

4. A parcel for which no final parcel or tract map has been recorded as of the preceding March 1 will be assigned to Land Use Class 7, vacant property, for a fiscal year.

After assigning parcels to their respective Land Use Classes, the Board of Supervisors is to compute the Required Special Tax for the fiscal year and apportion it out as follows: The Board will first levy on parcels within Land Use Classes 1, 2, 3(D), 4(D), 5(D) and 6(D) in equal percentages up to 90.9% of the maximum Special Tax for such fiscal year for such Land Use Classes. If additional funds are still needed at that point, the Board of Supervisors will next levy on parcels within Land Use Classes 3(A), 4(A), 5(A) and 6(A) in equal percentages up to 90.9% of the maximum Special Tax for such fiscal year for each Land Use Class. If after levying on parcels in Land Use Classes 1 through 6 as described above additional funds are still needed to collect the Required Special Tax, the Board of Supervisors will levy up to 90.9% of the maximum Special Tax for such fiscal year on Land Use Class 7, vacant property. Thereafter, additional amounts necessary to collect the Required Special Tax shall be obtained by increasing the levy on each of the Land Use Classes pro rata above the 90.9% of the maximum Special Tax applicable to each Land Use Class.

As described further below, during fiscal year 2010-11, Special Taxes were levied on Developed Property and Approved Property. Following the conversion of the Bonds, beginning in fiscal year 2011-12, the District does not expect to levy Special Taxes on either Approved Property or Vacant Property. Set forth below is a table setting forth the land use categories and the maximum rates that will be applicable to each Land Use Class for fiscal year 2011-12.

**TABLE 1  
MAXIMUM SPECIAL TAXES ON PROPERTY IN  
COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE  
FOR FISCAL YEAR 2011-12 PER UNIT (RESIDENTIAL)  
PER SQUARE FOOT (COMMERCIAL/TOWNCENTER AND BUSINESS PARK)  
AND PER ACRE (APPROVED AND VACANT)**

<i>Land Use Class</i>	<i>Description</i>	<i>No. of Parcels</i>	<i>Per Unit/ Per Acre/ Per SqFt</i>	<i>No. of Dwelling Units/Acres SqFt</i>	<i>Maximum Special Tax Fiscal Year 2011-12 Per Unit/ Per Acre/ Per SqFt</i>	<i>Maximum Special Tax Fiscal Year 2011-12</i>
A4	Approved Residential (15 or more units/ac)	1	Acre	0.42	\$8,851.05	\$ 3,644.55
A5	Approved Commercial/Town Center	23	Acre	60.56	16,069.01	954,058.22
A6	Approved Business Park	4	Acre	17.73	11,533.26	200,475.24
D1	Developed Residential (Less than 5 units/ac)	639	Unit	639	1,281.75	802,980.18
D2	Developed Residential (5-10 units/ac)	277	Unit	277	1,115.63	302,968.75
D3	Developed Residential (10-15 units/ac)	146	Unit	146	937.89	134,247.00
D4	Developed Residential (15 or more units/ac)	324	Unit	324	520.61	165,369.60
D5-Ac	Developed Commercial/Town Center (Acre Rate)	12	Acre	31.24	16,069.01	492,152.88
D5-SF	Developed Commercial/Town Center (SqFt Rate)	1	SqFt	40,000	1.21	47,695.20
D6-Ac	Developed Business Park (Acre Rate)	3	Acre	5.04	11,533.26	56,987.88
D6-SF	Developed Business Park (SqFt Rate)	80	SqFt	1,002,098	0.89	869,432.28
V	Vacant Property	<u>2</u>	Acre	19.71	10,619.36	<u>205,203.51</u>
Total		1,512				\$ 4,235,215.29

(D) Developed Property.

(A) Approved Property.

Source: Albert A. Webb Associates. Inc.

The maximum Special Tax rate increases for each Land Use Class on July 1 of each year by two percent per year. However, notwithstanding the above, under no circumstances will the Special Taxes levied against any parcel of residential property within the District be increased by more than 10% per fiscal year as a consequence of a delinquency or default by the owner of any other parcel within the District.

### Collection and Application of Special Taxes

The Special Taxes are levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes and, except as provided in the special covenant for

foreclosure described below and in the Act, are subject to the same penalties and the same procedure, sale, and lien priority in case of delinquency as is provided for *ad valorem* property taxes.

### **Covenant for Foreclosure**

In the event of any delinquency in the payment of the Special Tax, the District may order to institution of a superior court action to foreclose the lien on the parcel in question within specified time limits pursuant to Section 53356.1 of the Act. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. The ability of the District to foreclose the lien of unpaid Special Taxes may be limited in certain cases. See "SPECIAL RISK FACTORS — Enforcement Delays - Bankruptcy." Such judicial foreclosure actions are not required by law. However, the District has covenanted in the Fiscal Agent Agreement that it will commence appropriate judicial foreclosure proceedings against parcels with total Special Tax delinquencies in excess of \$25,000 (not including interest and penalties thereon) by the October 1 following the close of each fiscal year in which the last of such Special Taxes were due and will commence appropriate judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each fiscal year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied in such fiscal year, and that it will diligently pursue to completion such foreclosure proceedings; provided, however, that the District may elect to accept payment from a property owner of at least the enrolled amount by less than the full amount of the penalties, interest, costs and attorneys' fees related to a Special Tax delinquency, if permitted by law. Notwithstanding the foregoing, in certain instances the amount of a Special Tax delinquency on a particular parcel may be so small that the cost of appropriate foreclosure proceedings will far exceed the Special Tax delinquency; and, in such cases, foreclosure proceedings may be delayed by the District until there are sufficient Special Tax delinquencies accruing to such parcel (including interest and penalties thereon) to warrant the cost of the foreclosure proceedings.

If foreclosure is necessary and other funds (including amounts in the Reserve Fund) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have been completed. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the District. See "SPECIAL RISK FACTORS — Enforcement Delays – Bankruptcy." Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See "SPECIAL RISK FACTORS — Insufficiency of 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 impose on the District or the County any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale.

### **Reserve Fund**

The Fiscal Agent Agreement directs the Fiscal Agent to establish, maintain and hold in trust a Reserve Fund for the Bonds in an amount equal to the Reserve Requirement. However, on the Conversion Date, the Reserve Fund will be funded at an amount equal to \$\_\_\_\_\_ and an amount sufficient to bring the balance therein to \$\_\_\_\_\_ (the Reserve Requirement on the Conversion Date) will be deposited in the Reserve Fund from the first Special Tax Revenues received in fiscal year 2010-11.

Except as described below, all amounts deposited in the Reserve Fund are to be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Interest Account and Principal Account in the event of any deficiency in either such account of the amount then required for the payment of the principal of and interest on the Bonds or for the purpose of redeeming Bonds from the Principal Account. Subject to that potential use, so long as no Event of Default has occurred and is continuing, any amount in the Reserve Fund in excess of the Reserve Requirement (other than investment earnings, which are to be deposited in the

Earnings Fund) on each date on which the Reserve Requirement is reduced shall be withdrawn from the Reserve Fund by the Fiscal Agent and deposited in the Earnings Fund.

So long as no Event of Default has occurred and is continuing, in connection with any prepayment of Special Taxes, the Fiscal Agent shall transfer from the Reserve Fund to the Redemption Account the amount specified in a Written Certificate of the District as the "Reserve Fund Credit" applicable to such prepayment, provided that the Fiscal Agent receives at the time of such transfer the balance of such prepayment in an amount sufficient to defease a portion of the Bonds to the Redemption Date, and provided, further, that the amount remaining in the Reserve Fund after such transfer will equal the Reserve Requirement.

Whenever the balance in the Reserve Fund, together with the amounts in other funds and accounts available for such purpose, is sufficient to retire all the Outstanding Bonds, whether by advance retirement or otherwise, collection of the Special Taxes shall be discontinued and the Reserve Fund shall be liquidated by the Fiscal Agent in retirement of the Outstanding Bonds, as directed by a Written Request of the District.

## **THE COMMUNITY FACILITIES DISTRICT**

### **Authority For and Formation of the District**

The District was formed pursuant to the Act in 1988. The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a community facilities district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a community facilities district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness.

Pursuant to the Act, the Board of Supervisors of the County of Riverside (the "Board of Supervisors") adopted Resolution No. 88-257 on May 24, 1988, amended by Resolution No. 88-349 on July 5, 1988, stating its intention to establish the District. Pursuant to Resolutions No. 88-334 and 88-335, adopted by the Board of Supervisors on July 5, 1988 (as amended by Resolutions No. 88-383 and 88-386, respectively, adopted on July 26, 1988), the District was formed, bonded indebtedness in an aggregate principal amount not to exceed \$30,000,000 was authorized (subject to the approval thereof by the qualified electors of the District) to finance certain public improvements to meet the needs of new development within the District, and an election was held on August 9, 1988. At the time of said election there was a single owner of property within the District; and, as the sole qualified elector, it approved said bonded indebtedness and also approved the rate and method of apportionment of a special tax and levy of a special tax to pay the principal of and interest on the bonded indebtedness, to pay administrative expenses of the District and to fund any reserves established by the District. Following the election, the Board of Supervisors adopted Ordinance No. 661 authorizing the levy of the Special Tax.

Subsequent to the formation of the District, proceedings were taken for the amendment of the rate and method of apportionment of the special tax. The amended rate and method of apportionment of special tax was approved by the sole qualified elector at an election held on August 15, 1989. Following said approval, the Board of Supervisors adopted Ordinance No. 661.1 authorizing the levy of the special tax.

On December 11, 2001, the Board of Supervisors indicated its intention to add territory to the District (the "Annexed Territory") to the District and to levy the Special Tax within the Annexed Territory. The question of the annexation of such area and the levy of the Special Tax therein was approved by the owners of the property within the Annexed Territory at a special election held on February 26, 2002. Based upon that approval, on March 5, 2002, the Board of Supervisors adopted Ordinance No. 661.2 which, among other

things, approved the amended rate and method of apportionment and made it applicable to the Annexed Territory (as so approved, the "Rate and Method of Apportionment"). A copy of the Rate and Method of Apportionment is set forth in Appendix A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

**General Description of the District**

In general, the District is located in the southwestern portion of the County, adjacent to the cities of Murrieta and Temecula, approximately 36 miles southeast of downtown Riverside. The District includes approximately 597 acres, of which 137 are designated for open space and are not subject to the Special Tax. The District is included within the County's Specific Plan 213, Amendment No. 3 and is zoned for various residential land uses as well as commercial and business park uses.

Of the approximately 460 acres that are subject to the Special Tax, approximately 274 acres are zoned for residential uses, 95 acres for commercial uses and 101 acres for business park uses. As of September 9, 2010, there were approximately 1,386 completed residential dwelling units located on approximately 112 acres of the land designated for residential development and 283,340 square feet of developed commercial space located on approximately 33.71 acres of the land designated for commercial/town center uses, and 1,057,258 square feet of developed business center space located on approximately 59.03 acres of the land designated for business center uses. The single family residential development within the District is essentially built out. However, as of said date, approximately 98.42 acres of taxable property within the District remained essentially undeveloped, consisting of 19.71 acres of Vacant Property, 0.42 acres of residential Approved Property, 60.56 acres of commercial Approved Property, and 17.73 acres of business park Approved Property. See Appendix A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

The following table provides the fiscal year 2010-11 Special Tax levy by development status. 71.26% of the fiscal year 2010-11 Special Taxes were levied on Developed Property within the District, and 28.74% of the fiscal year 2010-11 Special Taxes were levied on Approved Property which was undeveloped as of September 9, 2010. The two parcels of Vacant Property within the District were not levied in fiscal year 2010-11.

**TABLE 2  
COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE  
PROPERTY BREAKDOWN BY DEVELOPMENT STATUS**

<i>Development Status</i>	<i>No. of Parcels</i>	<i>Fiscal Year 2010-11 Special Tax</i>	<i>Percentage of Fiscal Year 2010-11 Special Tax</i>	<i>Assessed Value <sup>(1)</sup></i>	<i>Percent of Total Assessed Value</i>
Approved Property	28	\$1,032,137.68	28.74%	\$ 20,844,837	4.31%
Developed Property	<u>1,482</u>	<u>2,559,290.74</u>	<u>71.26</u>	<u>462,825,484</u>	<u>95.69</u>
Total	1,510	\$3,591,428.42	100.00%	\$483,670,321	100.00%

<sup>(1)</sup> Reflects the Fiscal Year 2010-2011 Equalized Roll Assessed Valuation, Riverside County Assessor's Office.  
Source: Albert A. Webb Associates.

The following table shows the general land use categories within the District, the portions thereof that are Approved Property, Developed Property and Vacant Property, the fiscal year 2011-12 Maximum Special Tax applicable thereto, the estimated fiscal year 2011-12 Special Taxes which will be levied on each general land use category, and the percentage of the fiscal year 2011-12 Special Taxes which will be levied on each category of Approved Property, Developed Property and Vacant Property. Following the conversion of the Bonds, beginning in fiscal year 2011-12, the District does not expect to levy Special Taxes on either Approved Property or Vacant Property.

**TABLE 3**  
**MAXIMUM SPECIAL TAXES ON PROPERTY IN**  
**COMMUNITY FACILITIES DISTRICT NO. 88-4**  
**(WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE**  
**FOR FISCAL YEAR 2011-12 PER UNIT (RESIDENTIAL) PER SQUARE FOOT**  
**(COMMERCIAL/TOWNCENTER AND BUSINESS PARK) AND PER ACRE (APPROVED AND VACANT)**

Land Use Class	Description	No. of Parcels	Per Unit/ Per Acre/ Per SqFt	No. of Dwelling Units/Acres/ SqFt	Maximum Special Tax Fiscal Year 2011-12 Per Unit/ Per Acre/ Per SqFt	Maximum Special Tax Fiscal Year 2011-12	Estimated Fiscal Year 2011-12 Special Tax Levy	Percentage of Estimated Fiscal Year 2001-12 Special Tax Levy
A4	Approved Residential (15 or more units/ac)	1	Acre	0.42	\$8,851.05	\$ 3,644.55	\$ 0.00	0.00%
A5	Approved Commercial/Town Center	23	Acre	60.56	16,069.01	954,058.22	0.00	0.00
A6	Approved Business Park	4	Acre	17.73	11,533.26	200,475.24	0.00	0.00
D1	Developed Residential (Less than 5 units/ac)	639	Unit	639	1,281.75	802,980.18	729,910.53	27.96
D2	Developed Residential (5-10 units/ac)	277	Unit	277	1,115.63	302,968.75	275,398.94	10.55
D3	Developed Residential (10-15 units/ac)	146	Unit	146	937.89	134,247.00	122,031.18	4.67
D4	Developed Residential (15 or more units/ac)	324	Unit	324	520.61	165,369.60	150,319.80	5.76
D5-Ac	Developed Commercial/Town Center (Acre Rate)	12	Acre	31.24	16,069.01	492,152.88	447,366.98	17.14
D5-SF	Developed Commercial/Town Center (SqFt Rate)	1	SqFt	40,000	1.21	47,695.20	43,354.94	1.66
D6-Ac	Developed Business Park (Acre Rate)	3	Acre	5.04	11,533.26	56,987.88	51,801.98	1.98
D6-SF	Developed Business Park (SqFt Rate)	80	SqFt	1,002,098	0.89	869,432.28	790,313.97	30.27
V	Vacant Property	2	Acre	19.71	10,619.36	205,203.51	0.00	0.00
Total		1,512				\$ 4,235,215.29	\$ 2,610,498.32	100.00%

Source: Albert A. Webb Associates.

The District does not expect to levy Special Taxes on Approved Property or Vacant Property beyond fiscal year 2010-11. The following table provides the estimated fiscal year 2011-12 Special Tax levy by development status.

**TABLE 4  
COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE  
PROPERTY BREAKDOWN BY DEVELOPMENT CLASS TYPE  
FOR FISCAL YEAR 2011-12 ESTIMATED SPECIAL TAX LEVY**

<i>Description</i>	<i>No. of Parcels</i>	<i>Estimated Fiscal Year 2011-12 Special Tax</i>	<i>Percentage of Estimated Fiscal Year 2011-12 Special Tax</i>	<i>Total Assessed Value<sup>(1)</sup></i>	<i>Percent of Total Assessed Value</i>
Developed Residential	1,386	\$1,277,660.45	48.94%	\$297,544,809	64.29%
Developed Non-Residential	<u>96</u>	<u>1,332,837.87</u>	<u>51.06</u>	<u>165,280,675</u>	<u>35.71</u>
Total	1,482	\$2,610,498.32	100.00%	\$462,825,484	100.00%

<sup>(1)</sup> Reflects the Fiscal Year 2010-2011 Equalized Roll Assessed Valuation, Riverside County Assessor's Office.  
Source: Albert A. Webb Associates.

The following table provides the estimated fiscal year 2011-12 Special Tax levy by general land use category. See Appendix A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

**TABLE 5  
COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE  
PROPERTY BREAKDOWN BY DEVELOPMENT CLASS  
FOR FISCAL YEAR 2011-2012 ESTIMATED SPECIAL TAX LEVY**

<i>Land Use Class</i>	<i>Description</i>	<i>No. of Parcels</i>	<i>Estimated Fiscal Year 2011-12 Special Tax</i>	<i>Percentage of Estimated Fiscal Year 2011-12 Special Tax</i>	<i>Total Assessed Value<sup>(1)</sup></i>	<i>Percent of Total Assessed Value</i>
D1	Developed Residential (Less than 5 units/ac)	639	\$ 729,910.534	27.96%	\$ 171,602,324	37.08%
D2	Developed Residential (5-10 units/ac)	277	275,398.94	10.55	57,616,750	12.45
D3	Developed Residential (10-15 units/ac)	146	122,031.18	4.67	32,627,727	7.05
D4	Developed Residential (15 or more units/ac)	324	150,319.80	5.76	35,698,008	7.71
D5	Developed Commercial/ Town Center	13	490,721.92	18.80	45,721,932	9.88
D6	Developed Business Park	<u>83</u>	<u>842,115.95</u>	<u>32.26</u>	<u>119,558,743</u>	<u>25.83</u>
Total		1,482	\$ 2,610,498.32	100.00%	\$ 462,825,484	100.00%

<sup>(1)</sup> Reflects the Fiscal Year 2010-2011 Equalized Roll Assessed Valuation, Riverside County Assessor's Office.  
Source: Albert A. Webb Associates.

### Debt Service Coverage

The following table shows the aggregate amount of the Maximum Special Tax, net of estimated Administrative Expenses of \$\_\_\_\_\_ per fiscal year, expected to be applicable to all of the properties in the District, the annual debt service on the Bonds and the quotient obtained by dividing the former by the

latter, expressed as a percentage. Table 6B shows the aggregate amount of the net Maximum Special Taxes from Developed Property (assuming the development status of property within the District as of September 9, 2010), net of estimated Administrative Expenses, the annual debt service on the Bonds and the quotient obtained by dividing the former by the latter, expressed as a percentage.

**TABLE 6A**  
**COMMUNITY FACILITIES DISTRICT NO. 88-4**  
**(WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE**  
**DEBT SERVICE COVERAGE**

<i>Period Ending September 1</i>	<i>Estimated Maximum Special Taxes</i>	<i>Estimated Administrative Expenses</i>	<i>Estimated Net Maximum Special Taxes <sup>(1)</sup></i>	<i>Debt Service*</i>	<i>Debt Service Coverage*</i>
2011 <sup>(1)</sup>	\$3,591,428	\$75,000	\$3,516,428	\$1,832,877	191.85%
2012	4,319,920	76,500	4,243,420	2,212,925	191.76
2013	4,406,318	78,030	4,328,288	2,217,300	195.21
2014	4,494,444	79,591	4,414,854	2,214,900	199.33

\* Preliminary, subject to change.

<sup>(1)</sup> Reflects actual amount of special taxes for fiscal year 2010-11.

Source: Albert A. Webb Associates, Inc.

**TABLE 6B**  
**COMMUNITY FACILITIES DISTRICT NO. 88-4**  
**(WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE**  
**DEBT SERVICE COVERAGE**

<i>Period Ending September 1</i>	<i>Maximum Special Taxes from Developed Property</i>	<i>Estimated Administrative Expenses</i>	<i>Estimated Net Maximum Special Taxes from Developed Property <sup>(1)</sup></i>	<i>Debt Service*</i>	<i>Debt Service Coverage*</i>
2011 <sup>(1)</sup>	\$3,591,428	\$75,000	\$3,516,428	\$1,832,877	191.85%
2012 <sup>(2)</sup>	2,610,498	76,500	2,533,998	2,212,925	114.51
2013	2,662,708	78,030	2,584,678	2,217,300	116.57
2014	2,715,962	79,591	2,636,372	2,214,900	119.03

\* Preliminary, subject to change.

<sup>(1)</sup> Reflects actual amount of special taxes for fiscal year 2010-11.

<sup>(2)</sup> Reflects the Estimated Special Tax Levy of 90.9% of Maximum Special Tax for all Developed Properties.

Source: Albert A. Webb Associates, Inc.



## Estimated Direct and Overlapping Indebtedness

Within the boundaries of the District are numerous overlapping local agencies providing public services. The approximate amount of the direct and overlapping debt secured by a tax or assessment on the parcels within the District for fiscal year 2010-11 is shown in Table 7 below.

**TABLE 7  
COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE  
DIRECT AND OVERLAPPING DEBT**

<b>I. Assessed Value</b>							
Fiscal Year 2010-11 Certified Roll Assessed Valuation of the County							\$487,066,451
<b>II. Land Secured Bond Indebtedness</b>							
<i>Outstanding Direct and Overlapping Bonded Debt</i>	<i>Type</i>	<i>Issued</i>	<i>Outstanding</i>	<i>% Applicable</i>	<i>Parcels Levied in CFD<sup>(1)</sup></i>	<i>Amount of Debt</i>	
CFD 88-4	CFD	\$7,895,000*	\$7,895,000*	100.000%	1,510	\$7,895,000*	
Total Land Secured Bonded Debt <sup>(2)</sup>						\$7,895,000*	
<i>Authorized but Unissued Direct and Overlapping Indebtedness</i>	<i>Type</i>	<i>Issued</i>	<i>Outstanding</i>	<i>% Applicable</i>	<i>Parcels Levied in CFD<sup>(2)</sup></i>	<i>Amount of Debt</i>	
CFD 88-4	CFD	\$7,895,000	\$0	100.000%	1,510	\$ 0	
Total Unissued Land Secured Indebtedness <sup>(1)</sup>						0	
Total Outstanding and Unissued Land Secured Indebtedness						\$ 7,895,000*	
<b>III. General Obligation Bond Indebtedness</b>							
<i>Outstanding Direct and Overlapping Bonded Debt</i>	<i>Type</i>	<i>Issued</i>	<i>Outstanding</i>	<i>% Applicable<sup>(3)</sup></i>	<i>Parcels Levied in CFD<sup>(2)</sup></i>	<i>Amount of Debt</i>	
Temecula Unified B & I	GO	\$ 65,000,000	\$ 30,870,000	3.445763%	1,510	\$1,063,707	
Metropolitan Wtr Debt Sv	GO	850,000,000	255,075,000	0.025526%	1,510	65,110	
Total General Obligation Bonded Debt <sup>(1)</sup>						\$1,128,817	
<i>Authorized but Unissued Direct and Overlapping Indebtedness</i>	<i>Type</i>	<i>Authorized</i>	<i>Unissued</i>	<i>% Applicable<sup>(3)</sup></i>	<i>Parcels Levied in CFD<sup>(2)</sup></i>	<i>Amount Applicable</i>	
Temecula Unified B & I	GO	\$ 65,000,000	\$0	3.445763%	1,510	\$ 0	
Metropolitan Water District	GO	850,000,000	0	0.025526%	1,510	0	
Total Unissued General Obligation Bonds <sup>(1)</sup>						\$ 0	
Total Outstanding and Unissued General Obligation Indebtedness						\$1,128,817	
Total Outstanding and Unissued Land Secured Indebtedness						\$7,895,000*	
Total Outstanding and Unissued General Obligation Indebtedness						\$1,128,817	
Total of all Outstanding Direct And Overlapping Bonded Debt						\$9,023,817*	
Total of all Outstanding And Unissued Direct And Overlapping Bonded Debt						\$9,023,817*	

\* Preliminary, subject to change.

(1) As of fiscal year 2010-11, approximately 98.15% of all parcels within the District had subdivided within the District.

(2) Assumes issuance of the Bonds in the principal amount of \$7,895,000\*. Does not include two parcels of Vacant Property which were not levied in fiscal year 2010-11. Albert A. Webb Associates is not aware of any additional bonded debt for parcels in the District for fiscal year 2010-11.

(3) Percent Applicable based upon fiscal year 2009-10 Assessed Values for Direct and Overlapping Bonded Debt Districts.

Source: Albert A. Webb Associates, Inc.

## Assessed Value-To-Lien Ratios

The County has obtained the assessed values of all of the taxable property in the District, as established by the County Assessor for fiscal year 2010-11, which total \$483,670,321. Other than the Bonds, as of September 1, 2010, there was no direct and overlapping land secured special tax and assessment bonded indebtedness (excluding general obligation bonded indebtedness) within the District. The assessed value-to-lien ratio of the property within the District, based on the fiscal year 2010-11 assessed values, the aggregate principal amount of the Bonds and the estimated direct and overlapping land secured special tax and assessment bonded indebtedness (excluding general obligation bonded indebtedness) within the District equals approximately 61.26\*-to-1.

**Assessed Value-to-lien Ratios by Category.** The following table summarizes the assessed value-to-lien ratios within the District by value-to-lien category, based on fiscal year 2010-11 assessed values, Maximum Special Taxes for fiscal year 2011-12 and the Bonds allocated to parcels based on the ratio of Maximum Special Taxes for fiscal year 2011-12.

**TABLE 8**  
**COMMUNITY FACILITIES DISTRICT NO. 88-4**  
**(WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE**  
**DISTRIBUTION OF FISCAL YEAR 2010-11**  
**ASSESSED VALUE-TO-LIEN RATIOS BY CATEGORY**

<i>Assessed Value-to-Lien Ratio</i>	<i>No. of Parcels</i>	<i>Percent of Total</i>	<i>Total Assessed Value<sup>(1)</sup></i>	<i>Percentage of Total Assessed Value</i>	<i>Maximum Special Tax for Fiscal Year 2011-12</i>	<i>Percent of Total Maximum Special Tax for Fiscal Year 2011-12</i>
Less than 10:1	3 <sup>(2)</sup>	0.20%	\$ 2	0.00%	\$ 20,662.02	0.49%
10:1 to 19.9:1	22	1.46	19,574,833	4.02	1,143,005.17	26.99
20:1 to 99.9:1	18	1.19	35,351,667	7.26	649,044.83	15.32
100:1 to 199.9:1	313	20.70	139,058,310	28.55	1,112,343.00	26.26
200:1 to 299.9:1	1,031	68.19	248,209,610	50.96	1,155,982.14	27.29
300:1 or greater	<u>125</u>	<u>8.27</u>	<u>44,872,033</u>	<u>9.21</u>	<u>154,178.13</u>	<u>3.64</u>
<b>Total</b>	<b>1,512</b>	<b>100.00</b>	<b>\$ 487,066,455</b>	<b>100.00%</b>	<b>\$ 4,235,215.29</b>	<b>100.00%</b>

<sup>(1)</sup> Reflects the Fiscal Year 2010-2011 Equalized Roll Assessed Valuation, Riverside County Assessor's Office.

<sup>(2)</sup> For fiscal year 2010-11, two parcels within the District had an assessed value of \$0 and one parcel within the District had an assessed value of \$2. One parcel with an assessed value of \$0 in fiscal year 2010-11 is a parcel of Approved Property owned by Verizon California Inc. which was levied in the amount of \$7,557.46 in fiscal year 2010-11. The other parcel with an assessed value of \$0 in fiscal year 2010-11 is a parcel of Vacant Property owned by the County. The parcel with an assessed value of \$2 in fiscal year 2010-11 is a parcel of Approved Property owned by the Montego Riverside Homeowners Association, and was levied in the amount of \$3,644.55 in fiscal year 2010-11. The District does not expect to levy Special Taxes on these parcels in future fiscal years.

Source: Albert A. Webb Associates.

\* Preliminary, subject to change.

*Estimated Assessed Value-to-Lien Ratios for Top Ten Taxpayers.* The following tables summarizes the assessed value-to-lien ratios within the District for the top ten taxpayers within the District. For Table 9A, the principal amount of the Bonds were allocated to the taxpayers based on the taxpayers' percentage of the fiscal year 2010-11 Special Tax Levy. For Table 8B, the principal amount of the Bonds were allocated to the taxpayers based on the taxpayers' percentage of the estimated fiscal year 2011-12 Special Tax Levy.

**TABLE 9A  
COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE  
ESTIMATED VALUE-TO-LIEN RATIOS  
ALLOCATED BY PROPERTY OWNER**

<i>Property Owners</i>	<i>No. of Parcels</i>	<i>Fiscal Year 2010-11 Special Tax</i>	<i>Percentage of Fiscal Year 2010-11 Special Tax</i>	<i>Fiscal Year 2010-11 Assessed Value <sup>(1)</sup></i>	<i>Estimated Debt <sup>(2)*</sup></i>	<i>Value-to- Lien Ratio*</i>
Harmony Grove Partners	16	\$ 629,811.50	17.54%	\$ 12,213,100	\$1,384,508	8.82:1
VCH No 1	4	186,444.44	5.19	3,591,465	409,859	8.76:1
Donahue Schriber Realty Grp	4	151,486.10	4.22	15,510,016	333,010	46.58:1
Diamond Hawk	1	113,865.68	3.17	2,728,000	250,310	10.90:1
Corp of Pres Bishop Ch Of Jesus Christ LDS	2	103,471.06	2.88	5,807,014	227,459	25.53:1
RCI Silverhawk 8	2	98,136.04	2.73	6,249,888	215,731	28.97:1
Silverhawk Partners	2	92,766.08	2.58	10,019,220	203,927	49.13:1
Silverhawk Sky Canyon	1	88,888.58	2.48	10,409,502	195,403	53.27:1
Temecula Self Storage	1	87,996.32	2.45	6,482,609	193,441	33.51:1
RCI Silverhawk 22	1	62,293.06	1.73	6,431,363	136,938	46.97:1
All others	<u>1,476</u>	<u>1,976,269.56</u>	<u>55.03</u>	<u>404,228,144</u>	<u>4,344,413</u>	<u>93.05:1</u>
Total	1,510	\$3,591,428.42	100.00%	\$483,670,321	\$7,895,000	61.26:1

\* Preliminary, subject to change.

(1) Reflects the Fiscal Year 2010-11 Equalized Roll Assessed Valuation, Riverside County Assessor's Office.

(2) Includes the Bonds but excludes general obligation bonded indebtedness applicable within the District.

(3) Does not include two parcels of vacant property which were not levied in fiscal year 2010-11.

Source: Albert A. Webb Associates, Inc.

**Effective Tax Burden on Residential Units**

The following table shows the approximate fiscal year 2010-11 effective tax burden on the residential units within the District, ranging from approximately 1.21% to approximately 1.47%, based on fiscal year 2010-11 Special Taxes, assessed values, general property taxes, assessments and parcel charges.

**TABLE 10  
COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE  
ESTIMATED FISCAL YEAR 2010-11 TAX OBLIGATION  
FOR AN AVERAGE INDIVIDUALLY OWNED DEVELOPED RESIDENTIAL PROPERTY**

CFD Tax Category Class Description	Residential Properties				Total/Average
	D1 Less than 5 units/ac	D2 5-10 units/ac	D3 10-15 units/ac	D4 15 or more units/ac	
No. of Units	639	277	146	324	1,386
Average Assessed Value per Unit <sup>(1)</sup>	\$268,548	\$208,003	\$223,478	\$110,179	\$202,552
Ad Valorem Property Taxes:					
Basic Levy (1.00000%)	\$2,685.48	\$2,080.03	\$2,234.78	\$1,101.79	\$2,025.52
Temecula Unified B & I (0.02188%)	\$58.76	\$45.51	\$48.90	\$24.11	\$44.32
Metro Water East 1301999 (0.00430%)	\$11.55	\$8.94	\$9.61	\$4.74	\$8.71
<b>Total General Property Taxes</b>	<b>\$2,755.79</b>	<b>\$2,134.48</b>	<b>\$2,293.29</b>	<b>\$1,130.64</b>	<b>\$2,078.55</b>
Assessment, Special Taxes & Parcel Charges:					
Flood Control NPDES SA	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00
CSA #143C LTS, Landscaping, Park Maintenance	\$400.00	\$400.00	\$400.00	\$400.00	\$400.00
Metro Water Dist Standby East	\$6.94	\$6.94	\$6.94	\$6.94	\$6.94
EMWD Standby-Combined Chg	\$40.00	\$40.00	\$40.00	\$40.00	\$40.00
CSA #152 St Sweeping	\$32.52	\$32.52	\$32.52	\$32.52	\$32.52
V-Wide Regional Fac LMD 88-1	\$5.54	\$5.54	\$5.54	\$5.54	\$5.54
<b>Total Assessments &amp; Parcel Charges</b>	<b>\$489.00</b>	<b>\$489.00</b>	<b>\$489.00</b>	<b>\$489.00</b>	<b>\$489.00</b>
<b>Projected Total Property Tax</b>	<b>\$3,244.79</b>	<b>\$2,623.48</b>	<b>\$2,782.29</b>	<b>\$1,619.64</b>	<b>\$2,567.55</b>
<b>Projected Effective Tax Rate</b>	<b>1.21%</b>	<b>1.26%</b>	<b>1.24%</b>	<b>1.47%</b>	<b>1.27%</b>

<sup>(1)</sup> Reflects the Fiscal Year 2010-11 Equalized Roll Assessed Valuation, Riverside County Assessor's Office.  
Source: Albert A. Webb Associates, Inc.

## Delinquency History

The following table is a summary of Special Tax levies, collections and delinquency rates in the District for fiscal years 2005-06 through 2009-10.

**TABLE 11  
COMMUNITY FACILITIES DISTRICT NO. 88-4 (WINCHESTER RANCH)  
OF THE COUNTY OF RIVERSIDE  
SPECIAL TAX LEVIES, DELINQUENCIES AND DELINQUENCY RATES  
FISCAL YEARS 2005-06 THROUGH 2009-10**

Fiscal Year	Amount Levied	Parcels Levied	<u>Delinquencies as of Sept. 1 of Fiscal Year</u>			<u>Delinquencies as of Sept. 1, 2010</u>		
			Parcels Delinquent	Amount Delinquent	Percent Delinquent	Parcels Delinquent	Amount Delinquent	Percent Delinquent
2005-06	\$4,072,033.62	1,462	101	\$66,872.09	1.64%	2	\$1,523.56	0.04%
2006-07	3,868,031.26	1,497	96	117,610.33	3.04	5	4,399.97	0.11
2007-08	3,946,033.66	1,495	130	305,278.25	7.74	15	15,439.11	0.39
2008-09	4,077,455.72	1,511	109	219,392.35	5.38	40	43,124.20	1.06
2009-10	3,515,498.54	1,509	74	281,437.05	8.01	74	281,437.05	8.01

Source: Albert A. Webb Associates, Inc.

## SPECIAL RISK FACTORS

*The purchase of the Bonds involves investment risk; and the Bonds are not appropriate investments for investors who are not in a position to accept such risk. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability of the District to make timely payment of the principal of and interest on the Bonds and the value of the Bonds.*

### Limited Obligations

The Bonds and interest thereon are not payable from the general funds of the County or the District. Except with respect to the Net Taxes, neither the credit nor the taxing power of the District or the County is pledged to the payment of the Bonds. The Bonds are not a debt of the District or the County or a legal or equitable pledge, charge, lien or encumbrance upon any of the property or income, receipts or revenues of the District or the County, except the District's Net Taxes and the other amounts pledged under the Fiscal Agent Agreement.

### Insufficiency of Special Taxes

There are at least three reasons why the Net Taxes available to the District in any fiscal year may be insufficient to pay the principal of and interest on the Bonds when due: (i) if properties within the District were to become exempt from the Special Tax, the levy of the Special Tax, even at the maximum permitted rates might not produce sufficient Special Taxes even if all of the Special Taxes that were levied were paid in a timely manner, (ii) delinquencies in the payment of the Special Taxes levied could produce insufficient revenues and (iii) the use of Special Taxes to pay the District's Administrative Expenses prior to the application of the Special Taxes for the payment of debt service on the Bonds could result in insufficient net revenues with which to pay such debt service.

*Properties Exempt from Special Taxes.* The Rate and Method of Apportionment provides in part:

No Special Tax shall be levied on property not designated for development, regardless of present or future ownership or which, at the time of adoption of the resolution of formation for the District is owned by or dedicated or otherwise conveyed or to be conveyed to a public agency in satisfaction of the conditions to development set forth in Specific Plan No. 213 of the County of Riverside or any amendment thereto.

The property that is “not designated for development” within the meaning of the foregoing provision consists of approximately 137 acres of land within the District that are identified as such in the land use map attached to the Rate and Method of Apportionment. No additional property can be so classified. However, property other than property “which, at the time of adoption of the resolution of formation for the District is owned by or dedicated or otherwise conveyed or to be conveyed to a public agency in satisfaction of the conditions to development set forth in Specific Plan No. 213 of the County of Riverside or any amendment thereto” may become publicly owned as a result of any number of possibilities.

The Act provides that, if any property within a district that is not otherwise exempt from such district’s special tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the special tax applicable to such property will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the special tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the special tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The Rate and Method of Apportionment fails to recognize the distinction drawn in the Act. It provides that, “Any acquisition by the County or another public agency of a parcel subsequent to formation of the Community Facilities District that is not acquired in satisfaction of a condition of development as set forth in said Specific Plan or any amendment thereto, shall require the immediate payment in full of any special tax obligation on such parcel pursuant to the methodology specified in the resolution of issuance for any bonds of the Community Facilities District.” Even if one assumes that the provisions of the Act will prevail over those of the Rate and Method of Apportionment, the consequences of public agency ownership of property within the District are not certain because the constitutionality and operation of these provisions of the Act have not been tested in the courts. It may be the case that a court would hold that the Special Tax would not be applicable to land owned by the federal government and/or the State and its political subdivisions. If that were the result and if property within the District was acquired by such an agency then, subject to the limitation of the maximum authorized rates, the Special Tax would be reallocated to the remaining taxable properties within the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the payment of the Special Tax. **Moreover, if a substantial portion of land within the District became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.**

*Delinquencies.* In order for the District to pay debt service on the Bonds, in the absence of a draw on the Reserve Fund, it will generally be necessary that the Special Taxes be paid in a timely manner. As indicated above under the caption “THE COMMUNITY FACILITIES DISTRICT – Delinquency History,” some level of delinquency in the payment of the Special Tax is to be expected, and some level of delinquency can be anticipated by the Board of Supervisors in determining the amount of the Special Tax to be levied each fiscal year. However, if the actual delinquency rate should exceed the rate anticipated at the time of the levy of the Special Tax, the District might have to withdraw money from the Reserve Fund in order to pay debt service on the Bonds. This event (notice of which must be provided to the State and disclosed pursuant to the District’s Continuing Disclosure Agreement – see “CONTINUING DISCLOSURE”) could adversely affect the value of the Bonds in the secondary market even if there was no default in the payment of debt service. Moreover, if the Reserve Fund were to be drawn down prior to being replenished, it is possible that the District would be unable to pay the principal of and interest on the Bonds when due.

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

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to Owners of the Bonds (if the Reserve Fund has been depleted) pending such sales or the prosecution of such foreclosure proceedings and receipt by the District of the proceeds of sale. However, within the limits of the Special Tax, the District may adjust the future Special Tax levied on taxable parcels in the District in order to provide an amount required to pay interest on, principal of, and redemption premiums, if any, on the Bonds, and the amount, if any, necessary to replenish the Reserve Fund to an amount equal to the Reserve Requirement and to pay all Administrative Expenses. There is, however, no assurance that the total amount of the Special Tax that could be levied and collected against taxable parcels in the District will be at all times sufficient to pay the amounts required to be paid by the Fiscal Agent Agreement, even if the Special Tax is levied at the Maximum Special Tax rates. See "— Enforcement Delays - Bankruptcy."

No assurance can be given that the real property subject to sale or foreclosure will be sold, or if sold, that the proceeds of sale will be sufficient to pay any delinquent installments of the Special Tax. The Act does not require the District to purchase or otherwise acquire any lot or parcel of property to be sold at foreclosure if there is no other purchaser at such sale. The Act and the Fiscal Agent Agreement do specify that the Special Tax will have the same lien priority as for *ad valorem* property taxes in the case of delinquency. 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. The Fiscal Agent Agreement provides that the District may waive delinquency penalties and redemption penalties under certain circumstances.

Prior to July 1, 1983, the right of redemption from foreclosure sales was limited to a period of one year from the date of sale. Under legislation effective July 1, 1983, the statutory right of redemption from such foreclosure sales has been repealed. However, a period of 20 days must elapse after the date notice of levy of the interest in real property was served on the judgment debtor before the sale of such lot or parcel can be made. Furthermore, if the purchaser at the sale is the judgment creditor (e.g., the District), an action may be commenced by the delinquent property owner within 90 days after the date of sale to set aside such sale. The constitutionality of the aforementioned legislation, which repeals the one year redemption period, has not been tested and there can be no assurance that, if tested, such legislation will be upheld. (Section 701.680 of the Code of Civil Procedure of the State.)

*Administrative Expenses.* The Bonds are payable from Net Taxes, that is, the Special Taxes that are levied and collected and that remain after the District has paid its Administrative Expenses. The District has not agreed to limit the amount of Administrative Expenses that may be paid from Special Taxes prior to applying Special Taxes to the payment of debt service on the Bonds. Thus, there can be no assurance that, even if the Special Taxes are levied and collected at the maximum permitted rates, the Net Taxes will be sufficient to pay the principal of and interest on the Bonds when due.

#### **Payment of Special Tax Not Personal Obligation of Property Owners**

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax,

the District will have no recourse against the owner. There is no assurance that the property owners will be financially able to pay the annual Special Tax or that they will pay it even if financially able to do so.

### **Enforcement Delays - Bankruptcy**

In the event of a delinquency in the payment of the Special Taxes, the District is required to commence enforcement proceedings under certain circumstances, as described under the heading "SOURCES OF PAYMENT FOR THE BONDS — Covenant for Foreclosure." However, prosecution of such proceedings could be delayed due to crowded local court calendars, dilatory legal tactics, or bankruptcy. It is also possible that the District will be unable to realize proceeds in an amount sufficient to pay the applicable delinquencies. Moreover, the ability of the District to commence and prosecute enforcement proceedings may be limited by bankruptcy, insolvency and other laws generally affecting creditors' rights and by the laws of the State relating to judicial and non-judicial foreclosure. Although bankruptcy proceedings would not cause the liens of the Special Taxes to become extinguished, bankruptcy of a property owner could result in a delay in the enforcement proceedings because federal bankruptcy laws provide for an automatic stay of foreclosure and tax sale proceedings. Any such delay could increase the likelihood of delay or default in payment of the principal of and interest on the Bonds. The various legal opinions delivered in connection with the issuance of the Bonds, including Bond Counsel's approving legal opinion, are qualified as to the enforceability of the Bonds and the Fiscal Agent Agreement by reference to bankruptcy, reorganization, moratorium, insolvency and other laws affecting the rights of creditors generally or against public corporations such as the District.

### **Reductions in Property Values**

The value of the land within the District is an important factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of the Special Taxes, the District's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Special Taxes. The value of the property within the District could be impacted by a variety of factors particularly those which may affect infrastructure and other public improvements and private improvements of the property and the continued habitability and enjoyment of thereof. Factors that could adversely impact the value of the property include, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of homes or industrial buildings and/or sites in the event of sale or foreclosure; (ii) changes in the national or local economies, (iii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws) and fiscal policies; and (iv) natural disasters (including, without limitation, earthquakes, landslides, fires, droughts and floods).

### **Concentration of Ownership**

Based upon the ownership information set forth in Table \_\_, as of [September 9, 2010], the top ten taxpayers within the District were responsible for approximately \_\_% of the fiscal year 2010-11 Special Tax levy. Moreover, one property owner is responsible for approximately \_\_% of the fiscal year 2010-11 Special Tax levy. In fiscal year 2011-12, Special Taxes are anticipated to be levied only on Developed Property and the top ten taxpayers are estimated to be responsible for approximately 33% of the fiscal year 2011-12 Special Tax levy and the largest taxpayer is estimated to be responsible for approximately 5.9% of the fiscal year 2011-12 Special Tax levy. See Tables \_\_ and \_\_. There is no assurance of any further diversification of ownership of the properties within the District. Unless and until such ownership is more broadly diversified, the inability or refusal of any of the major property owners to pay the Special Taxes applicable to its land when due could result in the depletion of the Reserve Fund prior to reimbursement thereof from enforcement proceedings. Under such circumstances, there could be insufficient moneys with which to timely pay principal of and/or interest on the Bonds.



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

The ability of the District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to parcels in which the Federal Deposit Insurance Corporation (the "FDIC"), or other federal government entities such as Fannie Mae or Freddie Mac, has or obtains an interest.

In the case of FDIC, in the event that any financial institution making a loan which is secured by parcels is taken over by the FDIC and the applicable Special Tax is not paid, the remedies available to the District may be constrained. The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that taxes other than ad valorem taxes which are secured by a valid lien in effect before the FDIC acquired an interest in a property will be paid unless the FDIC determines that abandonment of its interests is appropriate. The Policy Statement provides that the FDIC generally will not pay installments of non-ad valorem taxes which are levied after the time the FDIC acquires its fee interest, nor will the FDIC recognize the validity of any lien to secure payment except in certain cases where the Resolution Trust Corporation had an interest in property on or prior to December 31, 1995. Moreover, the Policy Statement provides that, with respect to parcels on which the FDIC holds a mortgage lien, the FDIC will not permit its lien to be foreclosed out by a taxing authority without its specific consent, nor will the FDIC pay or recognize liens for any penalties, fines or similar claims imposed for the non-payment of taxes.

The FDIC has taken a position similar to that expressed in the Policy Statement in legal proceedings brought against Orange County in United States Bankruptcy Court and in Federal District Court. The Bankruptcy Court issued a ruling in favor of the FDIC on certain of such claims. Orange County appealed that ruling, and the FDIC cross-appealed. On August 28, 2001, the Ninth Circuit Court of Appeals issued a ruling favorable to the FDIC except with respect to the payment of pre-receivership liens based upon delinquent property tax.

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 parcels in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale would prevent or delay the foreclosure sale.

In the case of Fannie Mae and Freddie Mac, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution ("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."), in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. For a discussion of risks associated with taxable parcels within the District becoming owned by the

federal government, federal government entities or federal government sponsored entities, see “— Insufficiency of the Special Tax Revenues – *Properties Exempt from Special Taxes.*”

The District’s remedies may also be limited in the case of delinquent Special Taxes with respect to parcels in which other federal agencies (such as the Internal Revenue Service and the Drug Enforcement Administration) have or obtain an interest.

### **Proposition 218**

An initiative measure entitled “The Right to Vote on Taxes Act” (“Proposition 218”) was approved by the voters at the November 5, 1996 statewide general election. Among other things, Proposition 218 added a new Article XIII C to the California Constitution which 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. While Proposition 218 has not yet been interpreted by the courts and the matter is not completely free from doubt, it is not likely that Proposition 218 has conferred on the voters the power to effect a repeal or reduction of the Special Tax if the result thereof would be to impair the security of the Bonds.

It may be possible, however, for voters 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 Bonds, but which does reduce the maximum amount of the Special Taxes that may be levied in any year below the existing levels or which changes the extent to which various properties within the District share the total Special Tax burden of the District.

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.

### **Uncertainties in Land Development – General**

As of September 9, 2010, there were approximately 1,386 completed residential dwelling units and 283,340 square feet of developed commercial space, and 1,057,258 square feet of developed business center space. However, as of said date, approximately 98.42 acres of taxable property within the District remained essentially undeveloped, consisting of 19.71 acres of Vacant Property, approximately 0.42 acres of residential Approved Property, 60.56 acres of commercial Approved Property, and 17.73 acres of business park Approved Property. While the District does not expect to levy Special Taxes on Approved Property or Vacant Property commencing in fiscal year 2011-12, approximately 32% of the aggregate Maximum Special Taxes are applicable to Approved Property and Vacant Property, which are essentially vacant land. Since land without completed buildings is generally less valuable than land containing completed buildings, the vacant land will provide less security for the Bonds should it be necessary for the District to commence enforcement proceedings with respect to such land as a result of the non-payment of the Special Taxes. In short, the successful development of the remaining vacant land within the District is important to the ultimate security for, and the payment of principal of and interest on, the Bonds.

There are many reasons why a land development project may not be developed in the manner and within the time frame and budget originally planned. For example, a project might be adversely affected by opposition to it, unfavorable economic conditions, an inability of the landowner to obtain financing, fluctuations in the local real estate market, fluctuations in interest rates, unexpected increases in development

costs, changes in federal, state or local governmental policies relating to the ownership and development real estate, and the appearance of previously unknown environmental considerations or material changes in known environmental considerations. Some of these factors are discussed under individual headings below as individual risk factors, and others are discussed under this heading.

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

Moreover, there can be no assurance that further land development within the District will not be adversely affected by future governmental policies, including, but not limited to, governmental policies to restrict or control development. Under current California law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been properly issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on such permits. In the past, a number of communities in Southern California have placed on the ballot initiative measures intended to control the rate of future development. It is possible that future initiatives could be enacted, could become applicable to the proposed development and could negatively impact the ability of the current landowners, and their successors, to complete the proposed development. The application of future land use regulations to the proposed development could cause delays in and increase the cost of the development and could cause the values of vacant lands within the District to decrease.

There can be no assurance that land development operations within the District will not be adversely affected by a future deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, the direct and indirect consequences of military and/or terrorist activities in this country or abroad or the national economy.

### **Hazardous Substances**

While government taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may also be relevant. One of the most serious in terms of the potential reduction in the value of a parcel is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Super Fund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar in effect. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of a parcel whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the District be affected by a hazardous substance, is to reduce the marketability and value by the costs of remedying the condition because the prospective purchaser of such a parcel will, upon becoming the owner of such parcel, become obligated to remedy the condition just as the seller of such a parcel is. The District is not aware of the existence of hazardous materials on any of the property within the District. However, it is possible that such hazardous materials are present on one or more such properties and that the District is not aware of them.

It is possible that hazardous substance liabilities may arise in the future with respect to any of the parcels within the District resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in

the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling such substance. All of these possibilities could have the effect of significantly reducing the value of a parcel.

### **Endangered Species**

During the last several years, there has been an increase in activity at the State and federal level related to the listing of certain plant and animal species found in the Southern California area as threatened or endangered. Applicable law precludes activity that constitutes a "taking" of any federally-listed endangered species except pursuant to a permit. Large portions of Riverside County have been identified as containing habitat for one such species, the Stephen's Kangaroo Rat. Evidence of habitation by this rat has resulted in delays to or substantial revisions of proposed developments. However, in connection with the development of their land in the District, the property owners will pay a fee (currently \$500 per acre) in full mitigation of any adverse impact on such habitat. Moreover, the mass grading for most of the property within the District has been completed.

The District is unaware of the presence on land within the District of any other species currently listed as threatened or endangered. However, it is always possible that a species for which their land provides habitat could be so listed.

### **Earthquakes and Other Natural Disasters**

The District is located in a seismically active area of Southern California and is subject to unpredictable seismic activity. There is no evidence that a ground surface rupture will occur in the event of an earthquake, but there is significant potential for destructive ground-shaking during the occurrence of a major seismic event. Known active faults that could cause significant ground shaking in the District include, but are not limited to, the San Andreas Fault. A portion of the District is located within an Alquist-Priolo Earthquake Study Zone. [ADDITIONAL INFORMATION?] In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the District. A portion of the District is located within a liquefaction area as shown in the Seismic Safety Element of the county's General Plan. [ADDITIONAL INFORMATION?] In the event of significant damage to property and/or infrastructure in the District as a result of an earthquake, fire, flood or other natural disaster, property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished, thereby reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

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

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property, except for liens or security interests held by the Federal Deposit Insurance Corporation. See "— FDIC/Federal Government Interest in Properties" above.

Neither the County nor the District has control over the ability of other entities and districts to issue indebtedness secured by special taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the County, petition other public agencies to issue public indebtedness secured by special taxes or assessments. Any such

special taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within the District described herein.

### **Disclosures to Future Purchasers**

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

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

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

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

### **No Acceleration Provision**

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the Bonds or the Fiscal Agent Agreement.

### **Loss of Tax Exemption**

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

remain outstanding to maturity or until redeemed under the optional redemption provisions of the Fiscal Agent Agreement.

### **Limitations on Remedies**

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

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Fiscal Agent Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the Bonds.

### **CONTINUING DISCLOSURE**

The District will execute a continuing disclosure agreement for the benefit of the Owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") and to provide notices of the occurrence of certain enumerated events (the "Listed Events"). The Annual Report will be filed by the Fiscal Agent as the Dissemination Agent with the Electronic Municipal Market Access System ("EMMA") of the Municipal Securities Rulemaking Board (the "MSRB") available on the Internet at <http://emma.msrb.org>. Notices of Listed Events will also be filed by the Dissemination Agent with the MSRB. The specific nature of the information to be included in the Annual Reports and the notices of Listed Events is set forth in Appendix D — "FORM OF CONTINUING DISCLOSURE AGREEMENT." This agreement will be entered into in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the "Rule"). The Annual Reports are to be filed by the District no later than seven months after the end of the District's fiscal year, which is currently June 30. The first Annual Report is due January 31, 2011. The District has not previously entered into an undertaking pursuant to the Rule. However, the County has entered into numerous undertakings pursuant to Rule 15c2-12. The County has not failed to comply in all material respects with any previous continuing disclosure undertakings in the last five years.

It should be noted that the District is required to file certain financial statements with the Annual Reports. This requirement has been included in the agreement solely to satisfy the provisions of the Rule. The inclusion of this information does not mean that the Bonds are secured by any resources or property of the District other than as described hereinabove. See "LIMITATION OF LIABILITY," "SOURCES OF PAYMENT FOR THE BONDS" and "SPECIAL RISK FACTORS." It should also be noted that the list of significant events which the District has agreed to report includes two items which have absolutely no application whatsoever to the Bonds. These items have been included in the list solely to satisfy the requirements of the Rule. Thus, any implication from the inclusion of these items in the list to the contrary notwithstanding, there are no credit enhancements applicable to the Bonds and there are no credit or liquidity providers with respect to the Bonds.

### **TAX MATTERS**

In connection with the original issuance of the Bonds, McFarlin & Anderson LLP, Bond Counsel to the District delivered its opinion dated July 30, 1997, to the effect that based on 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 and agreements, interest on the 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. In such opinion, Bond Counsel further indicated that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes although Bond Counsel observed that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A copy of such opinion is set forth in Appendix E hereto.

In connection with the conversion of the Bonds to a Fixed Rate Mode on the Conversion Date, Bond Counsel will deliver its opinion to the effect that based on 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 and agreements, the change in Mode to the Fixed Rate Mode on the Conversion Date is permitted under the Act and the Fiscal Agent Agreement and will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation under Section 103 of the Code or the exemption of interest on the Bonds from personal income taxation under the laws of the State. A copy of the proposed form of such opinion is set forth in Appendix E hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made representations related to certain of these requirements and has covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 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 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel delivered in connection with the original issuance of the Bonds assumed the accuracy of the representations and compliance with the covenants. Except as described in its opinion proposed to be delivered in connection with the conversion of the Bonds to the Fixed Rate Mode on the Conversion Date, 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 original issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

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

Bonds purchased, whether at original issuance or otherwise, for an amount greater 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, a beneficial owner’s basis in a Premium Bond and, under treasury regulations, the amount of tax-exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Certain requirements and procedures contained or referred to in the Amended and Restated Fiscal Agent Agreement, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than McFarlin & Anderson LLP.

Although the opinion of Bond Counsel delivered in connection with the original issuance of the Bonds stated that interest on the 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 interest on, the Bonds, may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner or such beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, or court decisions will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to state income taxation, or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion. Further, the opinion of Bond Counsel issued in connection with the original issuance of the Bonds was based on legal authority as of July 30, 1997, covered certain matters not directly addressed by such authorities, and represented Bond Counsel's judgment as to the proper treatment of the interest on the 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 activities of the District since July 30, 1997, 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 Bonds ended with the conversion of the Bonds and, unless separately engaged, Bond Counsel is not obligated to defend the District or the beneficial owners regarding the tax-exempt status of interest on the 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 regulation, ruling or selection of the Bonds for audit or examination, or the course or result of any IRS audit or examination of the Bonds, or an audit or examination of obligations which present similar tax issues, may affect the market price for, or the marketability of, the Bonds and may cause the District or the beneficial owners to incur significant expense.

### **LEGAL MATTERS**

The legal opinion of McFarlin & Anderson, Lake Forest, California, Bond Counsel, approving the validity of the Bonds in substantially the form set forth as Appendix E hereto, will be made available to purchasers at the time of original delivery. Certain legal matters will be passed upon for the County and the District by the Office of the County Counsel of the County of Riverside and by Stradling, Yocca, Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel.

### **LITIGATION**

No litigation is pending or threatened concerning the validity of the Bonds or the pledge of Special Taxes to repay the Bonds and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds. Neither the District nor the County is aware of any litigation pending or threatened which questions the existence of the District or the County or contests the authority of the District to levy and collect the Special Taxes or to issue and retire the Bonds.

### **[RATING]**

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") is expected to assign its municipal bond rating of "\_\_\_" to the Bonds. Such rating reflect only the view of Standard & Poor's and an explanation of the significance of such ratings may be obtained from Standard & Poor's. There is no assurance that such rating will continue for any given period of time or that



such ratings will not be revised downward or withdrawn entirely by such organization, if in its judgment circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

### **UNDERWRITING**

The Bonds are being purchased by E. J. De La Rosa & Co., Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_\_. The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering price stated on the inside cover page hereof. The offering price may be changed from time to time by the Underwriter.

### **FINANCIAL INTERESTS**

The fees being paid to the Underwriter, Disclosure Counsel and Bond Counsel are contingent upon the issuance and delivery of the Bonds. A portion of the fees paid to the Financial Advisor are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel and Disclosure Counsel represent the Underwriter on matters unrelated to the Bonds.

### **PENDING LEGISLATION**

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

### **ADDITIONAL INFORMATION**

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

The execution and delivery of this Official Statement by the \_\_\_\_\_ of the County has been duly authorized by the Board of Supervisors acting in its capacity as the legislative body of the District.

**COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF  
RIVERSIDE**

By: \_\_\_\_\_

## APPENDIX A

### RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

#### AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR COMMUNITY FACILITIES DISTRICT NO. 88-4 OF THE COUNTY OF RIVERSIDE (WINCHESTER RANCH)

A Special Tax (the "Special Tax") shall be levied on and collected from each parcel in Community Facilities District No. 88-4 (herein "CFD No. 88-4") in each Fiscal Year, commencing July 1, 1989, in an amount determined by the Board of Supervisors of the County of Riverside as the legislative body of CFD No. 88-4 (herein the "Board") in accordance with the rate and method of apportionment described below. All of the property in CFD No. 88-4, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner provided herein.

#### A. Definitions.

"Approved Property" as applied to property described as Class III Residential, Class IV Residential, Class V Commercial/Town Center and Class VI Business Park on the Land Use Map attached as Exhibit 1 hereto means all parcels in CFD No. 88-4 for which a final parcel or tract map has been recorded as of March 1 of the preceding Fiscal Year.

"Developed Property" (i) as applied to property described as Class I Residential and Class II Residential on the Land Use map attached as Exhibit 1 hereto means all parcels in CFD No. 88-4 for which a final tract map has been recorded as of March 1 of the preceding Fiscal Year, and (ii) as applied to property described as Class III Residential, Class IV Residential, Class V Commercial/Town Center and Class VI Business Park on the Land Use Map attached as Exhibit 1 hereto means all parcels in CFD No. 88-4 for which a building permit has been issued as of March 1 of the preceding Fiscal Year.

"Fiscal Year" means the period starting on July 1 and ending the following June 30.

"Land Use Class" means any of the categories listed in Table 1 hereof to which a parcel is assigned consistent with the Land Use Map attached hereto as Exhibit 1 and land use approvals that have been received as of March 1 of the preceding Fiscal Year.

"Maximum Special Tax" means the maximum Special Tax for each Land Use Class, determined in accordance with Section C hereof, that can be levied by the Board in any Fiscal Year.

"Vacant Property" means all parcels which are not Developed Property or Approved Property as of March 1 of the preceding Fiscal Year.

#### B. Assignment to Land Use Class.

The Special Tax shall be levied upon and collected from a parcel for a Fiscal Year according to the designated Land Use Class to which that parcel has been assigned for the Fiscal Year in which the levy is made. Initially, all property within CFD No. 88-4 has been assigned to Land Use Class 7 (Vacant Property). Parcels shall be reassigned to a Land Use Class on each July 1 as follows:

(1) A parcel shall be assigned to Land Use Class 1 or 2 for a Fiscal Year, based on the land use indicated on the Land Use Map attached hereto as Exhibit 1, only if a final tract map has been

recorded with respect to that parcel in the Office of the County Recorder for Riverside County as of the preceding March 1.

(2) A parcel shall be assigned to Land Use Class 3(D), 4(D), 5(D) or 6(D) as listed in Table 1 hereof for a Fiscal Year, consistent with the Land Use Map attached hereto as Exhibit 1, only if a final parcel or tract map has been recorded and a building permit has been issued by the County of Riverside, or its successor, with respect to that parcel as of the preceding March 1.

(3) A parcel shall be assigned to Land Use Class 3(A), 4(A), 5(A) or 6(A) as listed in Table 1 hereof for a Fiscal Year, consistent with the Land Use Map attached hereto as Exhibit 1, if a final parcel or tract map has been recorded and no building permit has been issued with respect to that parcel as of the preceding March 1.

(4) A parcel for which no final parcel or tract map has been recorded as of the preceding March 1 shall be assigned to Land Use Class 7 for the immediately following Fiscal Year.

No Special Tax shall be levied on property not designated for development, regardless of present or future ownership or which, at the time of adoption of the resolution of formation for the Community Facilities District, is owned by or dedicated or otherwise conveyed or to be conveyed to a public agency in satisfaction of the conditions to development set forth in Specific Plan No. 213 of the County of Riverside or any amendment thereto. The property not designated for development is shown in the "white" areas of the Land Use Map attached hereto as Exhibit 1. Any acquisition by the County or another public agency of a parcel subsequent to formation of the Community Facilities District that is not acquired in satisfaction of a condition of development as set forth in said Specific Plan or any amendment thereto, shall require the immediate payment in full of any special tax obligation on such parcel pursuant to the methodology specified in the resolution of issuance for any bonds of the Community Facilities District.

Assignment of a parcel to a Land Use Class that is based on density will be determined by reference to the Land Use Map attached hereto as Exhibit 1. Assignment of a parcel to a Land Use Class based on floor area of the unit or building will be determined by reference to the building permit for such unit or building on file with the Department of Building and Safety of the County of Riverside. For Land Use Class 7, acreage shall be determined by reference to the Assessor's Parcel Map in effect as of March 1 of the preceding Fiscal Year.

C. Maximum Special Tax Rate.

The Special Tax to be levied in any Fiscal Year for a particular Land Use Class may not exceed the amount described below as the Maximum Special Tax. The Maximum Special Tax specified for each Land Use Class for any Fiscal Year shall be the amount set forth in Table 1 under the column "Maximum Rate for Fiscal Year 1988-89" escalated by an amount equal to 2% per annum on July 1, 1989 and on each July 1 thereafter.

The Special Tax shall be levied upon the taxable property within CFD No. 88-4 by applying the following rates and method of apportionment to each parcel consistent with its Land Use Class:

TABLE 1

Maximum Special Taxes on Property in  
Community Facilities District No. 88-4  
(Fiscal Year 1988-89) Per Unit (Residential),  
Per Square Foot (Commercial/Town Center and  
Business Park) and Per Acre (Approved and Vacant)

<u>Land Use Class</u>	<u>Description</u>	<u>Density or Square Footage</u>	<u>Maximum Rate for Fiscal Year 1988-89</u>
1	Residential	Less than 5 units/acre	\$796.60 per unit
2	Residential	5 to less than 10 units/acre	\$693.34 per unit
3(D)	Residential	10 to less than 15 units/acre	\$441.69 per unit
3(A)	Residential	10 to less than 15 units/acre	\$3,893 per acre
4(D)	Residential	15 or more units/acre	\$323.56 per unit
4(A)	Residential	15 or more units/acre	\$5,501 per-acre
5(D)	Commercial/Town Center	Not Applicable	\$0.76 per sq. ft.
5(A)	Commercial/Town Center	Not Applicable	\$9,987 per acre
6(D)	Business Park	Not Applicable	\$0.55 per sq. ft.
6(A)	Business Park	Not Applicable	\$7,168 per acre
7	Vacant Property	Not Applicable	\$6,600 per acre

(D) Developed Property  
(A) Approved Property

For any parcel in Land Use Class 3(D), 4(D), 5(D) or 6(D), the Special Tax to be realized from such parcel shall not be less than the amount of Special Tax which would have been due from such parcel were it in the corresponding Approved Property category. In the event the Approved Property Maximum Rate is used to calculate the Special Tax, the Maximum Rate per unit (or per square foot), being the Approved Property Maximum Rate divided by the number of units (or square footage) to be constructed on the parcel, will be greater than the Maximum Rate per unit (or per square foot) if calculated under the Developed Property category.

D. Rate and Method of Apportionment.

On or prior to July 20 of each year, the Board shall determine the total Special Tax to be levied and collected for the current Fiscal Year, including, but not limited to, the amounts required to pay for debt service on any indebtedness, establish any reserves and pay for any incidental or administrative expenses incurred by CFD No. 88-4 (The "Required Special Tax"). The Board shall cause to be computed the maximum amount of Special Tax that could be collected in such Fiscal Year if the Maximum Special Tax were levied against each parcel included with Land Use Classes 1, 2, 3(D), 4(D), 5(D) and 6(D) (the "Developed Property Special Tax"). The Required Special Tax shall be divided by the Developed Property Special Tax and the resulting ratio shall be the "Apportionment Ratio" for the current Fiscal Year. The amount to be levied against each parcel included within Land Use Classes 1, 2, 3(D), 4(D), 5(D) and 6(D) for that Fiscal Year shall be determined by multiplying the Maximum Special Tax for that parcel times the Apportionment Ratio; provided, however, if the Apportionment Ratio exceeds 90.9%, the Maximum Special Tax for Land Use Classes 1, 2, 3(D), 4(D), 5(D) and 6(D) shall be multiplied by 90.9% and that amount shall be levied. If after the foregoing levy on parcels in Land Use Classes 1, 2, 3(D), 4(D), 5(D) and 6(D) additional amounts will be necessary to collect the Required Special Tax, the unallocated Required Special Tax in an amount of up to 90.9% of the Maximum Special Tax for Land Use Classes 3(A), 4(A), 5(A) and 6(A), shall be levied pro rate against all parcels included in those Land Use Classes, based on the Maximum Special Tax for each such parcel. If after the foregoing levy on parcels in Land Use Classes 1 through 6 additional amounts will be necessary to collect the Required Special Tax, an amount of up to 90.9% of the Maximum Special Tax for Land Use Class 7 shall be levied pro rate against all parcels included in that Land Use Class, based on the Maximum Special Tax for each such parcel. Thereafter, additional amounts necessary to collect the Required Special Tax shall be obtained by increasing the levy on each of the Land Use Classes pro rate above the 90.9% of the Maximum Special Tax applicable to each Land Use Class.

E. Review/Appeal Board.

The Board shall establish as part of the proceedings and administration of CFD No. 88-4 a special three-member Review/Appeal Board. This Board shall construe and make determinations relative to the administration of the Special Tax as herein specified.

**APPENDIX B**

**GENERAL INFORMATION CONCERNING THE COUNTY OF RIVERSIDE**

[TO COME]

**APPENDIX C**  
**SUMMARY OF FISCAL AGENT AGREEMENT**

[TO COME]

## APPENDIX D

### FORM OF DISTRICT CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement"), dated as of \_\_\_\_\_ 1, 2010, is made and entered into by Community Facilities District No. 88-4 (Winchester Ranch) of the County of Riverside (the "Issuer") and U.S. Bank National Association (the "Dissemination Agent"), in connection with the issuance by the Issuer of its Special Tax Bonds (the "Bonds"). The Bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the "Act") and upon conversion will be subject to the provisions of an Amended and Restated Fiscal Agent Agreement, dated as of November 1, 2010 (the "Fiscal Agent Agreement"), by and between the Issuer and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent").

The Issuer and the Dissemination Agent hereby agree as follows:

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

**SECTION 2. Definitions.** In addition to the definitions set forth in the Fiscal Agent Agreement and the Rate and Method of Apportionment, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including a person holding Bond through a nominee, depository or other intermediary), or (b) is treated as the owner of any Bond for federal income purposes.

"Disclosure Representative" shall mean the County Executive Officer, the County Finance Director, the Treasurer-Tax Collector or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean U.S. Bank National Association or any successor Dissemination Agent designed in writing by the Issuer.

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

"MSRB" means the Municipal Securities Rulemaking Board. As of the date hereof, the MSRB's required method of filing is electronically via its Electronic Municipal Market Access (EMMA) system available on the Internet at <http://emma.msrb.org>.

"Official Statement" shall mean the Issuer's official statement with respect to the Bonds.

"Participating Underwriter" shall mean E. J. De La Rosa & Co., Inc.



“Rate and Method of Apportionment” means that certain Rate and Method of Apportionment of Special Tax approved pursuant to the Resolution of Formation, as amended by Ordinance No. 661.2 adopted on March 5, 2002.

“Resolution of Formation” means the Resolution No. 88-334 adopted by the Board of Supervisors on July 5, 1988, as amended by Resolution No. 88-383 adopted on July 26, 1988, pursuant to which the County of Riverside, California formed the Issuer.

“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.

“Tax-exempt” shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

### SECTION 3. Provision of Annual Reports.

(a) Not later than eight months after the end of the Issuer’s fiscal year (which currently ends on June 30), commencing with the fiscal year ending June 30, 2010, the Issuer shall, or shall cause the Dissemination Agent to, provide to the MSRB, in an electronic format as prescribed by the MSRB, each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 15 business days prior to the date referred to in the prior sentence hereof, the Issuer shall provide the Annual Report to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Agreement. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(b) If by the date required in subsection (a) the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice in substantially the form attached as Exhibit A to the MSRB.

(d) The Dissemination Agent shall:

(i) provide any Annual Report received by it to the MSRB, as provided herein; and

(ii) if it has provided the Annual Report pursuant to (i) above, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

(e) Notwithstanding any other provision of this Disclosure Agreement, any of the required filings hereunder may be made through a Central Post Office.

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

(a) Financial Statements. The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the audited 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 information:

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

(ii) the balance or account established pursuant to the Fiscal Agent Agreement as of the September 30 preceding the filing of the Annual Report;

(iii) the assessed valuation of the Taxable Property within the Community Facilities District No. 88-4 (Winchester Ranch) of the County of Riverside (the "Community Facilities District");

(iv) any changes to the Rate and Method of Apportionment of the Special Tax approved or submitted to the qualified electors for approval prior to the filing of the Annual Report;

(v) a table setting forth the annual Special Tax delinquency rate within the Community Facilities District at September 30 for each fiscal year on which a delinquency exists, listing for each fiscal year the total Special Tax levy, the amount delinquent and the percent delinquent;

(vi) the status of any foreclosure actions being pursued by the Issuer with respect to delinquent Special Taxes;

(vii) the number of parcels (x) which are included in a final tract map that was recorded prior to March 1 preceding the Fiscal Year in which the Annual Report is being filed and (ii) with respect to which a building permit for new construction has been issued prior to March 1 preceding the Fiscal Year in which the Annual Report is being filed, provided that such information need not be included for any year in which a property owner is required to supply it pursuant to an undertaking by the property owner to supply financial and operating data and provided further that this information need not be included for any period subsequent to the date on which building permits have been issued for all of the residences expected to be constructed on such property (as shown in the Official Statement or as otherwise determined by the Issuer); and

(viii) a table setting forth the top ten Special Tax payers within the Community Facilities District for the current Fiscal Year.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which are available to the public on the MSRB's internet web site or which have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies,
- (2) non-payment related defaults,
- (3) unscheduled draws on the Reserve Account reflecting financial difficulties,
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties,
- (5) substitution of credit or liquidity providers, or their failure to perform,
- (6) adverse tax opinions or events adversely affecting the Tax-Exempt status of the Bonds,
- (7) modifications to the rights of Bond Owners,
- (8) unscheduled redemption of any Bond,
- (9) defeasances,
- (10) any release, substitution, or sale of property or letters of credit securing repayment of the Bonds, and
- (11) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Issuer has determined that the Listed Event would be material under applicable federal securities laws, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Fiscal Agent Agreement.

(e) In the event that the Issuer's fiscal year changes, the Issuer shall give notice of such change to the Dissemination Agent and shall instruct the Dissemination Agent to report such change in the same manner and to the same parties as a material Listed Event would be reported pursuant to this Section.

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

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior

redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

**SECTION 7. Dissemination Agent.** The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer, and (ii) upon appointment of a new Dissemination Agent hereunder.

**SECTION 8. Amendment.**

(a) This Disclosure Amendment may be amended, by written agreement of the parties, without the consent of the Owners, and any provision of this Dissemination Agreement may be waived, if all of the following conditions are satisfied: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) the undertakings in this Disclosure Agreement as so amended or waived would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (3) the amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Owners or (ii) does not, in the determination of the Issuer, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

(b) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(c) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

**SECTION 9. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 10. Default.** In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any

failure of the Issuer 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 have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent shall be paid (i) compensation by the Issuer for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Issuer pursuant to this Disclosure Agreement. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds; and it shall create no rights in any other person or entity.

SECTION 13. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

SECTION 14. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

SECTION 15. Governing Law. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State.

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.

COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF  
RIVERSIDE

By: \_\_\_\_\_  
Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, as Dissemination  
Agent

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 88-4 (Winchester Ranch) of the County of Riverside

Name of Bond Issue: Community Facilities District No. 88-4 (Winchester Ranch) of the County of Riverside Special Tax Refunding Bonds

Date of Issuance: \_\_\_\_\_, 2010

NOTICE IS HEREBY GIVEN that Community Facilities District No. 88-4 (Winchester Ranch) of the County of Riverside (the "Issuer") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of \_\_\_\_\_ 1, 2010. [The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, as  
Dissemination Agent

By: \_\_\_\_\_

cc: Issuer

## APPENDIX E

### FORM OF OPINION OF BOND COUNSEL

*In connection with the conversion of the Bonds to the Fixed Rate Mode on the Conversion Date, McFarlin & Anderson LLP, Bond Counsel to the Community Facilities District, proposes to render its opinion with respect thereto in substantially the following form:*

[Conversion Date]

Community Facilities District: No. 88-4  
(Winchester Ranch) of the County of Riverside  
4080 Lemon Street, 4th Floor  
Riverside, California 92501

U.S. Bank National Association  
633 West Fifth Street, 24th Floor  
Los Angeles, California 90071

Re: Community Facilities District No. 88-4 (Winchester Ranch) of the  
County of Riverside Special Tax Refunding Bonds

Ladies and Gentlemen:

We have acted as bond counsel to the Community Facilities District No. 88-4 (Winchester Ranch) of the County of Riverside (the "Community Facilities District"), in connection with the "issuance by the Community Facilities District of its Special Tax Refunding Bonds (the "Bonds"), pursuant to and by authority of the provisions of the Mello-Roos Community Facilities Act of 1982 (being Section 53311 et seq. of the Government Code of the State of California, as amended) (the "Act"), and pursuant to the Fiscal Agent Agreement, dated as of July 1, 1997 (the "Original Fiscal Agent Agreement"), by and between the Community Facilities District and U.S. Bank National Association (successor to First Trust of California, National Association), as fiscal agent (the "Fiscal Agent"). Capitalized terms used herein and not otherwise defined shall have the meanings given thereto in the Original Fiscal Agent Agreement.

Pursuant to Section 2.8 of the Original Fiscal Agent Agreement and the Amended and Restated Fiscal Agent Agreement, dated November 1, 2010 (the "Amended and Restated Fiscal Agent Agreement" and together with the Original Fiscal Agent Agreement, the "Fiscal Agent Agreement"), on the date hereof, the Bonds are being converted from the Weekly Rate Mode to the Fixed Rate Mode (the "Change in Mode"). In connection with the Change in Mode, as bond counsel to the Community Facilities District, we have reviewed the Fiscal Agent Agreement, certificates of the Community Facilities District, the County of Riverside (the "County") and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinion 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. Our engagement with respect to the Bonds has concluded with their remarketing, 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 not undertaken to verify independently, and have assumed, the accuracy of the factual

matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Fiscal Agent Agreement, the Tax Certificate and in certain other documents, including (without limitation) covenants and agreements compliance with which is necessary to assure that actions, omissions or events on and after the date of issuance of the Bonds have not caused and will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We have not undertaken to determine compliance with any of such covenants and agreements or any other requirements of law and, except as expressly set forth below, we have not otherwise reviewed any actions, omissions or events occurring after the date of issuance of the Bonds or the exclusion of interest on the Bonds from gross income for federal income tax purposes. Accordingly, no opinion is expressed herein as to whether interest on the Bonds is excludable from gross income for federal income tax purposes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Nothing in this letter should imply that we have considered or in any manner reaffirm any of the matters covered in any prior opinion we rendered with respect to the Bonds. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Fiscal Agent Agreement and the Tax Certificate and their enforceability are subject to bankruptcy, insolvency, 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 in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We express no opinion upon the plans, specifications, maps, financial reports and other engineering or financial details of the proceedings, or upon the Rate and Method or the validity of the special taxes levied by the Community Facilities District upon any individual parcels within the Community Facilities District. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Remarketing Memorandum or other offering material relating to the Bonds and express no opinion relating thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the Change in Mode on the Conversion Date is permitted under the Act and the Fiscal Agent Agreement and will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation under Section 103 of the Code or the exemption of interest on the Bonds from personal income taxation under the laws of the State of California. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

This opinion is furnished by us as bond counsel to the Community Facilities District solely for purposes of Section 2.8 of the Original Fiscal Agent Agreement. No attorney-client relationship has existed or exists between our firm and you in connection with the Bonds or by virtue of this opinion, and we disclaim any obligation to update this opinion. This opinion is delivered to the addressees hereof pursuant to Section 2.8 of the Original Fiscal Agent Agreement and is not to be used or relied upon for any other purpose or by any person. This opinion is not intended to, and may not, be relied upon by owners of Bonds or any other party to whom it is not specifically addressed. The foregoing represent our interpretation of applicable law to the facts as described herein. We bring to your attention that our opinions and conclusions are an expression of professional judgment and are not a guarantee of a result.

Very truly yours,

McFARLIN & ANDERSON LLP



## APPENDIX F

### BOOK-ENTRY-ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District and the Underwriter believe to be reliable, but neither the District nor the Underwriter take any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemption, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

**COMMUNITY FACILITIES DISTRICT NO. 88-4 (WINCHESTER RANCH)  
OF THE COUNTY OF RIVERSIDE**

**AGREEMENT  
FOR  
BOND COUNSEL SERVICES**

THIS AGREEMENT is made and entered into this 6th day of October, 2010, by and between COMMUNITY FACILITIES DISTRICT NO. 88-4 (WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE (hereinafter called "District") and MCFARLIN & ANDERSON LLP, attorneys at law, Lake Forest, California (hereinafter called "Bond Counsel").

**RECITALS**

**WHEREAS**, the District proposes to convert to a fixed interest rate or refund the District's Special Tax Refunding Bonds which were issued in 1997 (the "1997 Bonds"); and

**WHEREAS**, the financing will likely be accomplished either through the conversion of the 1997 Bonds to a fixed interest rate or the issuance of special tax refunding bonds (the "2010 Bonds"), pursuant to the Community Facilities Act of 1982, as amended, comprising Section 53311 et seq. of the Government Code of the State of California (the "Mello-Roos Act"), Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (Section 53580 et seq.) or other provisions of State law; and

**WHEREAS**, the District desires to employ Bond Counsel to provide legal services incident to the financing and to complete the financing proposed at the time and in the manner as the District may determine shall be most appropriate for the financing of the public infrastructure improvements; and

**WHEREAS**, Bond Counsel is prepared and able to provide legal services required and necessary incident to the financing; and

**WHEREAS**, the District and Bond Counsel have determined that it is appropriate to enter into this agreement in order to set forth the terms and provisions for rendering of services by Bond Counsel.

**COVENANTS**

**NOW, THEREFORE**, it is mutually agreed by the parties hereto as follows:

**Section 1. AGREEMENT FOR SERVICES.** The District employs Bond Counsel to render and Bond Counsel agrees to render legal services in connection with the conversion of the 1997 Bonds or the issuance of the 2010 Bonds as follows:

- (a) Consult with representatives of the District, the financial advisor, the underwriter, the special tax consultant and others concerning the timing, terms and structure of the financing, including consideration of State law, federal tax law, federal securities law and general public finance law;
- (b) Attend, as required by the District, meetings of County staff, meetings of the County Board of Supervisors and working group meetings of financing participants to accomplish the foregoing;
- (c) Prepare necessary documentation required for the conversion of the 1997 Bonds or the execution and delivery of the 2010 Bonds, including resolutions, the Bond Indenture or Fiscal Agent Agreement, and other necessary notices, certificates, contracts, bond forms and other papers and documents required in connection with the conversion of the 1997 Bonds or the execution and delivery of the 2010 Bonds;
- (d) Coordinate the closing of the financing; and
- (e) Issue its opinion addressed to the District with respect to the conversion of the 1997 Bonds as required by the Fiscal Agent Agreement relating to the 1997 Bonds or issue its standard final opinion addressed to the District with respect to the issuance of the 2010 Bonds, its supplemental opinion addressed to the Underwriter with respect to the Official Statement relating to the 1997 Bonds or 2010 Bonds, and if the 2010 Bonds are issued, its standard defeasance opinion addressed to the District and to the Underwriter.

## **Section 2. LEGAL FEES AND COSTS.**

The District agrees to pay Bond Counsel a fee for its services as set forth in Section 1 for services relating to conversion of the 1997 Bonds or the issuance of the 2010 Bonds of \$60,000.

The District agrees to pay Bond Counsel the fee for its services for the financing as set forth above; *provided, however*, that in the event that the financing is delayed for an extraordinary period of time or the financing entails extraordinary efforts of Bond Counsel, the District shall consider the nature of services performed and shall, in its sole and absolute discretion after consultation with Bond Counsel, determine the value of said services in excess of the foregoing amount. Bond Counsel shall be paid for all services from the proceeds of the Bonds, upon execution and delivery thereof, to a bona fide purchaser.

Bond Counsel shall be paid for its customary disbursements, including telephone costs, word processing charges, telecopy charges, copying charges, publication fees, filing fees, travel charges, attorney service charges, and mail, messenger and express delivery charges. Bond Counsel estimates that such fees and costs will not exceed \$2,000 for the financing and such fees and costs up to \$2,000 are included within the fee set forth above. Bond Counsel shall advise the District in writing if Bond Counsel anticipates disbursements will exceed \$2,000 for the financing.

**Section 3. TERMINATION.** This Agreement may be terminated at any time by the District upon written notice to Bond Counsel. In the event of termination, the District shall pay for any fees and costs incurred by Bond Counsel prior to the effective date of such termination, *provided* that any costs and expenses shall not exceed the amounts set forth in Section 2 above and shall be itemized in detail by Bond Counsel.

**Section 4. OTHER LEGAL FEES.** The fees specified in Section 2 do not include services in connection with a validation action in connection with the issuance of the 2010 Bonds. Services under the fee arrangement set forth in Section 2 also do not include representation of the District in any legal action challenging, affecting or arising out of the transaction contemplated by this agreement, but if such services become necessary, Bond Counsel shall perform them on such terms as shall be mutually agreeable in writing to the District and Bond Counsel at the time.

**Section 5. INFORMATION PROVIDED BY THE DISTRICT.** The District agrees to furnish Bond Counsel such maps, records, title searches and other documents and proceedings, or certified copies thereof, as may be required by Bond Counsel in the performance of its services hereunder.

**Section 6. OTHER REPRESENTATION.** Bond Counsel has in the past worked with, and is currently working with, other issuers and various underwriters in connection with the issuance of tax-exempt and taxable securities. However, Bond Counsel is not aware of any circumstance in which Bond Counsel has rendered substantive advice during the past in which the interests of another of Bond Counsel's clients may be or have been adverse to that of the District. Bond Counsel has represented several underwriters in various financings. These have included UBS Financial Services Inc. (formerly UBS Paine Webber Inc.), Stone & Youngberg LLC, M.L. Stern & Co. LLC, A.G. Edwards & Sons, Inc., Banc of America Securities LLC, Piper Jaffray & Co., Southwest Securities, Inc. (formerly O'Connor Southwest Securities), Merrill Lynch & Co., Kemper Securities, Inc., Dain Rauscher Incorporated, RBC Capital Markets, Prager Sealy & Co., LLC, Charles A. Bell Securities Corp. and O'Connor & Company Securities.

Adverse interests may arise between the District and the Underwriter in connection with the issuance of the Bonds. Consequently, Bond Counsel's representation of the District and any past or concurrent representation of the Underwriter present certain conflict of interest issues. Where the appearance of a conflict exists, or where an actual conflict exists, it is appropriate for the District and the Underwriter to consent to the proposed representation. In determining whether to grant such consent, it should be understood and agreed that Bond Counsel will not put one party or its interests ahead of the other party or its interests. It should also be understood that, except to the extent litigation arises between the District and the Underwriter in connection with this transaction, Bond Counsel's representation as described above will not be a basis for either party to object to Bond Counsel's representation of the District in the present transaction or of either party in future transactions if Bond Counsel is requested to do so. Bond Counsel has previously obtained the informed consent of the Underwriter to Bond Counsel's representation on the basis described above.

The District has referred this matter to the appropriate person for review, including review by County Council, and execution by the District of this Agreement evidences the informed consent of the District to Bond Counsel's representation on the basis described in this Agreement.

**Section 7. SERVICES LIMITED TO ROLE AS BOND COUNSEL.** The scope of Bond Counsel's services shall be limited to services as bond counsel in connection with the financing as described above. Bond Counsel does not specialize in other areas of representation of public agencies, and Bond Counsel has not undertaken to represent the District with regard to other matters.

**Section 8. INSURANCE.** Bond Counsel is presently insured by Lawyers' Mutual Insurance Company for professional liability coverage and will provide the District with such additional information regarding its policy coverage as the District shall request.

**Section 9. ENTIRE AGREEMENT.** This Agreement is the entire agreement between the parties relating to the matters covered herein.

**Section 10. AMENDMENT.** Any amendment to this Agreement shall be effective only if such amendment is in writing and signed by both parties hereto.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement in the County of Riverside, State of California, on the date and year first above written.

**COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF  
RIVERSIDE**

By: \_\_\_\_\_  
Christopher Hans,  
Deputy County Executive Officer

**MCFARLIN & ANDERSON LLP**

By: \_\_\_\_\_  
James F. Anderson

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement in the County of Riverside, State of California, on the date and year first above written.

**COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF  
RIVERSIDE**

By: \_\_\_\_\_  
Christopher Hans,  
Deputy County Executive Officer

**MCFARLIN & ANDERSON LLP**

By: \_\_\_\_\_  
James F. Anderson



**COMMUNITY FACILITIES DISTRICT 88-4 (WINCHESTER RANCH)**  
**OF THE**  
**COUNTY OF RIVERSIDE**

**DISCLOSURE COUNSEL AGREEMENT**  
**WITH STRADLING YOCCA CARLSON & RAUTH**

THIS AGREEMENT is made, entered into, and shall become effective this 6<sup>th</sup> day of October, 2010, by and between COMMUNITY FACILITIES DISTRICT NO.88-4 (WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE, CALIFORNIA (hereinafter referred to as the "District") and Stradling, Yocca, Carlson and Rauth, a Professional Corporation (hereinafter referred to as the "Consultant").

**RECITALS:**

WHEREAS, the District desires to retain professional consulting services for legal matters in connection with the conversion of the outstanding Community Facilities District No. 88-4 (Winchester Ranch) of the County of Riverside Special Tax Refunding Bonds (the "Bonds") from an adjustable rate mode to a fixed rate mode (the "Conversion"); and

WHEREAS, the District desires to retain Consultant to do the necessary legal work hereinafter outlined, upon the terms and conditions hereinafter set forth, for the Conversion of the Bonds to a fixed rate mode (the date of such Conversion shall be the "Conversion Date"); and

WHEREAS, Consultant is qualified by virtue of experience, training, education and expertise to accomplish such services.

NOW, THEREFORE, the District and Consultant mutually agree as follows:

**Section 1. Scope of Work.**

The scope of work to be performed by the Consultant shall consist of those tasks as set forth in Exhibit "A," attached and incorporated herein by reference. To the extent that there are any conflicts between the provisions described in Exhibit "A" and those provisions contained within this Agreement, the provisions in this Agreement shall control.

**Section 2. Term.**

The services provided under this Agreement shall begin upon execution of this Agreement by all parties. The services provided under this Agreement shall be completed on or before the Conversion Date or the date the conversion is abandoned, whichever occurs first.

**Section 3. Compensation to Consultant.**

Consultant's compensation for all work performed in accordance with this Agreement shall be Thirty Thousand Dollars and no/100 (\$30,000.00). In the event that the Bonds are not converted to a fixed rate, Consultant shall only be entitled to be reimbursed for reimbursable

items set forth herein and shall not be entitled to any fees or other compensation under this Agreement.

Additionally, the District shall reimburse Consultant up to One Thousand Five Hundred Dollars and no/100 (\$1,500.00) for those costs or expenses specifically approved in this Agreement, or specifically approved in writing in advance by the District. Unless otherwise approved, such costs shall be limited and include nothing more than the following costs incurred by Consultant:

Document reproduction charges, overnight delivery and messenger charges, telecommunication charges, printing costs, filing fees, long distance telephone calls and costs associated with travel.

Actual costs and/or other costs and/or payments specifically authorized in advance in writing and incurred by Consultant in the performance of this Agreement.

**Section 4. Independent Contractor.**

It is agreed that Consultant shall act and be an independent contractor and not an agent or employee of the District, and shall obtain no rights to any benefits which accrue to the District's employees.

**Section 5. Changes to Scope of Work.**

For extra work not part of this Agreement, a written authorization from the District is required prior to Consultant undertaking any extra work. In the event of a change in the Scope of Work provided for in the contract documents as requested by the District, the Parties hereto shall execute an addendum to this Agreement setting forth with particularity all terms of the new agreement, including but not limited to any additional Consultant's fees.

**Section 7. Time of Essence.**

Time is of the essence in the performance of this Agreement.

**Section 8. Compliance with Law.**

Consultant shall comply with all applicable laws, ordinances, codes and regulations of federal, state and local government.

**Section 9. Conflicts of Interest.**

Consultant covenants that it presently has no interest and shall not acquire any interest, direct or indirect, which would conflict in any manner or degree with the performance of the services contemplated by this Agreement. No person having such interest shall be employed by or associated with Consultant.

**Section 10. Copies of Work Product.**

At the completion of the work, Consultant shall have delivered to the District at least one (1) copy of any final reports and/or notes containing Consultant's findings, conclusions, and

recommendations with any supporting documentation. All reports submitted to the District shall be in reproducible format, or in the format otherwise approved by the District in writing.

### **Section 11. Ownership of Documents.**

All reports, information, data and exhibits prepared or assembled by Consultant in connection with the performance of its services pursuant to this Agreement are confidential to the extent permitted by law, and Consultant agrees that they shall not be made available to any individual or organization without prior written consent of the District. All such reports, information, data, and exhibits shall be the property of the District and shall be delivered to the District upon demand without additional costs or expense to the District. The District acknowledges such documents are instruments of Consultant's professional services.

### **Section 12. Insurance.**

On or before beginning any of the services or work called for by any term of this Agreement, Consultant, at its own cost and expense, shall carry, maintain for the duration of the agreement, and provide proof thereof upon request that is acceptable to the District, the insurance specified below with insurers and under forms of insurance satisfactory in all respects to the District.

#### **12.1 Comprehensive General Liability.**

Throughout the term of this Agreement, Consultant shall maintain in full force and effect Comprehensive General Liability coverage in an amount not less than one million dollars per occurrence (\$1,000,000.00), combined single limit coverage for risks associated with the work contemplated by this agreement. If a Commercial General Liability Insurance form or other form with a general aggregate limit is used, either the general aggregate limit shall apply separately to the work to be performed under this agreement or the general aggregate limit shall be at least twice the required occurrence limit.

#### **12.2 Comprehensive Automobile Liability.**

Throughout the term of this Agreement, Consultant shall maintain in full force and effect Comprehensive Automobile Liability coverage, including owned, hired and non-owned vehicles in an amount not less than one million dollars per occurrence (\$1,000,000.00).

#### **12.3 Worker's Compensation.**

If Consultant intends to employ employees to perform services under this Agreement, Consultant shall obtain and maintain, during the term of this Agreement, Worker's Compensation Employer's Liability Insurance in the statutory amount as required by state law.

### **Section 13. Subcontracting.**

The parties recognize that a substantial inducement to the District for entering into this Agreement is the professional reputation, experience and competence of Consultant. Assignments of any or all rights, duties or obligations of the Consultant under this Agreement will be permitted only with the express written consent of the District. Consultant shall not subcontract any portion of the work to be performed under this Agreement without the prior written authorization of the District.

**Section 14. Termination.**

The District shall have the right to terminate this Agreement without cause by giving thirty (30) days' advance written notice of termination to Consultant.

In addition, this Agreement may be terminated by any party for cause by providing ten (10) days' notice to the other party of a material breach of contract. If the other party does not cure the breach of contract, then the agreement may be terminated subsequent to the ten (10) day cure period.

**Section 15. Notice.**

All notices shall be personally delivered or mailed to the below listed addresses, or to such other addresses as may be designated by written notice. These addresses shall be used for delivery of service of process:

To the District: Riverside County Executive Office  
4080 Lemon Street, 4th Floor  
Riverside, CA 92501-3651  
Attn: Christopher Hans, Deputy County Executive Officer

To Consultant: Stradling, Yocca, Carlson and Rauth  
660 Newport Center Drive Suite 1600  
Newport Beach, CA 92660  
Attn: Bradley R. Neal

**Section 16. Attorneys' Fees.**

If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which he may be entitled.

**Section 17. Dispute Resolution.**

In the event of a dispute arising between the parties regarding performance or interpretation of this Agreement, the dispute shall be resolved by binding arbitration under the auspices of the Judicial Arbitration and Mediation Service ("JAMS").

**Section 18. Severability.**

If any term or portion of this Agreement is held to be invalid, illegal, or otherwise unenforceable by a court of competent jurisdiction, the remaining provisions of this Agreement shall continue in full force and effect.

**Section 19. Entire Agreement.**

This Agreement constitutes the entire understanding and agreement between the parties and supersedes all previous negotiations between them pertaining to the subject matter thereof.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement.

**COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF  
RIVERSIDE**

By: \_\_\_\_\_  
Christopher Hans, Deputy County  
Executive Officer

**CONSULTANT**

By: \_\_\_\_\_  
Stradling, Yocca, Carlson, and Rauth, a  
Professional Corporation

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement.

**COMMUNITY FACILITIES DISTRICT NO. 88-4  
(WINCHESTER RANCH) OF THE COUNTY OF  
RIVERSIDE**

By: \_\_\_\_\_  
Christopher Hans, Deputy County  
Executive Officer

**CONSULTANT**

By: \_\_\_\_\_  
Stradling, Yocca, Carlson, and Rauth, a  
Professional Corporation

**EXHIBIT A**  
**SCOPE OF WORK**

1. SERVICES

The District retains Consultant to provide, and Consultant agrees to provide, legal services in connection with the conversion of the Bonds to a fixed rate of interest. In connection therewith the Consultant shall:

- (i) supervise and prepare documentation regarding disclosure with respect to the Bonds including:
  - a. preparing the official statement for the Bonds;
  - b. reviewing the Fiscal Agent Agreement, Bond Purchase Contract and participating in the related negotiations;
  - c. attending information meetings and other conferences scheduled by the District, the financial advisors or the underwriter;
  - d. consulting with Bond Counsel and counsel to the District concerning any legislation or litigation during the course of the financing;
  - e. consulting with the fiscal agent and counsel to the fiscal agent;
  - f. rendering a 10(b)5 letter, addressed to the underwriter with a reliance letter provided to the District.

2. INDIVIDUALS RESPONSIBLE FOR PROVIDING SERVICES

The District agrees to accept and Consultant agrees to provide the aforementioned services through Bradley R. Neal, John J. Murphy and Carol L. Lew.

Should the above attorneys be unable to provide such services due to death, disability, or similar event, Consultant reserves the right to substitute, with the District's consent, another of its attorneys to provide such services, and such substitution shall not alter or affect in any way Consultant's other obligations under this agreement.

## SUPPLEMENTAL AGREEMENT TO PROTOCOL AGREEMENT

THIS SUPPLEMENTAL AGREEMENT TO PROTOCOL AGREEMENT (this "Agreement"), made as of October 5, 2010 between COMMUNITY FACILITIES DISTRICT NO. 88-4 (WINCHESTER RANCH) OF THE COUNTY OF RIVERSIDE, a community facilities district established by the Board of Supervisors of the County of Riverside, California pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, (the "District"), and PULTE HOME CORPORATION, a Michigan corporation ("Pulte"),

### RECITALS

A. On July 1, 1997, District and Pulte entered into the Protocol Agreement (the "Protocol Agreement") governing certain matters with respect to the Bonds issued by the District.

B. Under Section 8.2 of the Protocol Agreement, the District (except in limited circumstances not now applicable) may not convert any Adjustable Rate Bonds to Fixed Rate Bonds without the prior written consent of Pulte, which consent may be withheld in its sole business discretion.

C. District has now prepared a proposal to convert all of the outstanding Adjustable Rate Bonds to Fixed Rate Bonds and has requested that Pulte provide its consent to this conversion proposed by the District (the "Conversion Consent"). Pulte has not participated in any way in the preparation of this District proposal for conversion.

D. Pulte is willing to provide the Conversion Consent upon the terms and conditions hereinafter provided.

### AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the undertakings herein set forth and intending to be legally bound, the Board of Supervisors of the County, acting as the legislative body of the District, and Pulte hereby agree as follows:

1. Protocol Agreement. Except as expressly supplemented by this Agreement, all provisions of the Protocol Agreement shall remain in effect and shall apply to this Agreement.

2. Conversion Responsibility. The current proposal to convert all of the outstanding Adjustable Rate Bonds to Fixed Rate Bonds has been prepared by the District and is the sole responsibility of the District. The provision of the Conversion Consent does not represent approval by Pulte in any way of the District conversion proposal. In the event the conversion fails or is cancelled, Pulte shall have no financial responsibility for any expenses incurred in connection with the District conversion proposal.



3. Complete Conversion. The District shall cancel the conversion unless all Adjustable Rate Bonds are converted to Fixed Rate Bonds at the same time.

4. Reimbursement of Pulte Payments for Past Letter of Credit Costs. District agrees that the amount of \$374,148.27 is now due and payable to Pulte as reimbursement for Letter of Credit costs paid by Pulte for the period to and including June 30, 2010. Concurrent with the execution of this Agreement, District shall pay the amount of \$374,148.27 to Pulte. Payment shall be made by wire transfer or such other means as Pulte may direct by written instructions to the District.

5. Reimbursement of Pulte Payments for Current Letter of Credit Costs. District and Pulte agree that Pulte will incur additional Letter of Credit costs for the period from July 1, 2010 until closing of the conversion of all the Adjustable Rate Bonds to Fixed Rate Bonds and the cancellation of the Letter of Credit. District shall notify Pulte in writing of the closing date and Pulte shall provide District with a written statement from the Bank stating the Letter of Credit costs incurred from July 1, 2010 until the date of closing and cancellation of the Letter of Credit. District shall reimburse Pulte for the actual Letter of Credit costs incurred by Pulte and shall pay such costs within two business days of the closing date. Payment shall be made by wire transfer or such other means as Pulte may direct by written instructions to the District.

6. Conversion Consent. Based on the foregoing covenants, Pulte hereby consents to the District proposal for the conversion of all the outstanding Adjustable Rate Bonds to Fixed Rate Bonds.

IN WITNESS WHEREOF, the County, on behalf of the District, and Pulte have caused this Agreement to be duly executed and delivered as of the date first above written.

COMMUNITY FACILITIES DISTRICT  
NO. 88-4 (WINCHESTER RANCH) OF  
THE COUNTY OF RIVERSIDE

By \_\_\_\_\_  
Chairman, Board of Supervisors of the  
County of Riverside Acting As Ex-Officio  
Legislative Body of Community Facilities  
District No. 88-4

(SEAL)

ATTEST:

\_\_\_\_\_  
Clerk of the Board of Supervisors of the County of Riverside  
Acting As Ex-Officio Legislative Body of  
Community Facilities District No. 88-4

FORM APPROVED COUNTY COUNS  
BY: Dale A. Gardner 9/28/10  
DALE A. GARDNER DATE

PULTE HOME CORPORATION

By \_\_\_\_\_

Its \_\_\_\_\_

This execution page is part of the Supplemental Agreement to Protocol Agreement dated as of October \_\_\_\_, 2010 between Community Facilities District No. 88-4 (Winchester Ranch) of the County of Riverside and Pulte Home Corporation.