.00 foot radius curve concave Northwesterly, to which a radial line bears South $70^{\circ}23'48''$ East;

- 20) thence Southwesterly along the arc of said curve through a central angle of $08^{\circ}59'27''$ a distance of 159.90 feet to the beginning of a non-tangent 425.00 foot radius curve concave Southwesterly, to which a radial line bears North $23^{\circ}22'07''$ East;
- 21) thence Northwesterly along the arc of said curve through a central angle of $19^{\circ}54'17''$ a distance of 147.65 feet;
- 22) thence North $23^{\circ}20'04''$ East 96.05 feet to the beginning of a tangent 2490.00 foot radius curve concave Northwesterly;
- 23) thence Northeasterly along the arc of said curve through a central angle of $04^{\circ}33'16''$ a distance of 197.93 feet;
- 24) thence South $59^{\circ}46'49''$ West 7.63 feet to the beginning of a non-tangent 705.00 foot radius curve concave Southeasterly, to which a radial line bears North $10^{\circ}28'46''$ East;
- 25) thence Southwesterly along the arc of said curve through a central angle of $57^{\circ}34'05''$ a distance of 708.35 feet;
- 26) thence North $54^{\circ}17'53''$ West 191.35 feet;
- 27) thence South $40^{\circ}18'31''$ West 16.64 feet to the beginning of a tangent 895.00 foot radius curve concave Southeasterly;
- 28) thence Southwesterly along the arc of said curve through a central angle of $10^{\circ}59'29''$ a distance of 171.69 feet;
- 29) thence North $54^{\circ}17'53''$ West 38.15 feet to the beginning of a non-tangent 92.00 foot radius curve concave Northwesterly, to which a radial line bears South $21^{\circ}00'43''$ East;
- 30) thence Southwesterly along the arc of said curve through a central angle of $02^{\circ}00'03''$ a distance of 3.21 feet;
- 31) thence South $70^{\circ}59'21''$ West 90.77 feet to the beginning of a tangent 108.00 foot radius curve concave Southeasterly;
- 32) thence Southwesterly along the arc of said curve through a central angle of $10^{\circ}57'45''$ a distance of 20.66 feet;

- 33) thence North 29°58'24" West 103.00 feet;
- 34) thence North 38°51'12" West 130.92 feet;
- 35) thence North 64°27'54" West 157.34 feet;
- 36) thence South 45°58'18" West 151.60 feet;
- 37) thence South 41°41'00" West 95.93 feet to the POINT OF BEGINNING.

Containing 36.72 acres, more or less.


Patrick A. McMichael, L.S. 6187

4-21-2008
Date



Jb/14312b.005

EXHIBIT B

CERTIFICATE TO AMEND SPECIAL TAX A

COUNTY OF SAN DIEGO AND CFD No. 2008-01 (IA No. 1) CERTIFICATE

1. Pursuant to Section C of the Rate and Method of Apportionment, the County of San Diego ("County") and County of San Diego Community Facilities District No. 2008-01 ("CFD No. 2008-01 (IA No. 1)") hereby agree to a reduction in the Maximum Special Tax A for Developed Property within CFD No. 2008-01 (IA No. 1).

The information in Table 1 relating to the Fiscal Year 2008-2009 Maximum Special Tax A for Developed Property within CFD No. 2008-01 (IA No. 1) shall be modified as follows:

Land Use Class	Description	Residential Floor Area (square feet)	Maximum Special Tax A
1	Residential Property	4,250 or greater	\$[] per unit
2	Residential Property	3,925 to less than 4,250	\$[] per unit
3	Residential Property	3,600 to less than 3,925	\$[] per unit
4	Residential Property	3,275 to less than 3,600	\$[] per unit
5	Residential Property	2,950 to less than 3,275	\$[] per unit
6	Residential Property	2,625 to less than 2,950	\$[] per unit
7	Residential Property	2,300 to less than 2,625	\$[] per unit
8	Residential Property	1,975 to less than 2,300	\$[] per unit
9	Residential Property	1,650 to less than 1,975	\$[] per unit
10	Residential Property	Less than 1,650	\$[] per unit
11	Non-Residential Property	NA	\$[] per square foot of Non-Residential Floor Area

2. The Maximum Special Tax A for Developed Property may only be modified prior to the first issuance of CFD No. 2008-01 (IA No. 1) Bonds.
3. Upon execution of the certificate by the County and CFD No. 2008-01 (IA No. 1), the County shall cause an amended notice of Special Tax lien for CFD No. 2008-01 (IA No. 1) to be recorded reflecting the modifications set forth herein.

By execution hereof, the undersigned acknowledges, on behalf of the County and CFD No. 2008-01 (IA No. 1), receipt of this certificate and modification of the Rate and Method of Apportionment as set forth in this certificate.

COUNTY OF SAN DIEGO

By: _____ Date: _____

COUNTY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT NO. 2008-01

By: _____ Date: _____

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Appendix E-2
Restatement of Section D of Rate And Method of Apportionment for County of San Diego
Community Facilities District No. 2008-01 Improvement Area No. 1 (Harmony Grove Village)

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**RESTATEMENT OF SECTION D OF RATE AND METHOD OF APPORTIONMENT
FOR COUNTY OF SAN DIEGO COMMUNITY FACILITIES DISTRICT NO. 2008-01
IMPROVEMENT AREA NO. 1 (HARMONY GROVE VILLAGE)**

D. ONE-TIME SPECIAL TAX

All of the requirements of this Section D, which describes the One-Time Special Tax that may result from a change in development as determined pursuant to this Section D, shall only apply after the issuance of the first series of CFD No. 2008-01 (IA No. 1) Bonds. Prior to the issuance of the first series of CFD No. 2008-01 (IA No. 1) Bonds, the terms of this Section D shall not apply.

The following additional definitions apply to this Section D:

“**One-Time Special Tax**” means the one-time Special Tax to be levied pursuant to this Section D.

“**Update Property**” means an Assessor’s Parcel of Final Mapped Property or Undeveloped Property for which a building permit has been issued. For purposes of all calculations in this Section D, Update Property shall be taxed as if it were already Developed Property during the current Fiscal Year.

1. Determination of whether One-Time Special Tax is to be Levied

(a) Residential Development

The number of residential dwelling units by Land Use Class, as listed in Table 3 below, shall be determined by the CFD Administrator prior to the issuance of the first series of CFD No. 2008-01 (IA No. 1) Bonds to reflect the current development plan for CFD No. 2008-01 (IA No. 1).

After the issuance of the first series of CFD No. 2008-01 (IA No. 1) Bonds, the CFD Administrator shall, no less frequently than monthly, obtain from the Director of the Department of Planning & Development Services of the County (or his or her designee) and review, the applications for building permits permitting the construction of one or more dwelling units within CFD No. 2008-01 (IA No. 1) that have been submitted to the Director of the Department of Planning & Development Services of the County (or his or her designee) during the period since the last such review. The CFD Administrator shall determine the Assessor’s Parcels or tract and lot numbers on which the construction that is the subject of such permit applications is to take place, and the Residential Floor Area for each residential dwelling unit associated with each prospective building permit. Such determination shall be completed within fifteen days of the CFD Administrator’s obtaining the permit applications from the Director of the Department of Planning & Development Services of the County (or his or her designee).

For property in Land Use Classes 1-10, upon review of such permit applications, the CFD Administrator shall assign each building permit identified in such applications to Land Use Classes 1 through 10 as listed in Table 3 below based on the Residential Floor Area identified for each such building permit. If the CFD Administrator determines (i) that the number of such

building permits applications for a Land Use Class, plus those building permits previously issued for such Land Use Class, will not cause the number of residential dwelling units within such Land Use Class to exceed the total number of residential dwelling units for such Land Use Class identified in Table 3 below, and (ii) that the total number of residential dwelling units anticipated to be constructed pursuant to the current development plan for CFD No. 2008-01 (IA No. 1) will not be less than the total number of Expected Residential Dwelling Units shown in Table 3, then the One-Time Special Tax shall not be levied on the property that is the subject of such permit applications. However, if (i) the number of such building permits applications for such Land Use Class, plus those building permits previously issued for such Land Use Class, cause the total number of residential dwelling units within such Land Use Class to exceed the number of residential dwelling units for such Land Use Class identified in Table 3 below, or (ii) the CFD Administrator determines that changes in the development plan may cause a decrease in the number of residential dwelling units within CFD No. 2008-01 (IA No. 1) to below the total number of Expected Residential Dwelling Units shown in Table 3, then the CFD Administrator shall, in accordance with the provisions of paragraph 2, below, determine whether a One-Time Special Tax is to be levied on the property that is the subject of such permit applications.

(b) Non-Residential Development

The amount of Non-Residential Floor Area anticipated for the development of Non-Residential Property, as listed in Table 3 below, shall be determined by the CFD Administrator prior to the issuance of the first series of CFD No. 2008-01 (IA No. 1) Bonds to reflect the current development plan for CFD No. 2008-01 (IA No. 1).

After the issuance of the first series of CFD No. 2008-01 (IA No. 1) Bonds, the CFD Administrator shall, no less frequently than monthly, obtain from the Director of the Department of Planning & Development Services of the County (or his or her designee) and review, the applications for building permits permitting the construction of one or more non-residential units or facilities within CFD No. 2008-01 (IA No. 1) that have been submitted to the Director of the Department of Planning & Development Services of the County (or his or her designee) during the period since the last such review. The CFD Administrator shall determine the Assessor's Parcels or tract and lot numbers on which the construction that is the subject of such permit applications is to take place, and the amount of Non-Residential Floor Area associated with each such prospective building permit. Such determination shall be completed within fifteen days of the CFD Administrator's obtaining the permit applications from the Director of the Department of Planning & Development Services of the County (or his or her designee).

For property in Land Use Class 11, upon review of such applications, the CFD Administrator shall identify the amount of Non-Residential Floor Area on which such Non-Residential Property is to be located. If the CFD Administrator determines that the amount of Non-Residential Floor Area anticipated for the development of Non-Residential Property does not exceed the total Expected Non-Residential Floor Area identified in Table 3 for Land Use Classes 11, then the One-Time Special Tax shall not be levied on the property that is the subject of such permit applications. However, should the CFD Administrator determine that the changes in the development plan may cause a change to the amount of Non-Residential Floor Area anticipated for the development of Non-Residential Property within CFD No. 2008-01 (IA No. 1) to anything less than the total Expected Non-Residential Floor Area identified in Table 3, then the CFD Administrator shall, in

accordance with the provisions of paragraph 2, below, determine whether a One-Time Special Tax is to be levied on the property that is the subject of such permit applications.

TABLE 3

Expected Residential Dwelling Units per Land Use Class and Non-Residential Floor Area Improvement Area No. 1 of CFD No. 2008-01

Land Use Class	Description	Residential Floor Area (square feet)	Number of Units/SF
1	Residential Property	4,250 or greater	0 units
2	Residential Property	3,925 to less than 4,250	9 units
3	Residential Property	3,600 to less than 3,925	34 units
4	Residential Property	3,275 to less than 3,600	8 units
5	Residential Property	2,950 to less than 3,275	54 units
6	Residential Property	2,625 to less than 2,950	71 units
7	Residential Property	2,300 to less than 2,625	46 units
8	Residential Property	1,975 to less than 2,300	110 units
9	Residential Property	1,650 to less than 1,975	110 units
10	Residential Property	Less than 1,650	0 units
11	Non-Residential Property	NA	20,000 square feet

2. Calculation of One-Time Special Tax

If a One-Time Special Tax calculation is required as determined by the CFD Administrator pursuant to paragraph 1 above, the CFD Administrator shall review the current development plan for CFD No. 2008-01 (IA No. 1) in consultation with the current property owners for all remaining Final Mapped Property and Undeveloped Property in CFD No. 2008-01 (IA No. 1), and shall prepare an updated version of Table 3 identifying the revised number of residential dwelling units or the amount of Non-Residential Floor Area anticipated within each Land Use Class. The CFD Administrator shall not be responsible for any delays in preparing the updated Table 3 that results from a refusal on the part of one or more current property owners of Final Mapped Property or Undeveloped Property to provide information on their future development.

The CFD Administrator shall then review the updated Table 3 and determine the One-Time Special Tax, if any, to be levied on the property that is the subject of the building permit applications for

which, pursuant to paragraph 1 above, a determination is required to be made as to whether a One-Time Special Tax is to be levied on such property in order to assure CFD No. 2008-01 (IA No. 1)'s ability to collect the Maximum Special Tax A is at least equal to 110% debt service coverage on the Outstanding Bonds, plus Administrative Expenses. The calculations shall be undertaken by the CFD Administrator, based on the data in the updated Table 3, as follows:

- Step 1. Compute the sum of the Maximum Special Tax A authorized to be levied on all Developed Property and Update Property within CFD No. 2008-01 (IA No. 1), plus the sum of the Maximum Special Tax A authorized to be levied on all future development as identified in the current development plan as determined by the CFD Administrator in consultation with the property owner(s).
- Step 2. Determine the amount of Maximum Special Tax A required to provide 110% debt service coverage on the Outstanding Bonds, plus any other payments included in the Special Tax Requirement for Facilities.
- Step 3. If the total sum computed pursuant to step 1 is greater than or equal to the amount computed pursuant to step 2, then no One-Time Special Tax will be required to be levied on such property. If the total sum computed pursuant to step 1 is less than the amount computed pursuant to step 2, then continue to step 4.
- Step 4. Determine the Maximum Special Tax A shortfall by subtracting the total sum computed pursuant to step 1 from the amount computed pursuant to step 2. Divide this Maximum Special Tax A shortfall by the amount computed pursuant to step 2.
- Step 5. The One-Time Special Tax shall be calculated using the prepayment formula described in Section J.1, with the following exceptions: (i) skip Paragraphs 1, 2 and 3, and begin with Paragraph 4; (ii) the Bond Redemption Amount in Paragraph 4 of the prepayment formula described in Section J.1 shall equal the product of the quotient computed pursuant to step 4 above times the Previously Issued Bonds, as defined in Section J.1; (iii) the Capitalized Interest Credit described in Paragraph 14 of Section J.1 shall be \$0; and (iv) any payments of the One-Time Special Tax (less Administrative Fees and Expenses) shall be disbursed pursuant to the Indenture.

3. Billing and Collection of One-Time Special Tax

The One-Time Special Tax shall be payable and be collected by means of direct billing of the owners of the property on which it is levied. The One-Time Special Tax shall have the same priority and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property. CFD No. 2008-01 (IA No. 1) shall effect the levy of the One-Time Special Tax in accordance with the ordinance of the County levying the Special Taxes. The CFD Administrator shall prepare a bill for the One-Time Special Tax payable with respect to each parcel of property and shall send such bill to the owner of such parcel by United States first-class mail, postage prepaid. Said bill shall be so mailed no later than five business days after the date of the calculation made pursuant to paragraph 2, above, and shall be dated the

date of such mailing The One-Time Special Tax shall be due and payable 30 days after the date of such bill. The ownership and billing address for each such parcel shall be ascertained from the records of the County Assessor of the County. Each such bill shall state the amount of the One-Time Special Tax payable, that such One-Time Special Tax is due and payable on the date 30 days after the date of such bill and that, if such One-Time Special Tax is not paid by such date, penalties and interest will begin to accrue.

4. Term; Exemptions

The One-Time Special Tax may be levied, if it is ever levied, during the period not to exceed fifty years commencing with Fiscal Year 2008-2009, provided however that the One-Time Special Tax shall no longer be permitted to be levied in an earlier Fiscal Year if the CFD Administrator has determined that all required interest and principal payments on the CFD No. 2008-01 (IA No. 1) Bonds have been paid.

Property exempt from the levy of the Special Taxes by law or pursuant to the provisions of Section F, below, shall also be exempt from the levy of the One-Time Special Tax.

5. References and Deletions

Unless otherwise provided herein, references to "Special Taxes" in this Rate and Method of Apportionment, other than in Section H, below, refer only to the annual Special Taxes levied pursuant to Section C, above, and not to the One-Time Special Tax levied pursuant to this Section D. The reference to "Special Tax Buydown in accordance with Section D.4 below" in the definition "Administrative Expenses" in Section A, above, shall be deemed to be a reference to "One-Time Special Tax in accordance with Section D, below." The definition "Special Tax A Buydown" in Section A, above, shall be deemed to be deleted therefrom. The reference to "Special Tax A Buydown" in Section H, below, shall be deemed to refer to the One-Time Special Tax.

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Appendix E-3
Certificate To Amend Special Tax A

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CERTIFICATE TO AMEND SPECIAL TAX A
COUNTY OF SAN DIEGO AND CFD No. 2008-01 (IA No. 1) CERTIFICATE

1. Pursuant to Section C of the Rate and Method of Apportionment (the "Rate and Method") for Improvement Area No. 1 of Community Facilities District No. 2008-01 (Harmony Grove Village), County of San Diego, State of California ("CFD No. 2008-01"), the County of San Diego ("County") and CFD No. 2008-01 hereby agree to a reduction in the Maximum Special Tax A for certain Developed Property within Improvement Area No. 1 of CFD No. 2008-01, as reflected herein.

The information in Table 1 relating to the Maximum Special Tax A for Developed Property within Improvement Area No. 1 of CFD No. 2008-01 shall be modified commencing with Fiscal Year 2018-19 as follows¹:

Land Use Class	Description	Residential Floor Area (square feet)	Maximum Special Tax A
1	Residential Property	4,250 or greater	\$5,876.77 per unit
2	Residential Property	3,925 to less than 4,250	\$4,682.44 per unit
3	Residential Property	3,600 to less than 3,925	\$4,215.80 per unit
4	Residential Property	3,275 to less than 3,600	\$4,038.86 per unit
5	Residential Property	2,950 to less than 3,275	\$3,586.09 per unit
6	Residential Property	2,625 to less than 2,950	\$3,421.03 per unit
7	Residential Property	2,300 to less than 2,625	\$3,177.23 per unit
8	Residential Property	1,975 to less than 2,300	\$2,901.63 per unit
9	Residential Property	1,650 to less than 1,975	\$2,631.81 per unit
10	Residential Property	Less than 1,650	\$2,412.39 per unit
11	Non-Residential Property	NA	\$0.305 per square foot of Non-Residential Floor Area

2. The Maximum Special Tax A for Developed Property may only be modified prior to the first issuance of CFD No. 2008-01 (IA No. 1) Bonds.
3. Upon execution of the certificate by the County and CFD No. 2008-01, the County shall cause an amended notice of Special Tax lien for Improvement Area No. 1 of CFD No. 2008-01 to be recorded reflecting the modifications set forth herein.

¹ The reduction of the Maximum Special Tax A is from the Fiscal Year 2018-19 Maximum Special Tax A. The Maximum Special Tax A reflected in the initial Table 1 was for Fiscal Year 2008-09. Table 1, as modified, shows the Maximum Special Tax A for Fiscal Year 2018-19. Maximum Special Tax A was and is subject to increase pursuant to Section C(1)(a)(2) of the Rate and Method. Maximum Special Tax A rates for Land Use Classes 1, 9, 10 and 11 have not been reduced.

By execution hereof, the undersigned acknowledges, on behalf of the County and CFD No. 2008-01, receipt of this certificate and modification of the Rate and Method as set forth in this certificate. Capitalized undefined terms used herein have the meaning ascribed thereto in the Rate and Method.

COUNTY OF SAN DIEGO

By:  Date: 12/15/17

COMMUNITY FACILITIES DISTRICT NO. 2008-01 (HARMONY GROVE VILLAGE),
COUNTY OF SAN DIEGO, STATE OF CALIFORNIA

By:  Date: 12-13-2017

APPENDIX F
GENERAL INFORMATION REGARDING THE COUNTY

The following information is presented as general background data. The Series 2018A Bonds are payable solely from the Net Special Tax Revenues and amounts in certain funds established under the Indenture, as described in the Official Statement. Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Indenture), the County, or the State of California, or any political subdivision thereof, is pledged to the payment of the Series 2018A Bonds.

General

San Diego County is the southernmost major metropolitan area in the State. San Diego County covers 4,261 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange counties form the northern boundary. San Diego County is approximately the size of the State of Connecticut.

Topography of San Diego County varies from broad coastal plains and fertile inland valleys to mountain ranges in the east which rise to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of San Diego County. The climate is equable in the coastal and valley regions where most of the population and resources are located. The average annual rainfall in the coastal areas is approximately 10 inches.

San Diego County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence.

There are 18 incorporated cities in San Diego County, and several unincorporated communities. In addition to the City of San Diego, other principal cities in San Diego County include Carlsbad, Chula Vista, Oceanside, El Cajon, Escondido, La Mesa and National City. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, principally planted in avocados and tomatoes, while the easternmost portion of San Diego County has a dry, desert-like climate.

Population

Table F-1 below sets forth the population in San Diego County, the State and the United States for the years 2008 through 2017.

TABLE F-1
POPULATION ESTIMATES
(In Thousands)
2008-2016

As of July 1	San Diego County	Percent Increase	State of California	Percent Increase	United States	Percent Increase
2008	3,051	1.23	36,856	0.83	304,060	0.81
2009	3,078	0.86	37,077	0.60	307,007	0.97
2010	3,101	0.75	37,335	0.70	309,338	0.76
2011	3,136	1.11	37,676	0.91	311,644	0.75
2012	3,173	1.21	38,043	0.97	313,993	0.75
2013	3,208	1.08	38,374	0.87	316,235	0.71
2014	3,247	1.24	38,740	0.95	318,623	0.76
2015	3,274	0.82	39,059	0.83	321,040	0.76
2016	3,296	0.66	39,312	0.65	323,406	0.74
2017	3,320	0.74	39,613	0.77	325,719	0.72

Sources: County and State Data – State of California Department of Finance; National Data – U.S. Census Bureau, Annual Population Estimates. Percentages may not compute due to independent rounding.

Employment

Table F-2 below sets forth information regarding the size of the civilian labor force, the number of persons employed and unemployed, and the unemployment rates for the County, the State and the United States for 2012 through 2016.

TABLE F-2
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGES 2012-2016⁽¹⁾
By Place of Residence
(In Thousands)

	2012	2013	2014	2015	2016
San Diego County					
Labor Force	1,540	1,543	1,544	1,555	1,570
Employment	1,400	1,423	1,445	1,474	1,497
Unemployment	141	121	99	80	74
Unemployment Rate	9.1%	7.8%	6.4%	5.2%	4.7%
State of California					
Labor Force	18,524	18,624	18,755	18,893	19,103
Employment	16,603	16,959	17,349	17,723	18,065
Unemployment	1,921	1,666	1,406	1,170	1,038
Unemployment Rate	10.4%	8.9%	7.5%	6.2%	5.4%
United States					
Labor Force	154,975	155,389	155,922	157,130	159,187
Employment	142,469	143,929	146,305	148,834	151,436
Unemployment	12,506	11,460	9,617	8,296	7,751
Unemployment Rate	8.1%	7.4%	6.2%	5.3%	4.9%

Source: California Employment Development Department and U.S. Department of Labor Bureau of Labor Statistics.

⁽¹⁾ Data is not seasonally adjusted; values represent independent rounding.

The State of California Employment Development Department, Labor Market Information Division (the “EDD”), estimates that, on a seasonally unadjusted basis, the civilian labor force in the County in November 2017 was 1,584,700, of which approximately 51,500 persons were unemployed. Based on estimates of the EDD on a seasonally unadjusted basis, the County’s unemployment rate in November 2017 was 3.3%, and that of the State was 4.0%.

Table F-3 below sets forth the annual average employment within San Diego County by employment sector, other than farm industries, for 2012 through 2016, and as preliminarily estimated for November 2017.

TABLE F-3
SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES 2012-2016, AND AS OF NOVEMBER 2017
(In Thousands)

Employment Sector⁽¹⁾	2012	2013	2014	2015	2016	November 2017
Mining and Logging	0.4	0.3	0.4	0.3	0.3	0.3
Construction	57.0	61.0	63.9	69.9	76.1	82.0
Manufacturing	98.2	99.4	102.2	106.2	107.8	108.1
Trade, Transportation and Utilities	208.0	212.4	215.0	219.2	221.6	228.1
Information	24.5	24.3	24.4	23.8	23.6	23.8
Financial Activities	69.8	70.8	69.4	71.2	73.0	76.6
Professional and Business Services	213.4	221.1	224.3	230.2	234.0	235.6
Educational and Health Services	174.5	181.0	186.0	192.7	198.5	208.3
Leisure and Hospitality	161.7	168.6	177.0	183.9	190.7	192.9
Other Services	49.2	49.3	52.0	53.2	54.9	60.1
Government	<u>227.8</u>	<u>229.5</u>	<u>231.9</u>	<u>236.2</u>	<u>242.1</u>	<u>253.2</u>
Total	<u>1,284.6</u>	<u>1,317.7</u>	<u>1,346.6</u>	<u>1,386.8</u>	<u>1,422.6</u>	<u>1,469.0</u>

⁽¹⁾ Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, & workers on strike. Data may not add due to rounding.

Source: Annual averages: California Employment Development Department. November 2017 data: California Employment Development Department press release dated December 22, 2017.

Largest Employers

Table F-4 below sets forth the ten largest employers in the County for 2016 and their respective number of employees for 2015 and 2016.

TABLE F-4
SAN DIEGO COUNTY
TEN LARGEST EMPLOYERS
2015-2016

<u>Employer</u>	<u>Number of Employees</u>	
	<u>2015</u>	<u>2016</u>
University of California San Diego	29,287	30,671
Sharp Healthcare	16,896	17,809
County of San Diego	17,034	17,396
Scripps Health	14,644	14,863
Qualcomm Inc.	13,500	12,186
City of San Diego	10,913	11,347
Kaiser Permanente	7,535	8,406
UC San Diego Health System	7,229	7,438
San Diego Community College District	4,733	5,902
General Atomics (and affiliated companies)	5,088	5,480

Source: County of San Diego Fiscal Year 2016-17 Adopted Operational Plan.

Regional Economy

Table F-5 below sets forth the County's real gross domestic product, which is an estimate of the value of all goods and services produced in the region, from 2012 through 2016.

TABLE F-5
SAN DIEGO COUNTY
GROSS DOMESTIC PRODUCT
2012-2016⁽¹⁾

<u>Year</u>	<u>Gross Domestic Product</u>
	<u>(In Millions)</u>
2012	\$189.3
2013	198.5
2014	205.1
2015	210.7
2016	215.3

⁽¹⁾In current dollars. Data as of September 20, 2017.

Sources: Bureau of Economic Analysis, U.S. Department of Commerce;

Building Activity

Table F-6 below sets forth the annual total building permit valuation and the annual new housing permit total from 2013 through 2016, and for January through August, 2017.

TABLE F-6
SAN DIEGO COUNTY
BUILDING PERMIT ACTIVITY
2013-August 2017
(In Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017⁽¹⁾</u>
Valuation:					
Residential	\$2,079,565	\$1,818,853	\$2,447,042	\$2,472,237	\$1,550,246
Non-Residential	<u>1,405,194</u>	<u>1,920,627</u>	<u>1,862,502</u>	<u>1,782,421</u>	<u>1,767,590</u>
Total	<u>\$3,484,759</u>	<u>\$3,739,480</u>	<u>\$4,309,544</u>	<u>\$4,254,658</u>	<u>\$3,317,836</u>
New Housing Units:					
Single Family	2,575	2,276	3,136	2,420	2,390
Multiple Family	<u>5,807</u>	<u>4,327</u>	<u>6,869</u>	<u>7,680</u>	<u>3,288</u>
Total	<u>8,382</u>	<u>6,603</u>	<u>10,005</u>	<u>10,100</u>	<u>5,678</u>

Source: Construction Industry Research Board and California Homebuilding Foundation.

⁽¹⁾ Reflects data as of August 2017.

Commercial Activity

Table F-7 below sets forth the taxable sales in the County for calendar years 2011 through 2015 and for the third quarters of 2015 and 2016.

TABLE F-7
SAN DIEGO COUNTY
TAXABLE SALES
Calendar Years 2011 – 2015 and Third Quarters of 2015 and 2016
(In Thousands)

Type of Business	2011	2012	2013	2014	2015 ⁽¹⁾	Q3 2015 ⁽¹⁾	Q3 2016 ⁽¹⁾
Retail and Food Services:							
Motor Vehicle and Parts Dealers	\$ 5,059,516	\$ 5,851,723	\$ 6,355,973	\$ 6,753,234	\$ 7,294,831	\$ 1,880,518	\$ 1,935,640
Furniture & Home Furnishings Stores ⁽²⁾	894,741	962,420	1,015,878	1,047,805	2,431,315	613,584	653,651
Electronics & Appliance Stores	1,315,328	1,261,183	1,297,063	1,272,567	–	–	–
Building Materials and Garden Equipment and Supplies	2,072,358	2,204,608	2,376,043	2,474,612	2,631,078	664,485	690,167
Food and Beverage Stores	2,010,404	2,087,821	2,179,811	2,291,807	2,456,465	622,881	623,242
Health & Personal Care Stores	869,965	876,663	915,651	919,455	–	–	–
Gasoline Stations	4,437,173	4,595,421	4,515,941	4,514,898	3,795,003	1,066,062	871,999
Clothing and Clothing Accessories Stores	2,988,756	3,208,810	3,425,325	3,482,100	3,562,794	857,072	881,358
Sporting Goods, Hobby, Book & Music Stores	1,009,226	1,003,947	1,031,505	1,033,870	–	–	–
General Merchandise Stores	4,528,053	4,695,436	4,784,812	4,845,900	4,398,638	1,162,902	1,139,038
Miscellaneous Store Retailers ⁽³⁾	1,433,298	1,473,767	1,539,376	1,594,890	4,463,781	1,102,677	1,145,544
Food Services and Drinking Places	5,214,419	5,665,929	5,954,220	6,385,266	6,955,661	1,822,126	1,954,510
Nonstore Retailers	152,055	265,508	556,994	641,091	–	–	–
Total Retail and Food Services	\$31,985,292	\$34,153,236	\$35,948,594	\$37,257,495	\$37,989,566	9,792,307	9,895,151
All Other Outlets	13,105,090	13,793,799	14,348,737	15,454,144	16,196,022	4,108,877	4,318,234
Totals All Outlets	\$45,090,382	\$47,947,035	\$50,297,331	\$52,711,639	\$54,185,588	\$13,901,184	\$14,213,234

Source: California Department of Tax and Fee Administration, Taxable Sales in California.

⁽¹⁾ Industry-level data available for 2015-2016 are not directly comparable to prior years.

⁽²⁾ Referred to as “Home Furnishings and Appliance Stores” beginning in 2015.

⁽³⁾ Referred to as “Other Retail Group” beginning in 2015.

Personal Income

Table F-8 below sets forth the median household income for San Diego County, the State and the United States from 2011 to 2015. For 2016, in 2016 inflation-adjusted dollars, the median household income for San Diego County was \$70,824; for the State, \$67,739, and for the United States, \$57,617.

TABLE F-8
SAN DIEGO COUNTY
MEDIAN HOUSEHOLD INCOME⁽¹⁾
2011 through 2015

<u>Year</u>	<u>San Diego County</u>	<u>California</u>	<u>United States</u>
2011	\$59,477	\$57,287	\$50,502
2012	60,330	58,328	51,371
2013	61,426	60,190	52,250
2014	66,192	61,933	53,657
2015	67,320	64,500	55,775

Source: U.S. Census Bureau – Economic Characteristics – American Community Survey 1-year estimates.

⁽¹⁾ In inflation-adjusted (2015) dollars.

APPENDIX G DTC AND THE BOOK ENTRY SYSTEM

The following information concerning The Depository Trust Company (“DTC”) and DTC’s book-entry system has been obtained from sources that the District and the Underwriters believe to be reliable. The District and the Underwriters undertake no responsibility for, and make no representations as to the accuracy or completeness of, such information.

NEITHER THE DISTRICT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2018A BONDS UNDER THE INDENTURE; (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2018A BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT TO THE OWNERS OF THE SERIES 2018A BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES 2018A BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

The Depository Trust Company, New York, New York, will act as securities depository for the Series 2018A Bonds. The Series 2018A Bonds will be issued as full-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 full-registered Series 2018A Bond certificate will be issued for each maturity of the Series 2018A Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Trustee.

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 and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated by reference herein.

Purchases of the Series 2018A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2018A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2018A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds or certificates representing their ownership interests in the Series 2018A Bonds, except in the event that use of the book-entry system for the Series 2018A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2018A 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 Series 2018A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2018A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2018A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture and the Facility Lease. For example, Beneficial Owners of the Series 2018A Bonds may wish to ascertain that the nominee holding the Series 2018A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

While the Series 2018A Bonds are in the book-entry-only system, redemption notices will be sent to DTC. If less than all of the Series 2018A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2018A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District, as issuer, as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2018A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and interest payments on the Series 2018A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the District, or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time.

Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2018A Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2018A Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). DTC's procedures provide that upon receipt of a withdrawal request from an issuer, DTC will take the following actions: (1) DTC will issue an Important Notice notifying its participants of the receipt of a withdrawal request from the issuer reminding participants that they may utilize DTC's withdrawal procedures if they wish to withdraw their securities from DTC; and (2) DTC will process withdrawal requests submitted by participants in the ordinary course of business, but will not effectuate withdrawals based upon a request from the issuer. In that event, Series 2018A Bond certificates will be printed and delivered to DTC.

The information in this Appendix G concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF SERIES 2018A BONDS AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE PARTICIPANTS.

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APPENDIX H FORM OF DISTRICT CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement dated as of February 1, 2018 (the “Disclosure Agreement”) is executed and delivered by Community Facilities District No. 2008-1 (Harmony Grove Village), County of San Diego, State of California (the “District”), and Willdan Financial Services, as disclosure dissemination agent (“Willdan” or the “Disclosure Dissemination Agent”), in connection with the execution and delivery by the District of its \$15,710,000 Community Facilities District No. 2008-01 (Harmony Grove Village) of the County of San Diego, Improvement Area No. 1 Special Tax Bonds, Series 2018A (the “Bonds”). The Bonds are being issued pursuant to a resolution adopted on December 5, 2017, by the Board of Supervisors of the County of San Diego, California, acting as the legislative body of the District, and the Indenture dated as of February 1, 2018 (the “Indenture”) by and between the District and ZB, National Association dba Zions Bank, as trustee. The District covenants and agrees as follows:

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule (hereinafter defined) or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Report” means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

“Annual Filing Date” means the date set forth in Sections 2(a) and 2(f) of this Disclosure Agreement by which the Annual Report is to be filed with the MSRB.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Assessor’s Parcel” has the meaning given in the Rate and Method.

“Audited Financial Statements” means the financial statements (if any) of the District for the prior Fiscal Year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the Bonds as listed on the attached Exhibit A with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the District and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Dissemination Agent” means Willdan Financial Services, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the District pursuant to Section 9 hereof.

“Disclosure Representative” means the Debt Finance Manager of the District or his or her designee, or such other person as the District shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Failure to File Event” means the District’s failure to file an Annual Report on or before the Annual Filing Date.

“Force Majeure Event” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (a) having 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) treated as the owner of any Bonds for federal income tax purposes.

“Information” means, collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

“Obligated Person” means any person, including the District, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds.

“Official Statement” means that Official Statement prepared by the District in connection with the Bonds, as listed on Exhibit A.

“Taxable Property” has the meaning given in the Rate and Method.

“Trustee” means the institution identified as such in the document under which the Bonds were issued.

“Voluntary Event Disclosure” means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(10) of Section 2 of this Disclosure Agreement that is accompanied by a

Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

“Voluntary Financial Disclosure” means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(2) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The District shall provide annually an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than nine months after the end of each Fiscal Year of the District, commencing with the Fiscal Year ending June 30, 2018. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the District of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification) no later than the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the District will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Failure to File Event has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit B, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 3:00 p.m. Pacific time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the District irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the District are prepared but not available prior to the Annual Filing Date, the District shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed by the District pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

1. “Principal and interest payment delinquencies;”
2. “Non-Payment related defaults, if material;”
3. “Unscheduled draws on debt service reserves reflecting financial difficulties;”
4. “Unscheduled draws on credit enhancements reflecting financial difficulties;”
5. “Substitution of credit or liquidity providers, or their failure to perform;”
6. “Adverse tax opinions, Internal Revenue Service notices or events affecting the tax status of the security;”
7. “Modifications to rights of securities holders, if material;”
8. “Certificate calls, if material;”
9. “Defeasances;”
10. “Release, substitution, or sale of property securing repayment of the securities, if material;”
11. “Rating changes;”
12. “Tender offers;”
13. “Bankruptcy, insolvency, receivership or similar event of the obligated person;”
14. “Merger, consolidation, or acquisition of the obligated person, if material;” and
15. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) with the MSRB, identifying the Voluntary Event Disclosure as instructed by the District pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. “amendment to continuing disclosure undertaking;”
2. “change in obligated person;”
3. “notice to investors pursuant to bond documents;”
4. “certain communications from the Internal Revenue Service;”
5. “secondary market purchases;”
6. “bid for auction rate or other securities;”
7. “capital or other financing plan;”
8. “litigation/enforcement action;”
9. “derivative or other similar transaction;” and
10. “other event-based disclosures.”

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the District pursuant to Section 7(b) (which may be any of the categories set forth below or any other category identified by the District) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. “change in Fiscal Year/timing of annual disclosure;”
2. “change in accounting standard.”

(viii) provide the District evidence of the filings of each of the above when made.

(f) The District may adjust the Annual Filing Date upon change of its Fiscal Year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Any Information received by the Disclosure Dissemination Agent before 3:00 p.m. Pacific time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 8:59 p.m. Pacific time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports. Each Annual Report shall contain the following Annual Financial Information with respect to the District,

(a) Financial Statements. The audited financial statements of the District for the prior Fiscal Year, if any have been prepared and which, if prepared, shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board; provided, however, that the District may, from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the District shall modify the basis upon which its financial statements are prepared, the District shall provide the information referenced in Section 8 of this Disclosure Agreement regarding such modification. If the District is preparing audited financial statements and such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following:

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

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

(iii) any changes to the Rate and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors of Improvement Area No. 1 for approval prior to the filing of the Annual Report;

(iv) an update of the estimated assessed value-to-lien ratio for Improvement Area No. 1 substantially in the form of Table 1, Table 2, and Table 3 in the Official Statement based upon the most recent Special Tax levy preceding the date of the Annual Report and on the assessed values of property subject to the Special Tax levy for the current Fiscal Year;

(v) the status of any foreclosure actions being pursued by the District in Improvement Area No. 1 with respect to delinquent Special Taxes;

(vi) a description of the collection and delinquency rate of Special Taxes in Improvement Area No. 1 for the Fiscal Year then ended;

(vii) a description of the number and amount of any prepayments of Special Taxes that were received by the District since the date of the most recent Official Statement or Annual Report, whichever is more current, and the total number of Assessor's Parcels of Taxable Property for the next succeeding Fiscal Year.

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

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission. If the document included by reference

is a final official statement, it must be available from the MSRB through EMMA. The District shall clearly identify each such other document so included by reference.

Any Annual Financial Information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements relating to the Bonds reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of Certificate holders, if material;
8. Certificate calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

Note to subsection (a)(12) of this Section 4: For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The District shall, in a timely manner not in excess of ten business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the District desires to make, contain the written authorization of the District for the Disclosure Dissemination Agent to disseminate such information, and identify the date the District desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent shall, in a timely manner not in excess of five business days after its occurrence, notify the District or the Disclosure Representative of an event that may constitute a Notice Event. The Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the District determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the District desires to make, contain the written authorization of the District for the Disclosure Dissemination Agent to disseminate such information, and identify the date the District desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the District as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB in accordance with Section 2(e)(iv) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, Notice Event notices, Failure to File Event notices, Voluntary Event Disclosures and Voluntary Financial Disclosures, the District shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The District acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the District, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The District acknowledges and understands that the duties of

the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The District may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the District desires to make, contain the written authorization of the District for the Disclosure Dissemination Agent to disseminate such information, and identify the date the District desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the District as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The District may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the District desires to make, contain the written authorization of the District for the Disclosure Dissemination Agent to disseminate such information, and identify the date the District desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the District as prescribed in this Section 7(b) to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that the District is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the District and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the District is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The District has appointed Willdan Financial Services as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The District may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of Willdan's services as Disclosure Dissemination Agent, whether by notice of the District or Willdan, the District agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds.

SECTION 10. Remedies in Event of Default. In the event of a failure of the District or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein. Nothing in this Disclosure Agreement is intended to limit the rights and remedies provided under the Agreement with Willdan Financial Services for As-Needed Special Tax Consultant Services, Contract # 556742 or successor contract.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the District has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the District and shall not be deemed to be acting in any fiduciary capacity for the District, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the District's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the District has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the District at all times. Nothing in this Disclosure Agreement is intended to limit the rights and remedies provided under the Agreement with Willdan Financial Services for As-Needed Special Tax Consultant Services, Contract # 556742 or successor contract.

The obligations of the District under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the District and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair

the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the District or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the District. No such amendment shall become effective if the District shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

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

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 15. 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.

The Disclosure Dissemination Agent and the District have caused this Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

COMMUNITY FACILITIES DISTRICT NO. 2008-1
(HARMONY GROVE VILLAGE), COUNTY OF SAN
DIEGO, STATE OF CALIFORNIA

By: _____
Disclosure Representative

WILLDAN FINANCIAL SERVICES, as Disclosure
Dissemination Agent

By: _____
Authorized Representative

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issue: The Community Facilities District No. 2008-01 (Harmony Grove Village) of the County of San Diego, Improvement Area No. 1 Special Tax Bonds, Series 2018A

Obligated Person(s): Community Facilities District No. 2008-1 (Harmony Grove Village), County of San Diego, State of California

Date of Issuance: February 7, 2018

Date of Official Statement: January 18, 2018

CUSIP Numbers:

79743A AA1
79743A AB9
79743A AC7
79743A AD5
79743A AE3
79743A AF0
79743A AG8
79743A AH6
79743A AJ2
79743A AK9
79743A AL7
79743A AM5
79743A AN3
79743A AP8
79743A AQ6
79743A AR4
79743A AS2
79743A AT0
79743A AU7
79743A AV5
79743A AW3
79743A AX1

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Obligor: Community Facilities District No. 2008-1 (Harmony Grove Village),
County of San Diego, State of California (the "District")

Name of Issue: The Community Facilities District No. 2008-01 (Harmony Grove
Village) of the County of San Diego, Improvement Area No. 1 Special
Tax Bonds, Series 2018A

Date of Issuance: February 7, 2018

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement, dated as of February 1, 2018, between the District and Willdan Financial Services, as Disclosure Dissemination Agent. The District has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____.

Dated: _____

Willdan Financial Services, as Disclosure Dissemination
Agent, on behalf of the District

cc: Disclosure Representative

**EXHIBIT C-1
EVENT NOTICE COVER SHEET**

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name: Community Facilities District No. 2008-1 (Harmony Grove Village), County of San Diego, State of California

Issuer's Six-Digit CUSIP Number: 79743A

or Nine-Digit CUSIP Number(s) of the Bonds to which this material event notice relates:

Number of pages of attached: _____

_____ Description of Notice Events (Check One):

1. _____ "Principal and interest payment delinquencies;"
2. _____ "Non-Payment related defaults, if material;"
3. _____ "Unscheduled draws on debt service reserves reflecting financial difficulties;"
4. _____ "Unscheduled draws on credit enhancements reflecting financial difficulties;"
5. _____ "Substitution of credit or liquidity providers, or their failure to perform;"
6. _____ "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7. _____ "Modifications to rights of securities holders, if material;"
8. _____ "Certificate calls, if material;"
9. _____ "Defeasances;"
10. _____ "Release, substitution, or sale of property securing repayment of the securities, if material;"
11. _____ "Rating changes;"
12. _____ "Tender offers;"
13. _____ "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14. _____ "Merger, consolidation, or acquisition of the obligated person, if material;" and
15. _____ "Appointment of a successor or additional trustee, or the change of name of a trustee, if material."

_____ Failure to provide annual financial information as required

I hereby represent that I am authorized by the Issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Willdan Financial Services
27368 Via Industria, Suite 200
Temecula, CA 92590

Date: _____

EXHIBIT C-2
VOLUNTARY EVENT DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary event disclosure" will be sent to the MSRB, pursuant to the Continuing Disclosure Agreement dated as of February 1, 2018 between the Issuer named below and Willdan Financial Services.

Issuer's and/or Other Obligated Person's Name: Community Facilities District No. 2008-1 (Harmony Grove Village), County of San Diego, State of California

Issuer's Six-Digit CUSIP Number: 79743A

or Nine-Digit CUSIP Number(s) of the Bonds to which this notice relates:

Number of pages attached: _____

_____ Description of Voluntary Event Disclosure (Check One):

1. "amendment to continuing disclosure undertaking;"
2. "change in obligated person;"
3. "notice to investors pursuant to bond documents;"
4. "certain communications from the Internal Revenue Service;"
5. "secondary market purchases;"
6. "bid for auction rate or other securities;"
7. "capital or other financing plan;"
8. "litigation/enforcement action;"
9. "derivative or other similar transaction;"
10. "other event-based disclosures."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Willdan Financial Services
27368 Via Industria, Suite 200
Temecula, CA 92590

Date: _____

**EXHIBIT C-3
VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET**

This cover sheet and accompanying "voluntary financial disclosure" will be sent to the MSRB, pursuant to the Continuing Disclosure Agreement dated as of February 1, 2018 between the Issuer and Willdan Financial Services.

Issuer's and/or Other Obligated Person's Name: Community Facilities District No. 2008-1 (Harmony Grove Village), County of San Diego, State of California

Issuer's Six-Digit CUSIP Number: 79743A

or Nine-Digit CUSIP Number(s) of the Bonds to which this notice relates:

Number of pages attached: _____

____ Description of Voluntary Financial Disclosure (Check One):

1. "change in Fiscal Year/timing of annual disclosure;"
2. "change in accounting standard."

I hereby represent that I am authorized by the Issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Willdan Financial Services
27368 Via Industria, Suite 200
Temecula, CA 92590

Date: _____

APPENDIX I
FORM OF DEVELOPER CONTINUING DISCLOSURE AGREEMENT

This Developer Continuing Disclosure Agreement (the “Disclosure Agreement”) dated as of February 1, 2018 is executed and delivered by CalAtlantic Group, Inc., a Delaware corporation (the “Developer”), and Willdan Financial Services, as dissemination agent (the “Dissemination Agent”), in connection with the execution and delivery by Community Facilities District No. 2008-1 (Harmony Grove Village), County of San Diego, State of California of its \$15,710,000 Community Facilities District No. 2008-01 (Harmony Grove Village) of the County of San Diego, Improvement Area No. 1 Special Tax Bonds, Series 2018A (the “Bonds”). The Bonds are being issued pursuant to a resolution adopted on December 5, 2017, by the Board of Supervisors of the County of San Diego, California, acting as the legislative body of the District, and the Indenture dated as of February 1, 2018 (the “Indenture”) by and between the District and ZB, National Association dba Zions Bank, as trustee. The Developer covenants and agrees as follows:

Section 1. Definitions. Unless otherwise defined herein, the following capitalized terms shall have the following meanings:

“Affiliate” shall mean any person that directly (or indirectly through one or more intermediaries) exercises managerial control over the Developer or that is under managerial control of the Developer, and about whom information could be material to potential investors in their investment decision regarding the Bonds (including without limitation information relevant to the proposed development of the Property, or to the Developer’s ability to pay the special taxes levied on the Property prior to delinquency).

“Assumption Agreement” means an agreement between a Major Developer, or an Affiliate thereof, and the Dissemination Agent containing terms substantially similar to this Disclosure Agreement, whereby such Major Developer or Affiliate agrees to provide Semiannual Reports and notices of significant events with respect to the portion of the Property owned by such Major Developer or its Affiliates.

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

“County” means the County of San Diego, California.

“Developer Improvements” has the meaning given in Section 3(a)(i) hereof.

“Dissemination Agent” shall mean initially Willdan Financial Services, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Developer and which has filed with the Developer and the District a written acceptance of such designation.

“District” shall mean Community Facilities District No. 2008-1 (Harmony Grove Village), County of San Diego, State of California.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Fiscal Year” shall mean the period beginning on January 1 of each year and ending on the next succeeding December 31.

“Government Authority” shall mean any national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any other Person exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Improvement Area No. 1” shall mean Improvement Area No. 1 of the District.

“Listed Event” shall mean any of the events listed in Section 4(a) of this Disclosure Agreement.

“Major Developer” means, as of any date, any Property Owner, including the Developer, that owns Taxable Property, together with Taxable Property owned by Affiliates of such Property Owner, that is subject to 20% or more of the Special Tax A levy for the then current Fiscal Year.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement, dated January 18, 2018, relating to the Bonds.

“Person” shall mean any natural person, corporation, partnership, limited liability company, association, joint stock company, trust, unincorporated organization or a Government Authority.

“Property” means the real property within the boundaries of Improvement Area No. 1 that is not exempt from the levy of the Special Taxes.

“Property Owner” means any Person that owns a fee interest in any Property.

“Report Date” means the date on which a Semiannual Report is due pursuant to Section 2(a) hereof.

“Repository” shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

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

“Semiannual Report” shall mean any report to be provided by the Developer on or prior to June 15 and December 15 of each year, commencing June 15, 2018, pursuant to, and as described in, Sections 2 and 3 of this Disclosure Agreement.

“State” shall mean the State of California.

“Taxable Property” has the meaning given in the Rate and Method.

“Underwriter” shall mean, collectively, the original underwriters of the Bonds, which are Stifel, Nicolaus & Company, Incorporated, and Piper Jaffray & Co.

Section 2. Provision of Semiannual Reports.

(a) Until such time as the Developer's reporting requirements terminate pursuant to Section 6 of this Disclosure Agreement, the Developer shall, or upon receipt of the Semiannual Report from the Developer the Dissemination Agent shall, not later than June 15 and December 15 of each year, commencing June 15, 2018, provide to the Repository a Semiannual Report which is consistent with the requirements of Section 3 of this Disclosure Agreement. If, in any year, June 15 or December 15 falls on a Saturday, Sunday or a holiday, such deadline shall be extended to the next following day that is not a Saturday, Sunday, or holiday. The Semiannual 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 3 of this Disclosure Agreement.

(b) Not later than fifteen (15) calendar days prior to the date specified in subsection (a) for providing the Semiannual Report to the Repository, the Developer (i) shall provide the Semiannual Report to the Dissemination Agent or (ii) shall provide notification to the Dissemination Agent that the Developer is preparing, or causing to be prepared, the Semiannual Report and the date which the Semiannual Report is expected to be filed. If by such date, the Dissemination Agent has not received a copy of the Semiannual Report or notification as described in the preceding sentence, the Dissemination Agent shall notify the Developer of such failure to receive the report.

(c) If the Dissemination Agent is unable to provide a Semiannual Report to the Repository by the applicable June 15th or December 15th or to verify that a Semiannual Report has been provided to the Repository by the Developer by the applicable June 15th or December 15th, the Dissemination Agent shall send, in a timely manner, a notice to the Repository in the form required by the Repository.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Semiannual Report the name and address of the Repository; and

(ii) promptly after receipt of the Semiannual Report file a report with the Developer and the District certifying that the Semiannual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the Repository.

(e) Notwithstanding any other provision of this Disclosure Agreement, any of the required filings hereunder shall be made in accordance with the MSRB's EMMA system.

Section 3. Content of Semiannual Reports.

(a) The Developer's Semiannual Report shall contain or include by reference the information which is updated through a date which shall not be more than 60 days prior to the date of the filing of the Semiannual Report relating to the following:

(i) An update (if any) to the information relating to the Developer and its Affiliates under the caption in the Official Statement entitled "THE DEVELOPMENT AND THE DEVELOPER" (except that no updates are required on the disclosure for the Developer's development experience), and Table 7, "Expected Cost and Percentage Completion of Facilities." Such updates shall include, but not be limited to, the estimated remaining cost expected to be borne by the Developer and its Affiliates to complete any of the public improvements in Improvement Area No. 1 and status of construction for property currently owned by the Developer or an Affiliate (collectively, the "Developer Improvements").

(ii) A description of any sales of portions of the Developer's Property that is Taxable Property during the six month period ending on the last day of the second month preceding the month in which the Report Date occurs, including the identification of each buyer and the number of acres or lots sold.

(iii) An update of the number of building permits issued on parcels owned by the Developer during the six month period ending on the last day of the second month preceding the month in which the Report Date occurs.

(iv) The number of single family residences on the Developer's Property conveyed to individual buyers during the six month period ending on the last day of the second month preceding the month in which the Report Date occurs.

(v) An update of the status of any previously reported Listed Event described in Section 4 hereof.

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

Section 4. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 4, the Developer shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds, if material under clauses (b) and (c) as soon as practicable after the Developer obtains knowledge of any of the following events:

1. Failure to pay any real property taxes, special taxes or assessments levied within Improvement Area No. 1 on a parcel owned by the Developer or any Affiliate;

2. Material default by the Developer or any Affiliate on any loan with respect to the construction or permanent financing of the Developer Improvements to which the Developer or any Affiliate has been provided a notice of default;

3. Material default by the Developer or any Affiliate on any loan secured by property within Improvement Area No. 1 owned by the Developer or any Affiliate to which the Developer or any Affiliate has been provided a notice of default;

4. Payment default by the Developer or any Affiliate on any loan of the Developer or any Affiliate (whether or not such loan is secured by property within Improvement Area No. 1) which is beyond any applicable cure period in such loan and, in the reasonable judgment of the Developer, such payment default will adversely affect the completion of the development of parcels within Improvement Area No. 1, or would materially adversely affect the financial condition of the Developer or its Affiliates or their respective ability to complete infrastructure development within Improvement Area No. 1;

5. The filing of any proceedings with respect to the Developer in which the Developer may be adjudicated as bankrupt or discharged from any or all of its debts or

obligations or granted an extension of time to pay debts or a reorganization or readjustment of its debts;

6. The filing of any proceedings with respect to an Affiliate in which the Affiliate may be adjudicated as bankrupt or discharged from any or all of its debts or obligations or granted an extension of time to pay its debts or a reorganization or readjustment of its debts, if such adjudication will adversely affect the completion of the development of parcels within Improvement Area No. 1, or would materially adversely affect the financial condition of the Developer or its Affiliates and their respective ability to complete infrastructure development within Improvement Area No. 1;

7. The filing of any lawsuit against the Developer or any of its Affiliates (for which the Developer has notice, as through receipt of service of process) which, in the reasonable judgment of the Developer, could adversely affect the completion of the development of parcels within Improvement Area No. 1, or litigation which if decided against the Developer, or any of its Affiliates, in the reasonable judgment of the Developer, could materially adversely affect the financial condition of the Developer or its Affiliates and their respective ability to complete infrastructure development within Improvement Area No. 1;

8. Damage or destruction of any parcel owned by the Developer or any Affiliate within Improvement Area No. 1 that is likely to have a material adverse effect on the ability of the Developer or any Affiliate to complete the development within Improvement Area No. 1; and

9. A sale or transfer of all or substantially all of the Developer's assets or, except as disclosed in the Official Statement, a sale of a majority of the membership interests, partnership interests, or outstanding stock (as applicable) of the Developer (it being understood that such majority sale is not meant to include an aggregation of routine, unrelated market trades).

(b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall as soon as possible determine if such event would be material under applicable federal securities laws. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) If the Developer determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Developer shall promptly (i) file a notice of such occurrence with the Dissemination Agent which shall then distribute such notice to the Repository, with a copy to the District, or (ii) file a notice of such occurrence with the Repository, with a copy to the Dissemination Agent and the District.

Section 5. Assumption of Obligations. If a portion of the Property owned by the Developer, or any Affiliate of the Developer, is conveyed to a Person (other than a Person that is an Affiliate of the Developer) that, upon such conveyance, will be a Major Developer, the obligations of the Developer hereunder with respect to the Property owned by such Major Developer and its Affiliates shall be assumed by such Major Developer or by an Affiliate thereof. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement.

Section 6. Termination of Reporting Obligation. The Developer's obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the following events:

(a) the legal defeasance, prior redemption or payment in full of all of the Bonds, or

(b) the date on which the Developer and its Affiliates collectively own property within Improvement Area No. 1 that is responsible for less than twenty percent (20%) of the Special Tax A levied in the Fiscal Year.

If such termination occurs prior to the final maturity of the Bonds, the Developer shall give notice of such termination in the same manner as for a Listed Event hereunder.

Section 7. Dissemination Agent. The Developer 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. If the Dissemination Agent is not the Developer, the Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the Developer pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing (i) thirty days written notice to the Developer and the Dissemination Agent and (ii) upon appointment of a new Dissemination Agent hereunder.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Developer may amend this Disclosure Agreement, 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 2(a), 3 or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements or a change in law;

(b) The amendment or waiver either (i) is approved by the owners of the Bonds in the same manner as provided in the Resolution with the consent of owners of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel addressed to the District and the Dissemination Agent, materially impair the interests of the owners or Beneficial Owners of the Bonds; and

(c) The Developer, or the Dissemination Agent, shall have delivered copies of the amendment and any opinions delivered under (b) above to the District and the Trustee.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Developer shall describe such amendment in the next Semiannual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver.

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

The Developer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Developer, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Developer under such laws.

Section 10. Default. In the event of a failure of the Developer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Underwriter or any owner or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Developer or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. Notwithstanding the foregoing sentence, the sole remedy under this Disclosure Agreement in the event of any failure of the Developer 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. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Developer, the Underwriter, owners of the Bonds or Beneficial Owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon a direction from the Developer or an opinion of nationally recognized bond counsel. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent may conclusively rely upon the Semiannual Report provided to it by the Developer as constituting the Semiannual Report required of the Developer in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Semiannual Report. The Dissemination Agent shall have no duty to prepare the Semiannual Report nor shall the Dissemination Agent be responsible for filing any Semiannual Report not provided to it by the Developer in a timely manner in a form suitable for filing with the Repositories. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

Section 12. Developer as Independent Contractor. In performing under this Disclosure Agreement, it is understood that the Developer is an independent contractor and not an agent of the District.

Section 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Developer: CalAtlantic Homes
16010 Camino Del Sur
San Diego, CA 92127
Attention: Tom Atkin, Vice President - Finance
Phone: (858) 618-4916

with a copy to:

CalAtlantic Homes
15360 Barranca Parkway
Irvine, California 92618
Attention: Vice President - Treasury
Phone: (949) 789-1653

and to:

O'Neil LLP
19900 MacArthur Blvd, Suite 1050
Irvine, California 92612
Attention: Sandra A. Galle

Phone: (949) 789-0725

Dissemination Agent: Willdan Financial Services
27368 Via Industria, Suite 200
Temecula, CA 92590
Attention:
Phone:

Underwriters: Stifel, Nicolaus & Company, Incorporated
One Montgomery Street, 35th Floor
San Francisco, CA 94104
Attention:
Phone:

Piper Jaffray & Co.
1100 South Coast Highway, Suite 300A
Laguna Beach, CA 92651
Attention:
Phone:

Section 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Developer, the District, the Dissemination Agent, the Underwriter and owners of the Bonds and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. California Law. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

Section 16 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.

CALATLANTIC GROUP, INC., a Delaware corporation,

By: _____
Name: _____
Title: Operational Vice President

WILLDAN FINANCIAL SERVICES,
as Dissemination Agent

By: _____
Authorized Representative