

Insured: Fitch: "AAA"; Moody's: "Aaa"

Underlying: Fitch: "A-"; Moody's: "A1"
(See "RATINGS" herein)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest ^Δ on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest ^Δ on the Bonds is exempt from State of California personal income tax. ^Δ See "TAX EXEMPTION" herein with respect to tax consequences relating to the Bonds.

\$8,650,000^Δ

**COMMUNITY FACILITIES DISTRICT NO. 2000-1
OF THE CITY OF BELMONT
SPECIAL TAX BONDS (LIBRARY PROJECT), SERIES 2004A**

Dated: February 1, 2004

Due: August 1, as shown below

The Community Facilities District No. 2000-1 of the City of Belmont Special Tax Bonds (Library Project), Series 2004A (the "Bonds") are being issued by Community Facilities District No. 2000-1 of the City of Belmont (the "District") to finance the costs related to the construction of a new library (the "Project") located in the City of Belmont (the "City"), to purchase a surety bond for deposit in a reserve account securing the Bonds and to pay costs of issuance. The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California), and pursuant to that certain Fiscal Agent Agreement entered into by and between the District and BNY Western Trust Company, as fiscal agent for the Bonds (the "Fiscal Agent"), dated as of February 1, 2004 (the "Fiscal Agent Agreement").

The Bonds are payable from Net Taxes (as defined herein) derived from a certain annual Special Tax (as defined herein) to be levied on taxable parcels within the District and from certain other funds pledged under the Fiscal Agent Agreement, all as further described herein. The Special Tax is to be levied according to the rate and method of apportionment (the "Rate and Method") approved by the City Council (the "City Council") of the City and the qualified electors within the District. See "SOURCES OF PAYMENT FOR THE BONDS – Special Taxes" herein and APPENDIX A—"RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX"^Δ.

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Bonds may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable commencing August 1, 2004 and semiannually thereafter on each February 1 and August 1. Principal of and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS—General Provisions" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY OF SAN MATEO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND OTHER AMOUNTS HELD UNDER THE FISCAL AGENT AGREEMENT AS MORE FULLY DESCRIBED HEREIN.

The Bonds are subject to special mandatory redemption and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE BONDS - Redemption" herein.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the "Insurer") simultaneously with the delivery of the Bonds.

[Insurer Logo]

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

MATURITY SCHEDULE^Δ

(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City by the City Attorney. It is anticipated that the Bonds in book-entry form will be available for delivery on or about February ^Δ **18**, 2004.

Stone & Youngberg LLC

Dated: February ^Δ **4**, 2004

^Δ

MATURITY SCHEDULE^Δ
Serial Bonds ^Δ **\$1,795,000**

Maturity Date (August 1)	Principal Amount	Interest Rate	Price or Yield
^Δ <u>2004</u>	<u>\$75,000</u>	<u>10.00%</u>	<u>103.983%</u>
<u>2005</u>	<u>150,000</u>	<u>10.00</u>	<u>112.401</u>
<u>2006</u>	<u>160,000</u>	<u>8.00</u>	<u>114.940</u>
<u>2007</u>	<u>170,000</u>	<u>7.00</u>	<u>117.147</u>
<u>2008</u>	<u>180,000</u>	<u>5.50</u>	<u>114.380</u>
<u>2009</u>	<u>190,000</u>	<u>5.25</u>	<u>114.209</u>
<u>2010</u>	<u>200,000</u>	<u>5.25</u>	<u>113.737</u>
<u>2011</u>	<u>210,000</u>	<u>5.25</u>	<u>113.851</u>
<u>2012</u>	<u>225,000</u>	<u>5.25</u>	<u>113.490</u>
<u>2013</u>	<u>235,000</u>	<u>5.50</u>	<u>115.107</u>

\$1,720,000 5.75% Term Bonds due August 1, ^Δ **2019**; Price ^Δ **114.412%**
Δ

\$1,945,000 5.75% Term Bonds due August 1, ^Δ **2024**; Price **115.135%**
\$3,190,000 5.75% Term Bonds due August 1, 2030; Price **115.800%**

**CITY OF BELMONT
COUNTY OF SAN MATEO, CALIFORNIA**

CITY COUNCIL/BOARD OF DIRECTORS

George Metropulos, Mayor
Dave Bauer, Vice Mayor
David Warden, Council Member
Coralin Feierbach, Council Member
Phillip Mathewson, Council Member

CITY STAFF

Jere Kersnar, City Manager
John Violet, Treasurer
Thomas Fil, Finance Director
Terri Cook, City Clerk

PROFESSIONAL SERVICES

Stradling Yocca Carlson & Rauth, a Professional Corporation
San Francisco, California
Bond Counsel

Fieldman, Rolapp & Associates
Irvine, California
Financial Advisor

NBS Government Finance Group
San Francisco, California
Special Tax Consultant

BNY Western Trust Company
San Francisco, California
Fiscal Agent

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

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

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

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

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described herein since the date hereof. All summaries of the Fiscal Agent Agreement or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

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

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

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a “plan,” “expect,” “estimate,” “project,” “budget,” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the captions “THE COMMUNITY FACILITIES DISTRICT.”

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

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\$8,650,000^Δ
COMMUNITY FACILITIES DISTRICT NO. 2000-1
OF THE CITY OF BELMONT
SPECIAL TAX BONDS (LIBRARY PROJECT), SERIES 2004A

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by Community Facilities District No. 2000-1 of the City of Belmont (the “District”) of its Special Tax Bonds (Library Project), Series 2004A in the aggregate principal amount of \$8,650,000 ^Δ(the “Bonds”). The proceeds of the Bonds will be used to finance the costs related to the construction of a new library (the “Project”) located in the City of Belmont (the “City”), to purchase a surety bond for deposit in a reserve account securing the Bonds and to pay costs of issuance.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California) (the “Act”), and a Fiscal Agent Agreement dated as of February 1, 2004 (the “Fiscal Agent Agreement”) by and between the District and BNY Western Trust Company, as fiscal agent (the “Fiscal Agent”). The Bonds are secured under the Fiscal Agent Agreement by a pledge of and lien upon Net Taxes (as defined herein) and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) and are payable from Net Taxes, all as described in the Fiscal Agent Agreement.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in APPENDIX C—“SUMMARY OF THE FISCAL AGENT AGREEMENT” herein.

The District

Pursuant to the Act, the City Council (the “City Council”) of the City adopted Resolution No. 8884 on October 24, 2000, stating its intention to establish the District. Pursuant to Resolution No. 8917, adopted by the City Council on December 12, 2000 (the “Resolution of Formation”), the District was formed; and pursuant to the Resolution of Formation and Resolution No. 8918, also adopted by the City Council on December 12, 2000, the questions of levying a special tax and authorizing bonded indebtedness were submitted to the qualified electors of the District. The qualified electors, being the registered voters within the boundaries of the District, at the election held on March 6, 2001, authorized the City to incur bonded indebtedness in an aggregate principal amount not to exceed \$8,650,000 to accomplish the financing of the Project, which includes (i) the construction of a new library located in the City and related improvements, and (ii) all costs associated with the creation of the District, the issuance of the bonds, the determination of the amount of Special Taxes (as defined herein) to be levied, costs otherwise incurred in order to carry out the authorized purposes of the District and administering the District.

The boundaries of the District are coterminous with the boundaries of the City. See “THE COMMUNITY FACILITIES DISTRICT—The City of Belmont” herein.

Sources of Payment for the Bonds

Special Taxes. As used in this Official Statement, the term “Special Tax” is the annual Special Tax which has been authorized pursuant to the Act and the Rate and Method to be levied upon taxable property within the District.

See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes” and APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

Under the Fiscal Agent Agreement, the District has pledged to repay the Bonds from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the “Net Taxes”) and from other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) established under the Fiscal Agent Agreement. The Net Taxes are the primary security for the repayment of the Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent in the Special Tax Fund (other than the Administrative Expense Account therein), including amounts held in the Reserve Account therein, to the limited extent described in the Fiscal Agent Agreement. See “SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund” herein.

Foreclosure Proceeds. The District has covenanted in the Fiscal Agent Agreement for the benefit of the Owners of the Bonds and any Parity Bonds that it (i) will commence judicial foreclosure proceedings against all parcels owned by a property owner that is delinquent in the payment of Special Taxes in excess of \$10,000 by the September 1 following the close of each Fiscal Year in which such Special Taxes were due; (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the September 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 Tax levied and the amount on deposit in the Reserve Account is at less than the Reserve Requirement; and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement or to avoid a default in payment on the Bonds and any Parity Bonds.

The District has covenanted in the Fiscal Agent Agreement that it will deposit the net proceeds of any foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds.

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM SPECIAL TAXES AND AMOUNTS HELD UNDER THE FISCAL AGENT AGREEMENT AS MORE FULLY DESCRIBED HEREIN.

Bond Insurance

Payment of the principal of and interest on the Bonds will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the “Insurer” or “Ambac Assurance”) simultaneously with the delivery of the Bonds. See “FINANCIAL GUARANTY INSURANCE POLICY” herein.

Description of the Bonds

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

Principal of, premium, if any, and interest on the Bonds is payable by the Fiscal Agent to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. See APPENDIX E—“BOOK-ENTRY ONLY SYSTEM.”

The Bonds are subject to special mandatory redemption and mandatory sinking fund redemption as described herein. See “THE BONDS – Redemption” herein. For a more complete description of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE BONDS” herein and APPENDIX C—“SUMMARY OF THE FISCAL AGENT AGREEMENT”^Δ.

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest ^Δ on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest ^Δ on the Bonds is exempt from State of California personal income tax. See “TAX EXEMPTION” herein.

Set forth in APPENDIX B is the form of opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain tax consequences incident to the ownership of the Bonds, see “TAX EXEMPTION” herein.

Professionals Involved in the Offering

BNY Western Trust Company, San Francisco, California, will act as Fiscal Agent under the Fiscal Agent Agreement. ^Δ Stone & Youngberg LLC is the Underwriter of the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed on for the City and the District by the City Attorney. Other professional services have been performed by Fieldman, Rolapp & Associates, Irvine, California, as Financial Advisor, and NBS Government Finance Group, San Francisco, California, as the Special Tax Consultant.

For information concerning circumstances in which certain of the above-mentioned professionals, advisors, counsel and consultants may have a financial or other interest in the offering of the Bonds, see “FINANCIAL INTERESTS” herein.

Continuing Disclosure

The District has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (“Rule 15c2-12(b)(5)”) certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5).

See APPENDIX D—“FORM OF CONTINUING DISCLOSURE AGREEMENT” herein for a form of the District’s Continuing Disclosure Agreement.

The District has not previously made any undertaking pursuant to Rule 15c2-12(b)(5).

Parity Bonds

The District may, without the consent of the Owners of the Bonds, issue additional indebtedness secured by the Net Taxes on a parity with the Bonds (“Parity Bonds”). See “SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds.” Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes have been levied and may also be levied in the future on the property within the District which could adversely affect the willingness of the landowners to pay the Special Taxes when due. See “COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness” and “INVESTMENT CONSIDERATIONS—Parity Taxes and Special Assessments” herein.

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a “plan,” “expect,” “estimate,” “project,” “budget” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the captions “THE COMMUNITY FACILITIES DISTRICT.”

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Other Information

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

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

Copies of the Fiscal Agent Agreement and other documents and information are available for inspection and copies may be obtained from the City of Belmont, 1070 Sixth Avenue, Belmont, California 94002, Attention: City Clerk.

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

TABLE 1
ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds	
Principal Amount of Bonds	Δ <u>\$8,650,000.00</u>
Original Issue Premium	<u>1,296,220.95</u>
Accrued Interest	<u>23,965.28</u>
Total Sources	Δ <u>\$9,970,186.23</u>
Uses of Funds:	
Project Account	Δ <u>\$9,404,471.82</u>
Costs of Issuance Account ⁽¹⁾	Δ <u>375,088.63</u>
<u>Interest Account</u>	<u>23,965.28</u>
Underwriter’s Discount	<u>166,660.50</u>
Total Uses	Δ <u>\$9,970,186.23</u>

⁽¹⁾ To pay costs of issuance, including legal fees, printing costs, rating agency fees, Fiscal Agent fees and the premium on the Insurer’s Financial Guaranty Insurance Policy.

THE BONDS

General Provisions

The Bonds and any Parity Bonds shall be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds and any Parity Bonds of each issue shall be numbered as desired by the Fiscal Agent.

The Bonds shall be dated as of February 1, 2004, shall mature and be payable on August 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates set forth on the inside front cover of this Official Statement.

Interest shall be payable on each Bond and each Parity Bond from the date established in accordance with the Fiscal Agent Agreement on each Interest Payment Date thereafter until the principal sum of that Bond or Parity Bond has been paid; provided, however, that if at the maturity date of any Bond or Parity Bond (or if the same is redeemable and shall be duly called for redemption, then at the date fixed for redemption) funds are available for the payment or redemption thereof in full, in accordance with the terms of the Fiscal Agent Agreement, such Bonds and Parity Bonds shall then cease to bear interest. Interest due on the Bonds and Parity Bonds shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Bonds and Parity Bonds shall be payable both as to principal and interest, and as to any premiums upon the redemption thereof, in lawful money of the United States of America. The principal of the Bonds and Parity Bonds and any premiums due upon the redemption thereof shall be payable by check of the Fiscal Agent upon presentation and surrender thereof at the Principal Office of the Fiscal Agent, or at the designated office of any successor Fiscal Agent. Interest on any Bond or Parity Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that Bond or Parity Bond, unless (i) such date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of such Bond or Parity Bond, in which event interest shall be payable from the dated date of such Bond or Parity Bond, as applicable; provided, however, that if at the time of authentication of such Bond or Parity Bond, interest is in default, interest on that Bond or Parity Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment on that Bond or Parity Bond, interest on that Bond or Parity Bond shall be payable from its dated date. Interest on any Bond or Parity Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond or Parity Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the Bond Register. In addition, upon a request in writing received by the Fiscal Agent on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of the Bonds or of \$1,000,000 or more in principal amount of any issue of Parity Bonds, payment shall be made on the Interest Payment Date by wire transfer in immediately available funds to an account within the United States designated by such Owner.

All Bonds shall be initially issued in the form of a separate single certificated fully registered Bond for each maturity date of the Bonds. Upon initial issuance, the ownership of each Bond shall be registered in the Bond Register in the name of Cede & Co., as nominee of DTC. Except as provided in the Fiscal Agent Agreement, all outstanding Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of DTC.

Redemption of Bonds

THE BONDS ARE NOT SUBJECT TO OPTIONAL REDEMPTION.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, ^Δ **2019** shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on August 1, ^Δ **2014**, and on each August 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

BONDS MATURING AUGUST 1, ^Δ 2019

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal ^Δ Amount</u>
<u>2014</u>	<u>\$250,000</u>
<u>2015</u>	<u>265,000</u>
<u>2016</u>	<u>275,000</u>
<u>2017</u>	<u>295,000</u>
<u>2018</u>	<u>310,000</u>
<u>2019 (maturity)</u>	<u>325,000</u>

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 2024 shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on August 1, 2020, and on each August 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

BONDS MATURING AUGUST 1, 2024

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal Amount</u>
<u>2020</u>	<u>\$345,000</u>
<u>2021</u>	<u>365,000</u>
<u>2022</u>	<u>390,000</u>
<u>2023</u>	<u>410,000</u>
<u>2024 (maturity)</u>	<u>435,000</u>

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 2030 shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on August 1, 2025, and on each August 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

BONDS MATURING AUGUST 1, 2030

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal Amount</u>
<u>2025</u>	<u>\$460,000</u>
<u>2026</u>	<u>485,000</u>
<u>2027</u>	<u>515,000</u>
<u>2028</u>	<u>545,000</u>
<u>2029</u>	<u>575,000</u>
<u>2030 (maturity)</u>	<u>610,000</u>

If during the Fiscal Year immediately preceding one of the redemption dates specified in the Fiscal Agent Agreement the District purchases Bonds of such maturities, at least 45 days prior to the redemption date the District shall notify the Fiscal Agent as to the principal amount purchased and the amount of Bonds so purchased shall be credited at the time of purchase, to the extent of the full principal amount thereof, to reduce such upcoming Sinking Fund Payment for the applicable maturity of the Bonds. All Bonds so purchased shall be cancelled pursuant to the Fiscal Agent Agreement.

In the event of a partial redemption of the Term Bonds maturing on August 1, 2030 pursuant to the Fiscal Agent Agreement, each of the remaining Sinking Fund Payments for such Term Bonds, as described therein, will be reduced, as nearly as practicable, on a pro rata basis in amounts of \$5,000 or integral multiples thereof, as determined by the Fiscal Agent, notice of which determination shall be given by the Fiscal Agent to the District.

Mandatory Redemption From Transfers From the Acquisition and Construction Fund. ^Δ The Bonds shall be subject to mandatory redemption, in whole, or in part on a pro rata basis among maturities and by lot within a maturity, on any Interest Payment Date on ^Δ August 1, 2004 **through August 1, 2007**, from and to the extent of transfers of surplus amounts in the Acquisition and Construction Fund pursuant to the Fiscal Agent Agreement, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, plus accrued interest thereon to the redemption date:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
August 1, 2004 ^Δ <u>and</u> February 1, ^Δ <u>2005</u>	<u>116%</u>
August 1, ^Δ <u>2005</u> and February 1, ^Δ <u>2006</u>	^Δ <u>114</u>
August 1, ^Δ <u>2006</u> and February 1, ^Δ <u>2007</u>	<u>112</u>

Mandatory Redemption From Special Tax Prepayments. ^Δ The Bonds shall be subject to mandatory redemption, in whole, or in part on a pro rata basis among maturities and by lot within a maturity, on August 1, 2009, August 1, 2014, and each August 1 thereafter, from and to the extent of any prepayment of Special Taxes at redemption prices equal to the principal amount to be redeemed, plus accrued interest, ^Δ **and plus a premium of 13% of the principal amount redeemed.**

Selection of Bonds and Parity Bonds for Redemption. If less than all of the Bonds outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof. In selecting portions of such Bonds for redemption, the Fiscal Agent shall treat such Bonds as representing that number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bonds to be redeemed in part by \$5,000. Selection of Parity Bonds for redemption shall be as set forth in the Supplemental Fiscal Agent Agreement for such Parity Bonds. The Fiscal Agent shall promptly notify the District in writing of the Bonds or Parity Bonds, or portions thereof, selected for redemption.

Notice of Redemption. When Bonds or Parity Bonds are due for redemption under the Fiscal Agent Agreement or under another redemption provision set forth in a Supplemental Fiscal Agent Agreement relating to any Parity Bonds, the Fiscal Agent shall give notice, in the name of the District, of the redemption of such Bonds or Parity Bonds; provided, however, that a notice of a redemption to be made from other than from

Sinking Fund Payments shall be conditioned on there being on deposit on the redemption date sufficient money to pay the redemption price of the Bonds or Parity Bonds to be redeemed. Such notice of redemption shall (a) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds or Parity Bonds selected for redemption, except that where all of the Bonds or all of an issue of Parity Bonds are subject to redemption, or all the Bonds or Parity Bonds of one maturity, are to be redeemed, the bond numbers of such issue need not be specified; (b) state the date fixed for redemption and surrender of the Bonds or Parity Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds or Parity Bonds are to be redeemed; (e) in the case of Bonds or Parity Bonds to be redeemed only in part, state the portion of such Bond or Parity Bond which is to be redeemed; (f) state the date of issue of the Bonds or Parity Bonds as originally issued; (g) state the rate of interest borne by each Bond or Parity Bond being redeemed; and (h) state any other descriptive information needed to identify accurately the Bonds or Parity Bonds being redeemed as shall be specified by the Fiscal Agent. Such notice shall further state that on the date fixed for redemption, there shall become due and payable on each Bond, Parity Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon shall cease to accrue and be payable. At least 30 days but no more than 60 days prior to the redemption date, the Fiscal Agent shall mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register, to the original purchaser of any Parity Bonds. The actual receipt by the Owner of any Bond or Parity Bond or the original purchaser of any Bond or Parity Bond of notice of such redemption shall not be a condition precedent to redemption, and neither the failure to receive nor any defect in such notice shall affect the validity of the proceedings for the redemption of such Bonds or Parity Bonds, or the cessation of interest on the redemption date. A certificate by the Fiscal Agent that notice of such redemption has been given as herein provided shall be conclusive as against all parties and the Owner shall not be entitled to show that he or she failed to receive notice of such redemption.

In addition to the foregoing notice, further notice shall be given by the Fiscal Agent as set out in the Fiscal Agent Agreement, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed thereunder.

Each further notice of redemption shall be sent at least two days before notice of redemption is mailed to the Bondowners pursuant to the Fiscal Agent Agreement by registered or certified mail or overnight delivery service (or by such means as is then acceptable) to the registered securities depositories listed in the Fiscal Agent Agreement and to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds and Parity Bonds as shall be specified by the District to the Fiscal Agent and to the national information services that disseminate notice of redemption of obligations such as the Bonds and Parity Bonds.

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

Partial Redemption of Bonds or Parity Bonds. Upon surrender of any Bond or Parity Bond to be redeemed in part only, the District shall execute and the Fiscal Agent shall authenticate and deliver to the Bondowner, at the expense of the District, a new Bond or Bonds or a new Parity Bond or Parity Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity or, in the case of surrender of a Parity Bond, a new Parity Bond or Parity Bonds subject to the foregoing limitations.

Effect of Notice and Availability of Redemption Money. Notice of redemption having been duly given, as provided in the Fiscal Agent Agreement, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(a) The Bonds and Parity Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Fiscal Agent

Agreement or in any Supplemental Fiscal Agent Agreement with respect to any Parity Bonds, anything in the Fiscal Agent Agreement or in the Bonds or the Parity Bonds to the contrary notwithstanding;

(b) Upon presentation and surrender thereof at the office of the Fiscal Agent, the redemption price of such Bonds and Parity Bonds shall be paid to the Owners thereof;

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

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

Purchase of Bonds by District. In lieu, or partially in lieu, of optional or mandatory sinking fund redemption, the District may elect, prior to the selection of Bonds for redemption by the Fiscal Agent, to instruct the Fiscal Agent to purchase Bonds at public or private sale at such prices as the District may in its discretion determine; provided that the purchase price thereof (including brokerage or other expenses) shall not exceed the principal amount thereof plus accrued interest to the purchase date and, in the case of purchase with funds in an optional redemption account, applicable premium.

Registration, Transfer and Exchange

Bond Register. The Fiscal Agent will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the Bonds and any Parity Bonds which shall upon reasonable prior notice be open to inspection by the District during all regular business hours, and, subject to the limitations set forth in the Fiscal Agent Agreement, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds and any Parity Bonds as herein provided.

The District and the Fiscal Agent may treat the Owner of any Bond or Parity Bond whose name appears on the Bond Register as the absolute Owner of that Bond or Parity Bond for any and all purposes, and the District and the Fiscal Agent shall not be affected by any notice to the contrary. The District and the Fiscal Agent may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Bondowner to give written notice to the Fiscal Agent of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Registration of Exchange or Transfer. Subject to the limitations set forth in the Fiscal Agent Agreement, the registration of any Bond or Parity Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond or Parity Bond for cancellation at the office of the Fiscal Agent, accompanied by delivery of written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney.

Bonds or Parity Bonds may be exchanged at the office of the Fiscal Agent for a like aggregate principal amount of Bonds or Parity Bonds for other authorized denominations of the same maturity and issue. The Fiscal Agent shall not collect from the Owner any charge for any new Bond or Parity Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds or Parity Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds or a new Parity Bond or Parity Bonds, as applicable, of the same issue and maturity, for a like aggregate principal amount; provided that the Fiscal Agent shall not be required to register transfers or make exchanges of (i) Bonds or Parity Bonds for a period of 15 days next preceding any selection of the Bonds or Parity Bonds to be redeemed, or (ii) any Bonds or Parity Bonds chosen for redemption.

SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

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

The Net Taxes are the primary security for the repayment of the Bonds. Under the Fiscal Agent Agreement, the District has pledged to repay the Bonds from the Net Taxes (which are Special Tax revenues remaining after the payment of the annual Administrative Expenses) and from amounts held in the Special Tax Fund (other than amounts held in the Administrative Expense Account therein). Special Tax revenues include the proceeds of the annual Special Tax levy received by the District, including any scheduled payments and Prepayments thereof and the net proceeds of the redemption of delinquent Special Taxes or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien, and penalties and interest thereon.

In the event that the Special Tax revenues are not received when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent in the Special Tax Fund (other than the Administrative Expense Account therein), including amounts held in the Reserve Account therein, for the exclusive benefit of the Owners of the Bonds.

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

Special Taxes

Authorization and Pledge. In accordance with the provisions of the Act, the City established the District on October 24, 2000 for the purpose of financing the Project. At a special election held on March 6, 2001, the owners of the property within the District authorized the District to incur indebtedness in an amount not to exceed \$8,650,000, and approved the Rate and Method which authorizes the Special Tax to be levied to repay District indebtedness, including the Bonds.

The Special Taxes levied in any Fiscal Year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A—"RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" hereto. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See "INVESTMENT CONSIDERATIONS—Insufficiency of Special Taxes" herein.

Rate and Method of Apportionment of Special Tax.

Assignment to Land Use Categories. Each Fiscal Year, each Taxable Parcel within the District shall be classified as either a Residential Parcel or a Commercial/Industrial Parcel. The secured property tax roll, land use codes and plot map books maintained by the County Assessor of San Mateo County (the "County"), in combination with official records maintained by the City regarding development agreements, recorded final maps, building permits issued, and other changes in parcel development status, will be the basis for classifying the Parcels in the District. If the land use code on the secured property tax roll is incorrect, the City may assign the appropriate code based on its review of the status of the property.

Prior to July 1 of each Fiscal Year the Finance Director shall cause to be prepared a Special Tax Report.

Termination of the Special Tax. When all of the District’s Administrative Expenses, Operations and Maintenance Costs and Debt Service obligations are satisfied and no bonds authorized for issuance by the District remain either unissued or outstanding, the City Council shall determine that the Special tax shall cease to be levied. The City Council shall then direct the City Clerk to record a Notice of Cessation of Special Tax as provided by law. Notwithstanding the foregoing, in no event shall the Special Tax be levied after the Fiscal Year ending June 30, 2031.

Maximum Annual Special Tax Rate. The Maximum Annual Special Tax for each Assessor's Parcel classified as Taxable Parcel shall be the amount shown in Table 2 below:

**TABLE 2
MAXIMUM ANNUAL SPECIAL TAX**

<u>Classification</u>	<u>Maximum Annual Special Tax</u>	
	<u>Facilities</u>	<u>Operation and Maintenance</u>
Residential Parcel	\$54 per Taxable Dwelling Unit	\$17 per Taxable Dwelling Unit
Commercial/Industrial Parcel	\$0.065 per Taxable Commercial/Industrial Building Area square foot	\$0.02 per Taxable Commercial/Industrial Building Area square foot

Method of Apportionment of the Special Tax. A Special Tax rate per square foot of Commercial/Industrial Building Area, or per unit of Taxable Dwelling Unit shall be established annually by the City Council for each Taxable Parcel in the District. A Special Tax under the Act applicable to each Taxable Parcel included within the boundaries of the District shall be levied and collected according to the tax liability determined by the City through the application of the procedures described below:

- Step 1 Determine the projected Annual Special Tax Requirement.
- Step 2 Multiply the Annual Special Tax Requirement by 15% to determine the Commercial/Industrial Annual Special Tax Requirement. Multiply the Annual Special Tax Requirement by 85% to determine the Residential Annual Special Tax Requirement.
- Step 3 Classify each Parcel within the boundaries of the District into Taxable/Tax-Exempt parcels. Parcels shall be classified as of their status applicable in the next ensuing Fiscal Year as of the Classification Date.
- Step 4 Classify each Taxable Parcel as a Commercial/Industrial Parcel or Residential Parcel for such Fiscal Year.
- Step 5 Determine the number of Taxable Dwelling Units and Taxable Commercial/Industrial Building Area square foot.
- Step 6 The Special Tax shall be levied proportionately on each Taxable Dwelling Unit at up to 100% of the applicable Maximum Annual Special Tax as set forth in Table 2 as needed to satisfy the Residential Annual Special Tax Requirement as determined in Step 2.
- Step 7 The Special Tax shall be levied proportionately on each Taxable Commercial/Industrial Building Area square foot at up to 100% of the applicable Maximum Annual Special Tax as set forth in Table 2 as needed to satisfy the Commercial/Industrial Annual Special Tax Requirement as determined in Step 2.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel be increased by more than ten (10%) percent per year as a consequence of delinquency or default in the payment of Special Taxes by the owner of any other Assessor's Parcel of the District.

UNDER NO CIRCUMSTANCES MAY THE SPECIAL TAX ON ANY ASSESSOR’S PARCEL EXCEED THE MAXIMUM RATE APPLICABLE TO THAT PARCEL AS SET FORTH IN THE RATE AND METHOD ATTACHED AS APPENDIX A HERETO. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” herein.

Estimated Debt Service Coverage. In connection with the issuance of the Bonds, NBS Government Finance Group, the District’s Special Tax Consultant, will certify that the Maximum Annual Special Taxes that may be levied in each Fiscal Year on assessor’s parcels within the District will be at least equal to the sum of 115% maximum annual debt service on the Bonds plus an amount necessary for Administrative Expenses. Actual collections of the Special Tax will depend on the amount of Special Tax delinquencies. Notwithstanding the estimated debt service coverage amounts shown in Table 3 below, the actual amount of Special Taxes levied in each year is expected to be less than the maximum amounts set forth in Table 3.

TABLE 3^Δ
MAXIMUM DEBT SERVICE COVERAGE
Community Facilities District No. 2000-1
of the City of Belmont

Year Ending August 1	Net Taxes ⁽¹⁾	Bond Debt ^Δ <u>Service</u>	<u>Debt Service</u> <u>Coverage⁽²⁾</u>
<u>2004</u>			
<u>2005</u>			
<u>2006</u>			
<u>2007</u>			
<u>2008</u>			
<u>2009</u>			
<u>2010</u>			
<u>2011</u>			
<u>2012</u>			
<u>2013</u>			
<u>2014</u>			
<u>2015</u>			
<u>2016</u>			
<u>2017</u>			
<u>2018</u>			
<u>2019</u>			
<u>2020</u>			
<u>2021</u>			
<u>2022</u>			
<u>2023</u>			
<u>2024</u>			
<u>2025</u>			
<u>2026</u>			
<u>2027</u>			
<u>2028</u>			
<u>2029</u>			
<u>2030</u>			
<u>Total</u>			

⁽¹⁾ Assumes 1% increase annually due to City growth. Does not reflect prepayments received prior to sale of Bonds which will reduce Net Taxes by no more than \$10,000.

^{(2)Δ} Equals Net Taxes column divided by Bond Debt Service column.

Δ

Source: NBS Government Finance Group.

Levy, Collection and Application of Special Taxes. The Special Taxes are levied and collected by the Tax Collector-Treasurer of the County in the same manner and at the same time as *ad valorem* property taxes.

The District has covenanted in the Fiscal Agent Agreement that so long as any Bonds or Parity Bonds are outstanding, the legislative body of the District will levy the Special Tax in each Fiscal Year in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (i) the principal (including Sinking Fund Payments) of and interest on the Bonds and any Parity Bonds when due, (ii) to the extent permitted by law, the Administrative Expenses, and (iii) any amounts required to replenish the Reserve Account as required by the Fiscal Agent Agreement.

The District has made certain covenants in the Fiscal Agent Agreement which are intended to ensure that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the Bonds and Parity Bonds, and Administrative Expenses when due. First, the District has covenanted, to the maximum extent that the law permits it to do so, that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Taxable Parcels (as defined in the Rate and Method of Apportionment of Special Tax then in effect in the District) in each Bond Year for any Bonds and Parity Bonds outstanding will equal at least 115% of the sum on the estimated Administrative Expenses and gross debt service in that Bond Year on all Bonds and Parity Bonds to remain outstanding after the reduction is approved, and (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultant or special tax administrator shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by 2% in each subsequent Fiscal Year. Second, the District has covenanted that in the event any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in the Fiscal Agent Agreement or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Fiscal Agent Agreement, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

Although the Special Taxes constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the City or the landowners therein. See "THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Indebtedness" and "INVESTMENT CONSIDERATIONS—Parity Taxes and Special Assessments" herein. There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled "INVESTMENT CONSIDERATIONS."

Proceeds of Foreclosure Sales. The net proceeds received following a judicial foreclosure sale of land within the District resulting from a landowner's failure to pay the Special Taxes when due are included within the Net Taxes pledged to the payment of principal of and interest on the Bonds under the Fiscal Agent Agreement.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Taxes levied, the City Council, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the owners of the Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) parcels with delinquent Special Taxes in excess of \$10,000 or more by the September 1 following the close of the Fiscal Year in which such Special Taxes were due; and (ii) all properties with delinquent Special Taxes by the September 1 following the close of any Fiscal Year in which the District receives Special Taxes in an amount which is less than 95% of the total Special Tax

levied and the amount on deposit in the Reserve Account is at less than the Reserve Requirement. See APPENDIX C—“SUMMARY OF THE FISCAL AGENT AGREEMENT—Other Covenants of the District” herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the Bonds could be delayed unless the foreclosure proceedings produce any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. 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. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

Collection of Special Taxes and Flow of Funds. The Special Taxes will be levied and collected by the Tax Collector-Treasurer of the County in the same manner and at the same time as *ad valorem* property taxes. When the County apportions Special Taxes to the District, the District will transmit the Special Taxes to the Fiscal Agent for deposit in the Special Tax Fund established by the Fiscal Agent Agreement. The Fiscal Agent shall transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Fiscal Agent Agreement, in the following order of priority, to:

- (a) The Administrative Expense Account of the Special Tax Fund;
- (b) The Interest Account of the Special Tax Fund;
- (c) The Principal Account of the Special Tax Fund;
- (d) The Redemption Account of the Special Tax Fund;
- (e) The Reserve Account of the Special Tax Fund;
- (f) The Rebate Fund; and
- (g) The Surplus Fund.

At the maturity of all of the Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then outstanding has been paid or provided for and any amounts owed to the Fiscal Agent have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the District for any lawful purpose.

Reserve Account of the Special Tax Fund. On the delivery date of the Bonds, there shall be deposited in the Reserve Account of the Special Tax Fund a surety bond issued by the Insurer (the “Surety Bond”) in the face amount equal to the Initial Reserve Fund Deposit. Notwithstanding any provision in the Fiscal Agent Agreement to the contrary, the amounts in the Reserve Account shall be applied as follows:

- (a) Moneys in the Reserve Account shall be used to pay the principal of, including Sinking Fund Payments, and interest on any Bonds and Parity Bonds when due in the event (i) that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund pursuant to the Fiscal Agent Agreement upon written direction from the District, and (ii) of a prepayment of Special Taxes the proportionate share of amounts in the Reserve Account shall be reduced in accordance with the Rate and Method. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds and Parity

Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) If moneys are withdrawn from the Reserve Account for the purpose described in the Fiscal Agent Agreement, or if the value of the amount on deposit in the Reserve Account is decreased due to a loss on amounts invested in the Reserve Account, then the Fiscal Agent shall, after making the transfers required by the Fiscal Agent Agreement, transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds that the District elects to apply to such purpose, an amount equal to the lesser of (i) the sum of the amount of such withdrawal plus the amount of any such decrease in value and (ii) the amount needed to restore the amount in the Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to make the transfer to the Reserve Account required by this paragraph, then the District shall include in the next annual Special Tax levy (to the extent permitted by the maximum Special Tax rates) an amount sufficient to make such transfer to the extent of the maximum permitted Special Tax rates.

(c) In connection with any redemption of the Bonds under the Fiscal Agent Agreement or any Parity Bonds in accordance with any Supplemental Fiscal Agent Agreement, or a partial defeasance of the Bonds or any Parity Bonds in accordance with the Fiscal Agent Agreement, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement. To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds or an issue of Parity Bonds in the final Bond Year for such issue.

(d) On the fifth Business Day before each February 1 and August 1, moneys in the Reserve Account in excess of the Reserve Requirement, and not required to be transferred in accordance with the Fiscal Agent Agreement, shall be withdrawn from the Reserve Account and transferred to the Project Account of the Acquisition and Construction Fund until the conditions set forth in the Fiscal Agent Agreement are satisfied, and thereafter to the Interest Account of the Special Tax Fund.

(e) As long as the Surety Bond shall be in full force and effect, the District and Fiscal Agent, if appropriate, agree to comply with the following provisions:

(i) In the event and to the extent that moneys on deposit in the Reserve Account, plus all amounts on deposit in and credited to the Reserve Account in excess of the amount of the Surety Bond, are insufficient to pay the amount of principal and interest coming due, then upon the later of: (i) one day after receipt by the General Counsel of the Issuer of a demand for payment in the form attached to the Surety Bond as Attachment 1 (the "Demand for Payment"), duly executed by the Fiscal Agent certifying that payment due under the Fiscal Agent Agreement has not been made to the Fiscal Agent; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Fiscal Agent to the General Counsel of the Issuer, the District will make a deposit of funds in an account with the Fiscal Agent or its successor, in New York, New York, sufficient for the payment to the Fiscal Agent, of amounts which are then due to the Fiscal Agent under the Fiscal Agent Agreement (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Surety Bond; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument (the "Reserve Insurance Policy"), draws on the Surety Bond and the Reserve Insurance Policy shall be made on a pro rata basis to fund the insufficiency.

(ii) the Fiscal Agent shall, after submitting to the Insurer the Demand for Payment as provided in (i) above, make available to the Insurer all records relating to the funds and accounts maintained under this Fiscal Agent Agreement.

(iii) the Fiscal Agent shall, upon receipt of moneys received from the draw on the Surety Bond, as specified in the Demand for Payment, credit the Reserve Account to the extent of moneys received pursuant to such Demand.

(iv) the Reserve Account shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on the Reserve Insurance Policy shall be paid from first available Net Taxes on a pro rata basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Surety Bond and the Reserve Insurance Policy shall be deposited from next available Net Taxes.

(v) For the purpose of determining the amount in the Reserve Account, all Authorized Investments credited to the Reserve Account shall be valued at the lower of cost (inclusive of all interest accrued but not paid), or book value.

The District may substitute a Reserve Insurance Policy or money for any Reserve Insurance Policy or money held by the Fiscal Agent in the Reserve Account; provided, that (i) in the case of a municipal bond debt service reserve fund policy or a surety bond, bonds which are insured by the issuer thereof are rated in the highest rating category by Standard & Poor's and Moody's Investors Service (collectively, the "Rating Agencies"), or, in the case of a letter of credit, the unsecured debt obligations of the issuing bank thereof are rated in the highest short-term rating category by the Rating Agencies; (ii) the sum of the money and face amount of any Reserve Insurance Policy in effect after such substitution will be equal to the Reserve Requirement; (iii) in the case of the substitution of a new Reserve Insurance Policy for money or an existing Reserve Insurance Policy, the Fiscal Agent receives an opinion of Bond Counsel to the effect that such substitution will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds; and (iv) in the case of the substitution of a Reserve Insurance Policy for money, so long as the Financial Guaranty Insurance Policy is in full force and effect, the Fiscal Agent shall have received the Insurer's consent thereto.

Reserve Account Insurer Surety Bond

The Fiscal Agent Agreement requires the establishment of a Reserve Account in an amount equal to △ \$650,000. The Fiscal Agent Agreement authorizes the District to obtain a surety bond in place of fully funding the Reserve Account. Accordingly, application has been made to the Insurer for the issuance of the Surety Bond for the purpose of funding the Reserve Account. The Bonds will only be delivered upon the issuance of the Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the Bonds. The Surety Bond provides that upon the later of (i) one (1) day after receipt by the Insurer of a demand for payment executed by the Fiscal Agent certifying that provision for the payment of principal or interest on the Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to the Insurer, the Insurer will promptly deposit funds with the Fiscal Agent sufficient to enable the Fiscal Agent to make such payments due on the Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by the Insurer under the terms of the Surety Bond and the District is required to reimburse the Insurer for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the District is subordinate to the District's obligations with respect to the Bonds.

In the event the amount on deposit, or credited to the Reserve Account, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Reserve Account have been expended. In the event that the amount on deposit in, or credited to, the Reserve Account, in addition to

the amount available under the Surety Bond, includes amounts available under a Resource Insurance Policy, draws on the Surety Bond and the Reserve Insurance Policy shall be made on a pro rata basis to fund the insufficiency. The Fiscal Agent Agreement provides that the Reserve Account shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on the Reserve Insurance Policy shall be paid from first available Net Taxes on a pro rata basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Surety Bond and the Reserve Insurance Policy shall be deposited from next available Net Taxes.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Fiscal Agent.

In the event that the Insurer were to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Issuance of Parity Bonds

Subject to the limitations set forth in the Fiscal Agent Agreement, the District may, at any time after the issuance and delivery of the Bonds, and without the consent of the Owners of the Bonds, issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the outstanding Bonds and any other Parity Bonds theretofore issued pursuant to the Fiscal Agent Agreement or under any Supplemental Fiscal Agent Agreement for the purpose of financing additional facilities or refunding all or a portion of the Bonds or any Parity Bonds then outstanding. Parity Bonds may only be issued in accordance with the specific conditions precedent to the issuance of any such Parity Bonds as set forth in the Fiscal Agent Agreement. See APPENDIX C—"SUMMARY OF THE FISCAL AGENT AGREEMENT—Conditions for the Issuance of Parity Bonds" herein.

FINANCIAL GUARANTY INSURANCE POLICY

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the District (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Fiscal Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Fiscal Agent has notice that any payment of principal of or interest on an Bond which has become Due for Payment and which is made to a Owner by or on behalf of the District has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such

registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Financial Guaranty Insurance Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Fiscal Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Owner entitlement to interest payments and an appropriate assignment of the Owner's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Owner's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$6,993,000,000 (unaudited) and statutory capital of approximately \$4,195,000,000 (unaudited) as of September 30, 2003. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the District of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "FINANCIAL GUARANTY INSURANCE POLICY".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports, proxy statements and other information can be read and copied at the SEC’s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company . These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the “NYSE”), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance’s financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance’s administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company’s Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
2. The Company’s Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
3. The Company’s Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
4. The Company’s Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
5. The Company’s Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
6. The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
7. The Company’s Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;
8. The Company’s Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003;
9. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003;
10. The Company’s Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003;
11. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2003 and filed on August 14, 2003;
12. The Company’s Current Report on Form 8-K dated October 16, 2003 and filed on October 17, 2003;

13. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2003 and filed on November 14, 2003; and

14. The Company's Annual Report amendment No. 1 on Form 10-K/A for the fiscal year ended December 31, 2002 and filed on November 19, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in " - Available Information".

THE COMMUNITY FACILITIES DISTRICT

Pursuant to the Act, the City Council adopted Resolution No. 8884 on October 24, 2000, stating its intention to establish the District. Pursuant to Resolution No. 8917, adopted by the City Council on December 12, 2000, the District was formed; and pursuant to the Resolution of Formation and Resolution No. 8918, also adopted by the City Council on December 12, 2000, the questions of levying a special tax and authorizing bonded indebtedness were submitted to the qualified electors of the District. The boundaries of the District are coterminous with the boundaries of the City. See "—The City of Belmont" below.

Description of Authorized Facilities

The Project consists of (i) the construction of a new one-story, 21,000 square foot library located in the City and the relocation of the contents of an existing 5,584 square foot library (built in 1960 and expanded in 1982) to the new location, improvements to a park area adjacent to the new library, the ongoing maintenance of the new library, and (ii) all costs associated with the creation of the District, the issuance of the bonds, the determination of the amount of Special Taxes to be levied, costs otherwise incurred in order to carry out the authorized purposes of the District and administering the District.

The new library will be located at 1110 Alameda de las Pulgas in the City, within two blocks of a major shopping center and within walking distance of seven schools. The new library will feature parking located on the south side of the site, utilizing the existing driveway off Alameda de las Pulgas, and a building orientation sited towards the center of the site. The new library building will include a children's area, staff areas, a community room with a courtyard, an adult wing and a small cafe.

Principal Taxpayers

No single taxpayer is expected to be responsible for more than 3.2% of the projected Fiscal Year 2004-05 Special Tax levy on property within the District. The table below sets forth the percentage of the Special Tax that the top 20 landowners, based on the percentage of projected total Special Tax levy, would pay in Fiscal Year 2004-05 based on a projected Special Tax levy of \$892,290.

**TABLE 4
PROJECTED ALLOCATION OF 2004-05 SPECIAL TAX**

<i>Owner</i>	<i>Land Use</i>	<i>Projected Special Tax⁽¹⁾</i>	<i>% of Total Projected 2004-05 Special Tax</i>
1. Mclellan Estate Co	Residential	△	△
2. T & S Realty Co	Residential	△	△
3. Davis Associates	Office Multi-story	△	△
4. Six Hundred Clipper Drivelle	Office Multi-story	△	△
5. 1001 E Hillsdale Llc	Office Multi-story	△	△
6. French Village Llc	Residential	△	△
7. Normandy Square Associates Llc	Residential	△	△
8. Catania Limited Ptnshp	Residential	△	△
9. Belmont Terrace Associates	Residential	△	△
10. Carlmont Village Shoppingcntr	Residential	△	△
11. Timberlane Apts Partnership L P	Residential	△	△
12. Debenedetti Clyde C	Light Mfg.	△	△
13. Innkeepers Summerfield Gen Lp	Hotel	△	△
14. Belmont Terrace Associates	Residential	△	△
15. Continentals Belmont Prtnrshp	Residential	△	△
16. Carlmont Village Shoppingcntr	Shopping Center	△	△
17. Panos Gus P & P Trust	Residential	△	△
18. Oracle Corp	Office Multi-story	△	△
19. 301321 Oxford Wy Llc	Residential	△	△
20. Wadsworth Publishing Co Inc	Office Multi-story/ Warehouse	△	△
All Others	Residential & Commercial	△	△
	Total:	△	△

⁽¹⁾ Projected Special Tax Levy is based on land uses as of the date of January 2003 and includes estimated debt service on the Bonds and \$26,437.57 estimated District Administrative expenses. Does not reflect prepayments of 131 dwelling units. Source: NBS Government Finance Group.

Ad Valorem Tax Data of the City

Special Taxes were first levied on property in the District in 2003. Therefore, no collections, delinquency or other data pertaining to Special Taxes in the District is yet available. The *ad valorem* data presented in this section is for informational purposes only. *Ad valorem* taxes are not available to pay debt service on the Bonds. Furthermore, historical *ad valorem* tax data presented herein may not be representative of the corresponding data that will result from the levy of the Special Taxes.

Assessed Valuations. The following represents the five-year history of assessed valuations in the City.

**TABLE 5
ASSESSED VALUATIONS
The City of Belmont**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Rdv. Increment</u>
1999-00	\$2,337,212,461	\$2,294,217	\$59,229,867	\$2,398,736,545
2000-01	2,540,048,449	2,274,844	75,436,853	2,617,760,146
2001-02	2,755,797,462	1,207,471	94,770,443	2,851,775,376
2002-03	2,906,287,100	1,234,099	86,739,279	2,994,260,478
2003-04	3,132,183,522	1,269,569	82,142,052	3,215,595,143

Source: California Municipal Statistics, Inc.

The following is an analysis of the City's land use by assessed valuation.

**TABLE 6
ASSESSED VALUATION AND PARCELS BY LAND USE
The City of Belmont**

	<u>2003-04 Assessed Valuation⁽¹⁾</u>	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
Non-Residential:				
Commercial	\$344,571,630	11.00%	180	2.24%
Industrial	36,415,553	1.16	66	0.82
Government/Social/Institutional	<u>42,522,446</u>	<u>1.36</u>	<u>15</u>	<u>0.19</u>
Subtotal Non-Residential	\$423,509,629	13.52%	261	3.24%
Residential:				
Single Family Residence	\$2,327,824,182	74.32%	6,638	82.50%
Condominium/Townhouse	86,663,326	2.77	373	4.64
2-4 Residential Units	35,495,767	1.13	127	1.58
5+ Residential Units/Apartments	<u>233,065,336</u>	<u>7.44</u>	<u>151</u>	<u>1.88</u>
Subtotal Residential	\$2,683,048,611	85.66%	7,289	90.59%
Vacant Parcels	\$25,625,282	0.82%	496	6.16%
Total	\$3,132,183,522	100.00%	8,046	100.00%

⁽¹⁾ Local Secured Assessed Valuation; excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

Delinquency History. The following summarizes the *ad valorem* tax for property within the boundaries of the City for the five prior Fiscal Years.

TABLE 7
SECURED TAX CHARGES AND DELINQUENCIES
The City of Belmont

	Secured <u>Tax Charge⁽¹⁾</u>	Amt. Del. <u>June 30</u>	% Del. <u>June 30</u>
1998-99	\$25,303,405.20	\$458,444.57	1.81%
1999-00	27,025,011.44	326,456.94	1.21
2000-01	29,177,385.12	352,361.04	1.21
2001-02	31,457,661.76	512,631.31	1.63
2002-03	33,528,588.32	318,294.91	0.95

⁽¹⁾ All taxes collected by the County within the City. Includes special charges.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Indebtedness. The ability of an owner of land within the District to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon the property. Certain of those taxes and assessments relate to direct and overlapping debt which is set forth in Table 8 below (the “Debt Report”).

The Debt Report has been derived from data assembled and reported to the District by California Municipal Statistics, Inc. as of January 1, 2004. Neither the District, the City nor the Underwriter have independently verified the information in the Debt Report and do not guarantee its completeness or accuracy.

As shown in Table 8 below the assessed value of the property within the District is \$3,215,595,143 for Fiscal Year 2003-04. The Debt Report sets forth those entities which have issued debt and does not include entities which only levy or assess fees, charges, *ad valorem* taxes or other special taxes. The Debt Report is included for general information purposes only.

TABLE 8
DIRECT AND OVERLAPPING DEBT
Community Facilities District No. 2000-1 of the City of Belmont
(As of January 1, 2004)

2003-04 Assessed Valuation: \$3,215,595,143

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable⁽¹⁾</u>	<u>Debt 10/1/03</u>
San Mateo Community College District	2.757%	\$ 2,606,485
Sequoia Union High School District	6.951	9,008,844
Belmont-Redwood Shores School District	36.304	4,046,081
San Mateo-Foster City School District	0.020	15,188
City of Belmont Community Facilities District No. 2000-01	100.	- ⁽²⁾
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$15,676,598

<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Mateo County General Fund Obligations	2.757%	\$7,377,835
San Mateo County Board of Education Certificates of Participation	2.757	136,747
Belmont-Redwood Shores School District Certificates of Participation	36.332	2,061,841
San Mateo County Mosquito Abatement District Certificates of Participation	3.773	<u>71,876</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$9,648,299

COMBINED TOTAL DEBT \$25,324,897⁽³⁾

Ratios to 2003-04 Assessed Valuation:

Direct Debt..... - -%
 Total Direct and Overlapping Tax and Assessment Debt 0.49%

Ratios to Adjusted Assessed Valuation:

Combined Total Debt..... 0.79%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03: \$0

⁽¹⁾ Based on 2002-03 ratios.

⁽²⁾ Excludes the Bonds to be sold.

⁽³⁾ Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

The City of Belmont

The following information relating to the City is included only for the purpose of supplying general information regarding the City. The boundaries of the District are coterminous with those of the City. However, neither the faith and credit nor taxing power of the City have been pledged to the payment of the Bonds and the Bonds will not be payable from any of City's revenues or assets.

General. The City, located in San Mateo County, is situated approximately 25 miles south of San Francisco. The City covers about 4.61 square miles. Elevation in the City ranges from 10 to 750 feet above sea level.

Climate. The City enjoys mediterranean-type sun-belt weather with warm summers and mild winters. Year-round temperatures average from a January minimum of 42 degrees to a July maximum of 75 degrees. The average yearly rainfall of 18 inches occurs predominantly during the winter months. Humidity is fairly constant throughout the year at around 70%. Prevailing winds are from the southeast averaging 8-10 miles per hour.

Municipal Government. The City was incorporated as a general law city in 1926. A Council-Manager form of municipal government is utilized. Five council members, including the Mayor, appoint the City Manager to administer day-to-day affairs under the policy guidelines of the City Council. As of June 30, 2003, the City had approximately 150 full time equivalent employees. Audited 2001-02 General Fund revenues and expenditures equaled \$12.9 million and \$12.5 million, respectively. Audited 2002-03 General Fund revenues and expenditures equaled \$13.3 million and \$12.7 million, respectively. Budgeted 2003-04 General Fund revenues and expenditures equal approximately \$13.0 and \$11.9, respectively.

Law enforcement services are provided by the Belmont Police Department.

Fire protection and rescue service is provided for Belmont and San Carlos by the South County Fire Protection Authority, a joint powers authority formed by such municipalities.

Population. The City is a community with a stable population in 2003 of approximately 25,400. Population has remained relatively constant since 1970.

**TABLE 9
POPULATION
City of Belmont
(1960-2003)**

<u>Year</u>	<u>Population⁽¹⁾</u>
1960	14,996
1970	23,538
1980	24,505
1985	24,410
1990	24,482
1991	24,350
1992	24,550
1993	24,700
1994	24,950
1995	24,400
1996	24,500
1997	24,700
1998	25,150
1999	25,200
2000	25,250
2001	25,450
2002	25,150
2003	25,400

⁽¹⁾ As of April 1 for 1960, 1970, 1980 and 1990; as of January 1 for 1991-2003.

Source: U.S. Census Bureau for 1960, 1970, 1980, 1990 and 2000. California State Department of Finance for other years.

Effective Buying Income. The following table summarizes the total effective buying income and the median household effective buying income for the County and State for the years 1998 to 2002.

TABLE 10
EFFECTIVE BUYING INCOME
1998 through 2002
(As of December 31)

	Area	Total	Median Household Income
1998	San Mateo County	\$17,481,255	\$52,452
	California	551,999,317	37,091
1999	San Mateo County	\$18,721,334	\$56,433
	California	590,376,683	39,492
2000	San Mateo County	\$20,511,262	\$65,565
	California	652,190,282	44,464
2001	San Mateo County	\$21,193,515	\$64,766
	California	650,521,407	43,532
2002	San Mateo County	\$20,903,988	\$60,071
	California	647,879,427	42,484

Source: Sales and Marketing Management Survey of Buying Power.

Employment. The City of Belmont is included in San Mateo County's Annual Average Labor Force and Industry Employment from the State of California Employment Development Department. The civilian labor force, employment and unemployment for San Mateo County, the State and the United States is set forth below.

**TABLE 11
CIVILIAN LABOR FORCE
EMPLOYMENT AND UNEMPLOYMENT⁽¹⁾
1998-2002**

		<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate (%)</u>
1998	San Mateo County	394,000	384,400	9,600	2.4
	California	16,336,500	15,367,500	969,000	5.9
	United States	137,673,000	131,463,000	6,210,000	4.5
1999	San Mateo County	398,300	390,500	7,800	2.0
	California	16,596,500	15,731,700	864,800	5.2
	United States	139,368,000	133,488,000	5,880,000	4.2
2000	San Mateo County	400,400	393,900	6,500	1.6
	California	16,884,200	16,048,900	835,300	4.9
	United States	140,863,000	135,208,000	5,655,000	4.0
2001	San Mateo County	395,500	383,900	11,600	2.9
	California	17,182,900	16,260,100	922,800	5.4
	United States	141,815,000	135,073,000	6,742,000	4.8
2002	San Mateo County	382,700	363,500	19,200	5.0
	California	17,404,600	16,241,800	1,162,800	6.7
	United States	144,863,000	136,485,000	8,378,000	5.8

Source: State of California Employment Development Department.

⁽¹⁾ The figures used for the civilian labor force employment and unemployment are an annual average; data are not seasonally adjusted.

Construction Activity. Details of construction activity in the City is set forth below.

TABLE 12
BUILDING PERMIT VALUATIONS
The City of Belmont
(in thousands of dollars)
1998-2002

	1998	1999	2000	2001	2002
Number of New Housing Units	19	33	5	112	10
VALUATIONS					
Residential					
Single Unit	\$4,554.0	\$7,175.0	\$1,904.0	\$7,324.0	\$1,796.0
Multiple Units	--	--	--	8,000.0	500.0
Alterations/Additions	5,663.9	5,767.4	7,349.7	7,120.4	7,878.9
Total Residential	<u>10,217.9</u>	<u>12,942.4</u>	<u>9,253.7</u>	<u>22,444.4</u>	<u>10,174.9</u>
Non-Residential					
New Commercial	400.0	8,900.0	--	--	5,040.0
New Industrial	--	--	--	--	--
Other Nonresidential	273.0	7,540.5	4,963.5	5,673.7	3,459.9
Non-Residential Alterations/Additions	1,240.0	4,491.0	10,877.5	944.5	506.2
Total Non-Residential	<u>7,913.0</u>	<u>20,931.5</u>	<u>15,840.5</u>	<u>6,618.2</u>	<u>9,006.1</u>
Total Valuation	<u>\$12,130.9</u>	<u>\$33,874.0</u>	<u>\$25,094.2</u>	<u>\$29,062.6</u>	<u>\$19,181.0</u>

Source: Construction Industry Research Board.

Note: Totals may not add to sums because of independent rounding.

Commercial Activity. A five year summary of taxable transactions in the City is set forth below.

TABLE 13
VALUATION OF TAXABLE TRANSACTIONS
The City of Belmont
(in thousands of dollars)
1997-2001

Year	Retail Outlets		Total All Outlets	
	No. of Permits	Taxable Transactions	No. of Permits	Taxable Transactions
1997	209	\$134,546	781	\$243,642
1998	199	149,172	702	286,512
1999	224	175,574	709	287,498
2000	240	218,933	712	379,189
2001	233	196,526	679	349,516

Source: State Board of Equalization.

Public Utilities. Water is supplied to the City by Mid-Peninsula Water District. Electricity and natural gas are provided by Pacific Gas & Electric Company and the telephone service is supplied by Pacific Bell.

Transportation.

- Highways:** The City is served by U.S. 101 and Interstate 280 for North/South traffic and is located halfway between State Highways 92 and 84 for East/West traffic across the bay and to the coast. Major local streets are: El Camino Real (U.S. 101), Ralston Avenue and Alameda de las Pulgas.
- Rail:** The City is served by Union Pacific Railroad's main line with local spurs. Commuter train service is provided by CAL TRAIN to San Francisco and San Jose from the Belmont Depot located on El Camino Real at Ralston Avenue.
- Trucks:** Approximately 50 common carriers serve the area including two with terminals in San Carlos. Overnight deliveries are made to all points within 500 miles and all California cities.
- Bus:** Regional and local bus service is provided by SamTrans (San Mateo County Transit) between San Francisco and Palo Alto. SamTrans also coordinates its service with other regional agencies (BART, Santa Clara County Transit, etc.).
- Water:** The City is 20 miles south of San Francisco port facilities, four miles north of Redwood City port facilities and 30 miles across the bay from the Port of Oakland.
- Air:** San Francisco International Airport is located 10 miles to the north. San Jose is 32 miles to the south and the neighboring (3 miles) San Carlos Airport is a local general aviation facility with a control tower and runway 2,600 feet long.

INVESTMENT CONSIDERATIONS

The purchase of the Bonds involves risks and, therefore, the Bonds are not suitable investments for many investors. The following is a discussion of certain considerations which should be reviewed, 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 and does not purport to be a complete statement of all factors which may be considered in evaluating the credit quality of the Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District.

Risks of Real Estate Secured Investments Generally

The Bond Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses.

Limited Obligations

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

Insufficiency of Special Taxes

The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to problems of collecting taxes from public agencies, if a substantial portion of land within the District was to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires, floods or other natural disasters. In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

Hazardous Substances

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

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

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

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

Parity Taxes and Special Assessments

Property within the District is subject to taxes and assessments imposed by public agencies other than the District that also have jurisdiction over the land within the District. See “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness.”

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, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See “— Bankruptcy and Foreclosure” below.

Neither the District nor the City has control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by special taxes and *ad valorem* 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 the property within the District described herein. See “SOURCES OF PAYMENT FOR THE BONDS” and “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness.”

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The City has caused notices of the Special Tax to be recorded in the Office of the Recorder for the County against each parcel in the District. 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.

Special Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within the District on the *ad valorem* property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments.

See “SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales,” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Fiscal Agent Agreement, in the event of delinquencies in the payment of Special Taxes. See “— Bankruptcy and Foreclosure” below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding

the payment of special taxes and assessment and limitations on the District's ability to foreclosure on the lien of the Special Taxes in certain circumstances.

FDIC/Federal Government Interests in Properties

The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has an interest. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

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

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

Bankruptcy and Foreclosure

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

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

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

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled In re Glasply Marine Industries. In that case, the court held that *ad valorem* property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed after the filing of the bankruptcy petition were declared to be “administrative expenses” of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all the proceeds of the sale except the amount of the pre-petition taxes.

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

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

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

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

Funds Invested in the County Investment Pool

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

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 terms of the Bonds or the Fiscal Agent Agreement or in the event interest on the Bonds becomes included in gross income for federal income tax purposes. Pursuant to the Fiscal Agent Agreement and further subject to the prior lien of owners of Bonds, an owner is given the right for the equal benefit and protection of all owners of a series similarly situated to pursue certain remedies described in APPENDIX C—SUMMARY OF THE FISCAL AGENT AGREEMENT—Remedies of Bondowners” attached to this Official Statement.

Loss of Tax Exemption

As discussed under the caption “TAX EXEMPTION” herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the District or the City in violation of the Internal Revenue Code of 1986. Should such an event of taxability occur, the Bonds are not subject to a early redemption and will remain outstanding until maturity or until redeemed under the redemption provisions contained in the Fiscal Agent Agreement.

Limited Secondary Market

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

Proposition 218

An initiative measure entitled the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIIC and Article XIID to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Provisions of the Initiative have been and will continue to be interpreted by the courts. The Initiative could potentially impact the Special Taxes otherwise available to the District to pay the principal of and interest on the Bonds as described below.

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

Section 3 of Article XIIC of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any

way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution.

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

It may be possible, however, for voters or the District or the City acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Taxable Parcels (as defined in the Rate and Method of Apportionment of Special Taxes then in effect in the District) in each Bond Year for any Bonds and Parity Bonds outstanding will equal at least 115% of the sum on the estimated Administrative Expenses and gross debt service in that Bond Year on all Bonds and Parity Bonds to remain outstanding after the reduction is approved, and (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultant or special tax administrator shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by 2% in each subsequent Fiscal Year. Second, the District has covenanted that in the event any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in the Fiscal Agent Agreement or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Fiscal Agent Agreement, it will commence and pursue legal action in order to preserve its ability to comply with such covenants. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes."

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

Ballot Initiatives

Article XIIC, Article XIID and other propositions affecting the ability of local agencies to levy taxes and collect revenues were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the District or local districts to increase revenues or to increase appropriations or on the ability of the landowners to complete the developments.

Limitations on Remedies

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

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Fiscal Agent Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or others similar laws affecting generally the enforcement of

creditor's rights, by equitable principles, by the exercise of judicial discretion and by limitations or remedies against public agencies in the State. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Fiscal Agent Agreement. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement with BNY Western Trust Company, as dissemination agent (the "Disclosure Agreement"), the District has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data concerning the District. The Annual Report to be filed by the District is to be filed not later than February 1 of each year, beginning February 1, 2005, and is to include audited financial statements of the City. The requirement that the City file its audited financial statements as a part of the Annual Report has been included in the Disclosure Agreement solely to satisfy the provisions of Rule 15c2-12. The inclusion of this information does not mean that the Bonds are secured by any resources or property of the City or any entity other than the District. See "SOURCES OF PAYMENT FOR THE BONDS" and "INVESTMENT CONSIDERATIONS—Limited ^Δ Obligations" herein. The District has never made any previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. The full text of the Disclosure Agreement is set forth in APPENDIX D.

TAX EXEMPTION

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, ^Δ San Francisco, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations. ^Δ

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

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

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Fiscal Agent Agreement and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel

is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of interest on the Bonds ^Δ for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

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

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX B.

LEGAL OPINION

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California (“Bond Counsel”), approving the validity of the Bonds, in substantially the form set forth as APPENDIX B hereto, will be made available to purchasers at the time of original delivery. Certain legal matters will be passed upon for the City and the District by the City Attorney. Bond Counsel undertakes no responsibility to the purchasers of the Bonds for the accuracy, completeness or fairness of this Official Statement.

ABSENCE OF LITIGATION

No litigation is pending or threatened concerning the validity of 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 City nor the District is aware of any litigation pending or threatened which questions the existence of the District or the City or contests the authority of the District to levy and collect the Special Taxes or to issue the Bonds.

RATINGS

Fitch Ratings (“Fitch”) and Moody’s Investor Service (“Moody’s”) have assigned the Bonds the ratings of “AAA” and “Aaa”, respectively, based on the issuance of the Financial Guaranty Insurance Policy by the Insurer. Fitch and Moody’s have assigned the Bonds underlying ratings of “A-” and “A1,” respectively. These ratings reflect only the opinion of Fitch or Moody’s, and do not constitute a recommendation to buy, sell or hold the Bonds. Explanation of the significance of the ratings may be obtained from Fitch or Moody’s. A rating is subject to revision or withdrawal at any time by the particular rating agency, and there is no assurance that a rating will continue for any period of time or that it will be revised or withdrawn. Any revision or withdrawal of the ratings could have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by ^Δ **Stone & Youngberg** (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of ^Δ **\$9,803,525.73** (being ^Δ **\$8,650,000** aggregate principal amount thereof, less Underwriter’s discount of ^Δ **\$166,660.50, plus** original issue discount of ^Δ **\$1,296,220.95, and plus accrued interest of \$23,965.28**).

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

FINANCIAL INTERESTS

The fees being paid to the Underwriter, Bond Counsel and the Fiscal Agent are contingent upon the issuance and delivery of the Bonds.

APPENDIX A

RATE & METHOD OF APPORTIONMENT OF SPECIAL TAX

CITY OF BELMONT COMMUNITY FACILITIES DISTRICT NO. 2000-1 (LIBRARY PROJECT)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in the City of Belmont Community Facilities District No. 2000-1 (Library Project) (the "District") and collected each Fiscal Year commencing in Fiscal Year 2001-02 pursuant to this Rate and Method of Apportionment. All of the real property in the District, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

Section 1. Definitions

The defined terms below shall apply wherever such terms are used in this Rate and Method of Apportionment.

"Act" means the Mello-Roos Community Facilities Act of 1982 (Chapter 2.5, Part 1, Division 2, Title 5 of the California Government Code), as amended from time to time.

"Administrative Expenses" means the actual or reasonably estimated costs directly related to the administration of CFD No. 2000-1 including, but not limited to, the following: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the County, the City, or otherwise); the costs of remitting the Special Taxes to the fiscal agent; the costs of the fiscal agent (including its legal counsel) in the discharge of the duties required of it under the fiscal agent agreement executed in connection with a CFD bond issuance; the costs to the City, CFD No. 2000-1 or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2000-1 or any designee thereof of complying with City, CFD No. 2000-1 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, CFD No. 2000-1 or any designee thereof related to an appeal of the Special Tax; and the costs associated with the release of funds from an escrow account, if any. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD No. 2000-1 for any other administrative purposes of CFD No. 2000-1, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

"Annual Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 2000-1 to: (i) pay annual debt service on all Outstanding Bonds; (ii) pay Facilities Costs and Operation and Maintenance Costs; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds in accordance with the fiscal agent agreement; (v) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the Previous Fiscal Year; and (vi) less a credit for Available Funds.

"Annual Tax Revenues" means the amount of Special Taxes collected each Fiscal Year to pay the Annual Special Tax Requirement.

"Assessor's Parcel" or "Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor Parcel Number as of January 1 of the calendar year in which the Special Tax is levied.

"Assessor's Parcel Map" means an official map of the County Assessor of the County of San Mateo.

"Available Funds" means, to the extent determined to be available therefor by the Finance Director, any of (i) the balance in the reserve fund established pursuant to the terms of the fiscal agent agreement in excess of the

reserve requirement as defined in such fiscal agent agreement, (ii) delinquent special tax payments, (iii) foreclosure proceeds, and (iv) other sources of funds available as a credit to the Special Tax Requirement.

“CFD” means City of Belmont Community Facilities District No. 2000-1 (Library Project)

"Classification Date" means May 30th of each Fiscal Year.

"City" means the City of Belmont, California.

"City Council" means the elected legislative body of the City of Belmont.

"Finance Director" means the manager of the City of Belmont.

"Commercial/Industrial Parcel" means a Parcel which is designated commercial or industrial pursuant to the land use approved for such Parcel by the Belmont general plan or other land use planning document approved by the City as of the Classification Date. In the event the City has no official land use designation for a Parcel, the land use code on the secured tax rolls of the County may be used to classify such Parcel.

“County" means County of San Mateo, California.

"Coverage Factor" means a percentage rate equal to fifteen (15) percent.

"Debt Service" means the total amount of principal and interest due on outstanding bonds of the CFD.

“Facilities Costs” means the actual costs of constructing, acquiring or developing the Library Project, including administrative costs of the City.

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

"Library Project" means the construction of a new City library located in the City, the necessary equipment and facilities required to relocate the existing library to the new location, and improvements to the park area adjacent to the library.

"Maximum Annual Special Tax Rate" means the maximum amount of Special Taxes per Taxable Dwelling Units or per square foot of Commercial/Industrial Building Area that may be levied against a Taxable Parcel.

“Operations and Maintenance Costs” mean the actual or reasonably estimated costs of operating and maintaining the Library Project incurred by or on behalf of the City of Belmont, all as permitted pursuant to Section 53317(j) of the Act.

"Prepaid Parcel" means any Parcel that has prepaid in full pursuant to this Rate and Method of Apportionment the Special Taxes to be levied against such Parcel.

"Principal Prepayment Amount" means the amount of unpaid outstanding bond principal allocable to each Taxable Parcel as of the date of such calculation.

"Public Parcel" means any Parcel that is, or is intended to be, publicly owned and which is normally tax-exempt under California law, including public streets, schools, parks, and public drainage ways, rights-of-way, landscaping, greenbelts and open space.

"Residential Parcel" means a parcel that is designated for residential use pursuant to the land use approved for such Parcel by the Belmont general plan or other land use planning document approved by the City as of the Classification Date. In the event the City has no official land use designation for a Parcel, the land use code on the secured tax rolls of the County may be used to classify such Parcel.

"Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property to fund the Annual Special Tax Requirement.

"Special Tax Collection Schedule" means the document prepared by the Finance Director for use by the Auditor in collecting the Special Taxes each Fiscal Year.

"Special Tax Report" means the report prepared annually by the Finance Director showing the classification of each Parcel within the boundaries of the CFD, the amount of Special Taxes to be levied on each Taxable Parcel, the projected sources and uses of funds for the CFD in such Fiscal Year showing that projected Annual Tax Revenues are sufficient to pay projected the Annual Special Tax Requirement, and a Tax Collection Schedule.

"Taxable Commercial/Industrial Building Area" means the actual building area of improvements to a Commercial/Industrial Parcel as determined as of the Classification Date by the City or the County. Does not include any Parcel or unit that is classified as a Tax-Exempt Parcel.

"Taxable Parcel" means any Residential Parcel or Commercial/Industrial Parcel. Excluding any parcel that is classified as a Tax-Exempt Parcel.

"Taxable Dwelling Unit" means, as of the Classification Date, any dwelling unit within the boundaries of the CFD for which a building permit has been issued by the City or any residential dwelling unit that could be constructed on a parcel created within the boundaries of the CFD pursuant to a recorded Final Map approved by the City. If any single building permit has been issued for construction of one or more dwelling units on multiple Parcels, each such Parcel shall be assigned the total number of developed dwelling units applicable to such Parcels prior to construction notwithstanding the fact that such Parcels may have been consolidated into a single Parcel by the County Assessor; provided. Does not include any parcels or units that is classified as a Tax-Exempt Parcel.

"Tax-Exempt Parcel" means any Parcel that is a Public Parcel or a Prepaid Parcel. However, Taxable Parcels that are acquired by a public entity shall remain subject to the applicable Special Tax pursuant to Section 53317.4 of the Act.

Section 2. Assignment to Land Use Categories

Each Fiscal Year, each Taxable Parcel within CFD No. 2000-1 shall be classified as either a Residential Parcel or a Commercial/Industrial Parcel. The secured property tax roll, land use codes and plot map books maintained by the County Assessor of San Mateo County, in combination with official records maintained by the City regarding development agreements, recorded final maps, building permits issued, and other changes in parcel development status, will be the basis for classifying the Parcels in the CFD. If the land use code on the secured property tax roll is incorrect, the City may assign the appropriate code based on its review of the status of the property.

Prior to July 1 of each Fiscal Year the Finance Director shall cause to be prepared a Special Tax Report.

Section 3. Termination of the Special Tax

When all of the CFD's Administrative Expenses, Operations and Maintenance Costs and Debt Service obligations are satisfied and no bonds authorized for issuance by the CFD remain either unissued or outstanding, the City Council shall determine that the Special tax shall cease to be levied. The City Council shall then direct the City Clerk to record a Notice of Cessation of Special Tax as provided by law. Notwithstanding the foregoing, in no event shall the Special Tax be levied after the Fiscal Year ending June 30, 2031.

Section 4. Maximum Annual Special Tax Rate

The Maximum Annual Special Tax for each Assessor's Parcel classified as Taxable Parcel shall be the amount shown in Table 1 below:

Table 1

Classification	Maximum Annual Special Tax	
	Facilities	Operation & Maintenance
Residential Parcel	\$54 per Taxable Dwelling Unit	\$17 per Taxable Dwelling Unit
Commercial/Industrial Parcel	\$0.065 per Taxable Commercial/Industrial Building Area square foot	\$0.02 per Taxable Commercial/Industrial Building Area square foot

Section 5. Method of Apportionment of the Special Tax

A Special Tax rate per square foot of Commercial/Industrial Building Area, or per unit of Taxable Dwelling Unit shall be established annually by the City Council for each Taxable Parcel in the CFD. A Special Tax under the Act applicable to each Taxable Parcel included within the boundaries of the CFD shall be levied and collected according to the tax liability determined by the City through the application of the procedures described below:

- Step 1 Determine the projected Annual Special Tax Requirement.
- Step 2 Multiply the Annual Special Tax Requirement by 15% to determine the Commercial/Industrial Annual Special Tax Requirement. Multiply the Annual Special Tax Requirement by 85% to determine the Residential Annual Special Tax Requirement.
- Step 3 Classify each Parcel within the boundaries of the CFD into Taxable/Tax-Exempt parcels. Parcels shall be classified as of their status applicable in the next ensuing Fiscal Year as of the Classification Date.
- Step 4 Classify each Taxable Parcel as a Commercial/Industrial Parcel or Residential Parcel for such Fiscal Year.
- Step 5 Determine the number of Taxable Dwelling Units and Taxable Commercial/Industrial Building Area square foot.
- Step 6 The Special Tax shall be levied proportionately on each Taxable Dwelling Unit at up to 100% of the applicable Maximum Annual Special Tax as set forth in Table 1 as needed to satisfy the Residential Annual Special Tax Requirement as determined in Step 2.
- Step 7 The Special Tax shall be levied proportionately on each Taxable Commercial/Industrial Building Area square foot at up to 100% of the applicable Maximum Annual Special Tax as set forth in Table 1 as needed to satisfy the Commercial/Industrial Annual Special Tax Requirement as determined in Step 2.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel be increased by more than ten (10%) percent per year as a consequence of delinquency or default in the payment of Special Taxes by the owner of any other Assessor's Parcel of CFD No. 2000-1.

Section 6. Prepayment of Special Taxes

Parcels for which the prepayment of Special Taxes in whole has been made shall be reclassified as Prepaid Parcels and shall no longer be subject to the levy of Special Taxes.

Prepayment Prior to the Sale of Bonds. Prior to the sale of bonds, the owner of each Taxable Parcel shall have the option to prepay future Special Taxes to be levied against such Taxable Parcel with a single cash payment. The amount of such optional cash payment shall be determined as follows:

- Step 1 Prior to the sale of bonds; the total number of Taxable Dwelling and Taxable Commercial/Industrial Building Area shall be determined.

- Step 2 The total Library Project costs to be financed with the sale of bonds by the CFD shall be determined. From such amount shall be deducted the following bond financing costs: the cost of financing a bond debt service reserve fund, any interest to be capitalized from the proceeds of bonds, an underwriter's discount and bond insurance premiums. All other budgeted costs of creating the CFD and issuing bonds approved by the City shall be included as Library Project costs.

- Step 3a Multiply the net amount determined in step 2 above by 85% and divide by the sum of the total number of Taxable Dwelling Units.

- Step 3b Multiply \$17 by the number of fiscal years from the current fiscal year to fiscal year ending June 30, 2031.

- Step 3c Sum of Step 3a and 3b shall be the optional cash payment amount assigned to each such Taxable Dwelling Unit.

- Step 4a Multiply the net amount determined in step 2 above by 15% and divide by the total number of Taxable Commercial/Industrial Building Area square foot.

- Step 4b Multiply \$.02 by the number of fiscal years from the current fiscal year to fiscal year ending June 30, 2031.

- Step 4c Sum of Step 4a and 4b shall be the optional cash payment amount assigned to each such Taxable Commercial/Industrial Building Area square foot.

Notice shall be given by mail to each owner of Taxable Parcels within the CFD of a 30-day period prior to the sale of bonds within which cash payments may be made.

Prepayment Subsequent to the Sale of Bonds. The owner of any Taxable Parcel may prepay the Special Taxes to be levied against such Parcel at certain times during the term to maturity of outstanding bonds. The dates that such prepayment(s) will be permitted will be determined by the City at the time(s) bonds are sold, but will generally be at the first date the bonds secured by the Special Taxes may be called for optional redemption. Optional prepayment amounts for each Taxable Parcel subsequent to the sale of bonds shall be determined at the same time annual Special Taxes are determined as follows.

- Step 1 The total number of Taxable Dwelling Unit and Taxable Commercial/Industrial Building Area in the CFD as of the Classification Date for such Fiscal Year shall be determined.

- Step 2 The total amount of unpaid bond principal outstanding at the beginning of such Fiscal Year shall be determined, from which amount shall be subtracted any principal coming due in such Fiscal Year, the payment of which was provided for in the collection of the prior Fiscal Year's Annual Tax Revenues.

- Step 3 The unpaid outstanding bond principal determined in step 2 above shall be multiplied by 85% and divided by the total Taxable Dwelling Units to arrive at the unpaid bond principal per Taxable Dwelling Unit for such Fiscal Year. The unpaid outstanding bond principal determined in step 2 above shall be multiplied by 15% and divided by the total Commercial/Industrial Building Area square footage to arrive at the unpaid bond principal per Commercial/Industrial Building Area square footage for such Fiscal Year.
- Step 4 For each Taxable Parcel, the unpaid bond principal per Taxable Dwelling Unit, or per Commercial/Industrial Building Area square footage, for such Fiscal Year shall be multiplied by the total number of Taxable Dwelling Unit and Commercial/Industrial Building Area square footage allocable to such Taxable Parcel to arrive at the Principal Prepayment Amount allocable to each such Taxable Parcel.
- Step 5 To derive the Operation and Maintenance portion of the prepayment for each Taxable Dwelling Unit, multiply \$17 by the number of fiscal years from the current fiscal year to fiscal year ending June 30, 2031.
- Step 6 To derive the Operation and Maintenance portion of the prepayment for each Taxable Commercial/Industrial Building Area square footage, multiply \$.02 by the number of fiscal years from the current fiscal year to fiscal year ending June 30, 2031.

An owner of a Taxable Parcel may prepay the future Special Tax obligations of such Parcel by paying in cash the sum of i) the amount of any delinquent and unpaid installments of Special Taxes levied against such Parcel, together with any penalties, interest and costs due thereon, ii) the Special Taxes levied against such Parcel in such Fiscal Year, iii) the Principal Prepayment Amount allocable to such Taxable Parcel in such Fiscal Year as derived in Step 4, iv) a prepayment premium in an amount equal to the prepayment premium required under the fiscal agent agreement to be paid on bonds to be called on the next permissible call date times the Principal Prepayment Amount allocable to such Taxable Parcel in such Fiscal Year, v) a reasonable fee, fixed by the City, for the cost of administering the prepayment and the advance redemption of bonds, vi) if residential parcel, amount derived in Step 5, if commercial/industrial parcel, amount derived in Step 6, and vi) a credit for such Taxable Parcel's pro rata share of the reserve fund balance (if any) established under the fiscal agent agreement.

Section 7. Application of Surplus Tax Revenues

Any amounts collected in excess of the Annual Special Tax Requirement shall be applied as set forth in the fiscal agent agreement securing outstanding bonds of the CFD.

Section 8. Manner of Collection

The annual Special tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 2000-1 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on Assessor's Parcels which are delinquent in the payment of Special Taxes.

Section 9. Administrative Changes

The Finance Director has the authority to make necessary administrative adjustments to the Rate and Method of Apportionment in order to remedy any portions of the Special Tax formula that require clarification, provided that no such adjustment shall result in a tax levy on any Taxable Parcel in excess of the applicable Maximum Annual Special Tax Rate for such Taxable Parcel.

Any taxpayer that believes that the amount or formula of the Special Tax is in error may file a notice with the Finance Director appealing the Special Tax. The Finance Director or his designee will then promptly review the appeal, and if necessary, meet with the applicant. If the findings of the Finance Director verify that the Special Tax should be modified, a recommendation at that time will be made to the City Council and, as appropriate, the Special Tax shall be corrected and, if applicable, a refund shall be granted from such fund or account established under the fiscal agent agreement securing outstanding bonds of the CFD for which the payment of such refunds is authorized.

Interpretations may be made by resolution of the City Council for purposes of clarifying any vagueness or ambiguity as it relates to the Special Tax or the Maximum Annual Special Tax Rate, the method of apportionment, the classification of properties or any definition applicable to the CFD.

Section 10. Exemptions

No Special Tax shall be levied on Tax-Exempt Parcels; however, should a Parcel no longer be classified as a Tax-Exempt Parcel, its tax-exempt status shall be revoked.

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

[Delivery Date]

City ^Δ Council of the City of Belmont
Belmont, California ^Δ

Re: ^Δ \$8,650,000 *Community Facilities District No. 2000-1 of the City of Belmont, Special Tax Bonds (Library Project), Series 2004A*

^Δ

Members of the City Council:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of Belmont (the "City") taken in connection with the formation of Community Facilities District No. 2000-1 of the City of Belmont (the "District") and the authorization and issuance of the District's Special Tax Bonds (Library Project), Series 2004A in the aggregate principal amount of ^Δ \$8,650,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), Resolution No. 8918, adopted by the City Council of Belmont acting in its capacity as the legislative body of the District (the "Board") on December 12, 2000 (the "Resolution"), and a Fiscal Agent Agreement (the "Fiscal Agent Agreement") dated as of January 1, 2004 by and between BNY Western Trust Company as fiscal agent (the "Fiscal Agent"). All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

The Bonds are dated as of January 1, 2004 and mature on the dates and in the amounts set forth in the Fiscal Agent Agreement. The Bonds bear interest payable semiannually on each February 1 and August 1, commencing on August 1, 2004, at the rates per annum set forth in the Fiscal Agent Agreement. The Bonds are registered Bonds in the form set forth in the Fiscal Agent Agreement, redeemable in the amounts, at the times and in the manner provided for in the Fiscal Agent Agreement.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other laws affecting creditors' rights generally and by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the City, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the City, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The Fiscal Agent Agreement has been duly executed and delivered by the City Council on behalf of the District. The Fiscal Agent Agreement creates a valid pledge of, and the Bonds are secured by the Net Taxes and the amounts on deposit in certain funds and accounts established under the Fiscal Agent Agreement, as and to the extent provided in the Fiscal Agent Agreement. The Fiscal Agent Agreement is enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other similar laws affecting creditors' rights generally and by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Fiscal Agent Agreement to levy Special Taxes for the payment of Administrative Expenses or as to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(4) Interest on the Bonds is exempt from State of California personal income tax.

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

The opinion expressed in ^Δ paragraph (3) ^Δ above as to the exclusion from gross income for federal income tax purposes of interest ^Δ on the Bonds is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest ^Δ will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest ^Δ on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (3), (4)^Δ and (5) ^Δ above, we express no opinion as to any tax consequences related to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Fiscal Agent Agreement, the Tax Certificate executed by the District and other documents related to the Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion as to the exclusion from gross income for federal income tax purposes of interest ^Δ on any Bond if any such change occurs or action is taken or omitted upon advice or approval of bond counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement or other offering material.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur).

Respectfully submitted,

APPENDIX C

SUMMARY OF THE FISCAL AGENT AGREEMENT

The following is a summary of certain provisions of the Fiscal Agent Agreement which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Fiscal Agent Agreement for a full and complete statement of their provisions. All capitalized terms not defined in the body of the Official Statement have the meanings set forth in the Fiscal Agent Agreement.

DEFINITIONS

The terms set forth below shall have the meanings ascribed to them as follows for all purposes of this Appendix C unless the context clearly indicates some other meaning:

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

“Administrative Expenses” means the administrative costs incurred by the City staff on behalf of the District with respect to the calculation and collection of the Special Taxes, including fees of attorneys, accountants, and consultants and other costs related thereto, the fees and expenses of the Fiscal Agent, the fees for credit enhancement for the Bonds or any Parity Bonds that are not otherwise paid as Costs of Issuance, the costs related to the District’s compliance with State and federal laws requiring continuing disclosure of information concerning the Bonds, any Parity Bonds, and the District and arbitrage rebate, the costs incurred by the District in pursuit of State funding, and any other costs otherwise incurred by the City on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District under the Fiscal Agent Agreement.

“Administrative Expense Account” means the account by such name in the Special Tax Fund created and established pursuant to the Fiscal Agent Agreement.

“Affiliate” means, with respect to any Person, (i) each Person that, directly or indirectly, owns or controls, whether beneficially or as a trustee, guardian or other fiduciary, 25% or more of any class of equity securities of such Person, (ii) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (iii) each of such Person’s executive officers, directors, joint venturers and general partners; *provided, however*, that in no case will the City be deemed to be an Affiliate. For the purpose of this definition, “control” of a Person will mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“Alternative Penalty Account” means the account by such name created and established in the Rebate Fund pursuant to the Fiscal Agent Agreement.

“Annual Debt Service” means the principal amount of any Outstanding Bonds or Parity Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds or Parity Bonds in such Bond Year, if the Bonds and any Parity Bonds are retired as scheduled.

“Authorized District Representative” means the City Manager, Director of Finance, or any other person or persons designated by the Council of the City and authorized to act on behalf of the District by a written certificate signed on behalf of the City by the City Manager of the City and containing the specimen signature of each such person.

“Authorized Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America (“Direct Obligations”).

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- (a) U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
- (b) Farmers Home Administration (FmHA)
Certificates of beneficial ownership
- (c) Federal Financing Bank
- (d) Federal Housing Administration Debentures (FHA)
- (e) General Services Administration
Participation certificates
- (f) Government National Mortgage Association (“GNMA” or “Ginnie Mae”)
GNMA-guaranteed mortgage-backed bonds
GNMA-guaranteed pass-through obligations
- (g) U.S. Maritime Administration
Guaranteed Title XI financing
- (h) U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- (a) Federal Home Loan Bank System
Senior debt obligations
- (b) Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”)
Participation certificates

Senior debt obligations

- (c) Federal National Mortgage Association (“FNMA” or “Fannie Mae”)

Mortgage-backed securities and senior debt obligations

- (d) Student Loan Marketing Association (“SLMA” or “Sallie Mae”)

Senior debt obligations

- (e) Resolution Funding Corp. (REFCORP) obligations

- (f) Farm Credit System Corp. - Consolidated system-wide bonds and notes

(4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by Standard & Poor’s of AAAM-G, AAAM or AAM, and, if rated by Moody’s, rated Aaa, Aa1 or Aa2 (including those of the Fiscal Agent and its affiliates or funds for which the Fiscal Agent or affiliates provide investment advisory or other management services).

(5) Certificates of deposit secured at all times by collateral described in (1) or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks, which may include the Fiscal Agent or its affiliates. The collateral must be held by a third party and the Fiscal Agent on behalf of the Bondholders must have a perfected first security interest in the collateral.

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC or which are with a bank rated AA or better by Standard & Poor’s and Aa or better by Moody’s (including those of the Fiscal Agent and its affiliates).

(7) Investment Agreements with any corporation, including banking or financial institutions, provided that:

- (a) the long-term debt of the provider of any such investment agreement is rated, at the time of investment, in one of the two highest rating categories offered by each Rating Agency (without regard to gradations of plus or minus, or numerical gradations, within such category); and

- (b) any such agreement will include a provision to the effect that if the provider’s rating by either S&P, Moody’s or Fitch’s falls below “AA-” or “Aa3”, respectively, the provider will, at its option, within 10 days of receipt of publication of such downgrade, either:

- (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider’s books) to the Fiscal Agent or a third party acting solely as agent therefor (the “Holder of the Collateral”) collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to Fitch and Moody’s to maintain an “A” rating in an “A” rated structured financing (with a market value approach) without regard to the long-term debt rating of the provider;

- (ii) assign the agreement to another provider rated at least “AA” by S&P and “Aa2” by Moody’s; or

- (iii) repay the principal of and accrued but unpaid interest on the investment; and

- (c) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must at the direction of the District or the Fiscal Agent, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Fiscal Agent.

(8) Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by Standard & Poor's.

(9) Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's in one of the two highest rating categories assigned by such agencies.

(10) Federal funds or bankers acceptances with a maximum term of one year of any bank (which may include the Fiscal Agent and its affiliates) which has an unsecured, uninsured or unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by Standard & Poor's.

(11) Repurchase agreements collateralized by Direct Obligations, GNMA's, FNMA's or FHLMA's with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's, and "A-1" or "A-" by Standard & Poor's; provided:

- (a) a master repurchase agreement or specific written repurchase agreement governs the transaction; and
- (b) the securities are held free and clear of any lien by the Fiscal Agent or an independent third party acting solely as agent ("Agent") for the Fiscal Agent, and such third party is (i) a Federal Reserve Bank or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million, and the Fiscal Agent will have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Fiscal Agent; and
- (c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 *et seq.* or 31 C.F.R. 350.0 *et seq.* in such securities is created for the benefit of the Fiscal Agent; and
- (d) the repurchase agreement has a term of 180 days or less, or the Fiscal Agent has the right to make withdrawals upon notice at any time for any reason allowed or required pursuant to the Fiscal Agent Agreement, and the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation; and
- (e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 104%, provided, however, if such securities are cash, such ratio may be 100%.

(12) The Local Agency Investment Fund or other similar pooled investment fund administered by the State of California, provided that deposits and withdrawals may be made directly by and in the name of the Fiscal Agent.

(13) A pooled investment fund administered by the County of San Mateo in which the District is legally permitted or required to invest.

(14) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended.

(15) Any other investment that the District is permitted by law to make and approved by the Insurer.

The value of the above investments will be determined as follows:

- (a) for the purpose of determining the amount in any fund, all Authorized Investments credited to such fund will be valued at market value. The Fiscal Agent will determine the market value based on accepted industry standards from accepted industry providers. Accepted industry providers will include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns or Lehman Brothers. Notwithstanding anything to the contrary in the Fiscal Agent Agreement, in making any valuation of investments under the Fiscal Agent Agreement, the Fiscal Agent may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon;
- (b) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest thereon; and
- (c) as to any investment not specified above: the value thereof established by prior agreement between the City, the Trustee and the Insurer.

To the extent that any of the requirements concerning Authorized Investments embodies a legal conclusion, the Fiscal Agent will be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, that such requirement has been met.

For information regarding limitations on investments and the application of investment earnings, see the Fiscal Agent Agreement.

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

“Bond Register” means the books which the Fiscal Agent will keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds will be recorded.

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

“Bonds” means the District’s \$8,650,000 Special Tax Bonds (Library Project) Series 2004A issued pursuant to the Fiscal Agent Agreement.

“Bond Year” means the twelve month period commencing on August 2 of each year and ending on August 1 of the following year, except that the first Bond Year for the Bonds or an issue of Parity Bonds will begin on the Delivery Date and end on the first August 1 after the Delivery Date.

“Business Day” means a day which is not a Saturday, a Sunday, or a day on which banks in New York, New York, San Francisco, California, or the city where the corporate trust office of the Fiscal Agent is located are not required or authorized to remain closed.

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“Certificate of the District” means a written certificate or request executed by an Authorized District Representative on behalf of the District.

“Certificate of the Special Tax Administrator” means a certificate of the consultant engaged by the City to administer the calculation and collection of the Special Taxes.

“City” means the City of Belmont, California.

“Code” means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

“Costs of Issuance” means the costs and expenses incurred in connection with the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Fiscal Agent, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds or any Parity Bonds, fees of financial and other consultants, District formation and related administration costs and all other related fees and expenses, as set forth in a Certificate of the District.

“Costs of Issuance Account” means the Account by that name created and established in the Acquisition and Construction Fund pursuant to the Fiscal Agent Agreement.

“Delivery Date” means, with respect to the Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

“District” means Community Facilities District No. 2000-1 of the City of Belmont established pursuant to the Act and the Resolution of Formation.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“DTC Participants” means securities brokers and dealers, banks, trust companies, clearing corporations and other organizations maintaining accounts with DTC.

“Federal Securities” means any of the following:

- (a) Cash;
- (b) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series -- “SLGS”);
- (c) Direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself, *e.g.*, CATS, TIGRS and similar securities;
- (d) The interest component of Resolution Funding Corp. strips which have been stripped by request to the Federal Reserve Bank of New York and are in book-entry form;
- (e) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s; and
- (f) Obligations issued by the following agencies which are backed by the full faith and credit of the United States:
 - (i) U.S. Export-Import Bank - direct obligations or fully guaranteed certificates of beneficial ownership

- (ii) Farmers Home Administration - certificates of beneficial ownership
- (iii) Federal Financing Bank
- (iv) General Services Administration - participation certificates
- (v) U.S. Maritime Administration - guaranteed Title XI financing
- (vi) U.S. Department of Housing and Urban Development (HUD) - Project Notes, Local Authority Bonds, New Communities Debentures - U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds.

“Financial Guaranty Insurance Policy” means the financial guaranty insurance policy issued by the Insurer insuring the payment when due of principal of and interest on the Bonds when due.

“Fiscal Agent” means BNY Western Trust Company, a banking corporation, duly organized and existing under and by virtue of the laws of the State of California, at its principal corporate trust office in San Francisco, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in the Fiscal Agent Agreement and any successor thereto.

“Fiscal Agent Agreement” means the Fiscal Agent Agreement, together with any Supplemental Fiscal Agent Agreement entered into pursuant to the Fiscal Agent Agreement.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next following June 30.

“Fitch” means Fitch Ratings, its successors and assigns.

“Gross Taxes” means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Fiscal Agent Agreement for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions, including, but not limited to, all legal fees and expenses, court costs, consultant and title insurance fees and expenses.

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

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

“Initial Reserve Account Deposit” means the sum of Δ \$650,000, being the amount required to be deposited in the Reserve Account on the Delivery Date of the Bonds.

“Insurer” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

“Interest Account” means the account by such name created and established in the Special Tax Fund pursuant to the Fiscal Agent Agreement.

“Interest Payment Date” means each February 1 and August 1, commencing August 1, 2004; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next following such date.

“Investment Agreement” means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in the Fiscal Agent Agreement.

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

(1) the principal amount of all Outstanding Bonds and Parity Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of all Bonds and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Taxes” means Gross Taxes (exclusive of any penalties and interest accruing with respect to delinquent Special Tax installments) minus amounts set aside to pay Administrative Expenses.

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

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with Section 10.01 hereof;

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

(3) Bonds and Parity Bonds which have been surrendered to the Fiscal Agent for transfer or exchange pursuant to the Fiscal Agent Agreement or for which a replacement has been issued pursuant to the Fiscal Agent Agreement.

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

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

“Person” means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

“Principal Account” means the Account by such name created and established in the Special Tax Fund pursuant to the Fiscal Agent Agreement.

“Principal Office of the Fiscal Agent” means the office of the Fiscal Agent located in San Francisco, California or such other office or offices as the Fiscal Agent may designate from time to time except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Fiscal Agent at which, at any particular time, its corporate trust agency business shall be conducted, or the office of any successor Fiscal Agent where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued.

“Project” means those public facilities described in the Resolution of Formation which are to be acquired or constructed within the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors of the District from time to time.

“Project Account” means the Account by such name created and established in the Acquisition and Construction Fund pursuant to the Fiscal Agent Agreement.

“Project Costs” means the amounts necessary to finance the Project, to create and replenish any necessary reserve accounts, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, Fiscal Agent and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds and the formation of the District, and to pay any other “incidental expenses” of the District, as such term is defined in the Act.

“Rating Agency” means either Fitch or Moody’s, or both, as the context requires.

“Rebate Account” means the Account by such name created and established in the Rebate Fund pursuant to the Fiscal Agent Agreement.

“Rebate Fund” means the fund by such name created and established pursuant to the Fiscal Agent Agreement.

“Rebate Regulations” means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

“Record Date” means the 15th day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

“Redemption Account” means the account by such name created and established in the Special Tax Fund pursuant to the Fiscal Agent Agreement.

“Regulations” means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

“Representation Letter” means the representation letter or letters from the District to DTC.

“Reserve Account” means the account by such name created and established in the Special Tax Fund pursuant to the Fiscal Agent Agreement.

“Reserve Requirement” means, as of any date of calculation by the District, an amount equal to the lowest of (1) 10% of the original proceeds of the Bonds and each issue of Parity Bonds, less original issue discount, if any, plus original issue premium, if any, (2) Maximum Annual Debt Service of the Outstanding Bonds and Parity Bonds, and (3) 125% of the average Annual Debt Service of the Outstanding Bonds and Parity Bonds; except that the initial deposit to the Reserve Account will be the Initial Reserve Account Deposit.

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“RMA” means the Rate and Method of Apportionment approved by the qualified electors of the District at the March 6, 2001 election, as amended from time to time.

“Sinking Fund Payment” means the annual payment in those years indicated in the Fiscal Agent Agreement to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Fiscal Agent Agreement to retire the Term Bonds or in a Supplemental Fiscal Agent Agreement to retire any Parity Bonds which are designated as Term Bonds.

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

“Special Taxes” means all taxes authorized to be levied by the District in accordance with the RMA, the Resolution of Formation, the Act and the voter approval obtained at the March 6, 2001 election in the District and any additional special taxes authorized to be levied by the District from time to time which are pledged by the District to the repayment of the Bonds and any Parity Bonds.

“Special Tax Fund” means the fund by such name created and established pursuant to the Fiscal Agent Agreement.

“Standard & Poor’s” means Standard & Poor’s ^Δ, its successors and assigns.

“Supplemental Fiscal Agent Agreement” means any supplemental fiscal agent agreement entered into in accordance with the provisions of the Fiscal Agent Agreement amending or supplementing the Fiscal Agent Agreement.

“Surety Bond” means the surety bond issued by the Insurer guaranteeing certain payments into the Reserve Account with respect to the Bonds as provided therein and subject to the limitations set forth therein.

“Surplus Fund” means the Fund by such name created and established pursuant to the Fiscal Agent Agreement.

“Tax Certificate” means the certificate by that name to be executed by the District on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

“Term Bonds” means the Bonds maturing August 1, 2019, August 1, 2024, and August 1, 2030, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Fiscal Agent Agreement.

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“Underwriter” means the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of the Bonds or an issue of Parity Bonds.^Δ

“Value of District Property” means (i) the fair market value, as of the date of the appraisal provided for in the Fiscal Agent Agreement, of any or all parcels of property in the District which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, including with respect to such non-delinquent parcels the value of the then existing improvements thereon, as estimated by an appraiser selected and employed by the City that has an MAI designation from the Appraisal Institute in an appraisal performed within 90 days preceding the date of such determination, provided that a mass appraisal methodology may be applied when valuing Developed Commercial Parcels; or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of San Mateo.

GENERAL AUTHORIZATION AND BOND TERMS

Type and Nature of Bonds and Parity Bonds. Neither the faith and credit nor the taxing power of the City, the State of California, or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the City nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described in the Fiscal Agent Agreement. The District's limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the City or the forfeiture of any of their property. The principal of and interest on the Bonds and any Parity Bonds and premiums upon the redemption thereof, if any, are not a debt of the City, the State of California or any of its political subdivisions in contravention of any constitutional or statutory limitation or restriction. The Bonds and any Parity Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District's property, or upon any of its income, receipts or revenues, except the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of the Fiscal Agent Agreement and the Act, set aside for the payment of the Bonds, any Parity Bonds and interest thereon and neither the members of the legislative body of the District or the Council of the City nor any persons executing the Bonds or any Parity Bonds, are liable personally on the Bonds or any Parity Bonds, by reason of their issuance.

Notwithstanding anything to the contrary contained in the Fiscal Agent Agreement, the District will not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds or any Parity Bonds, or for the performance of any covenants contained in the Fiscal Agent Agreement. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Equality of Bonds and Parity Bonds and Pledge of Net Taxes. Pursuant to the Act and the Fiscal Agent Agreement, the Bonds and any Parity Bonds will be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of (including Sinking Fund Payments) the Bonds and any Parity Bonds and any premiums upon the redemption thereof, will be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are set aside for the payment of the Bonds and any Parity Bonds. The Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) are pledged to the payment of the principal of, premium, if any, and interest on the Bonds. Such pledge will constitute a first lien on such assets. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) will constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding will not be used for any other purpose, except as permitted by the Fiscal Agent Agreement or any Supplemental Fiscal Agent Agreement. Notwithstanding any provision contained in the Fiscal Agent Agreement to the contrary, Special Taxes deposited in the Administrative Expense Account of the Special Tax Fund, the Rebate Fund and the Surplus Fund will no longer be considered to be pledged to the Bonds or any Parity Bonds, and none of the Rebate Fund, the Surplus Fund, the Administrative Expense Account of the Special Tax Fund nor the Acquisition and Construction Fund will be construed as a trust fund held for the benefit of the Owners.

Nothing in the Fiscal Agent Agreement or any Supplemental Fiscal Agent Agreement will preclude: (a) subject to the limitations contained hereunder, the redemption prior to maturity of any Bonds or Parity Bonds subject to call and redemption and payment of said Bonds or Parity Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as hereafter amended, or under any other law of the State of California; or (b) the issuance, subject to the limitations contained in the Fiscal Agent Agreement, of Parity Bonds which will be payable from Net Taxes.

Form of Bonds and Parity Bonds. The definitive Bonds may be printed from steel engraved or lithographic plates or may be typewritten. The Bonds and the certificate of authentication will be substantially in the form attached to the Fiscal Agent Agreement, which forms are approved and adopted as the forms of such Bonds and of the certificate of authentication.

Notwithstanding any provision in the Fiscal Agent Agreement to the contrary, the District may, in its sole discretion, elect to issue the Bonds and any Parity Bonds in book entry form. Each issue of Parity Bonds and the certificate of authentication therefor will be in the form provided in the Supplemental Fiscal Agent Agreement for such issue of Parity Bonds.

Until definitive Bonds or Parity Bonds, as applicable, will be prepared, the District may cause to be executed and delivered in lieu of such definitive Bonds or Parity Bonds temporary bonds in typed, printed, lithographed or engraved form and in fully registered form, subject to the same provisions, limitations and conditions as are applicable in the case of definitive Bonds or Parity Bonds, except that they may be in any denominations authorized by the District. Until exchanged for definitive Bonds or Parity Bonds, as applicable, any temporary bond will be entitled and subject to the same benefits and provisions of the Fiscal Agent Agreement as definitive Bonds and Parity Bonds. If the District issues temporary Bonds or Parity Bonds, it will execute and furnish definitive Bonds or Parity Bonds, as applicable, without unnecessary delay and thereupon any temporary Bond or Parity Bond may be surrendered to the Fiscal Agent at its office, without expense to the Owner, in exchange for a definitive Bond or Parity Bond of the same issue, maturity, interest rate and principal amount in any authorized denomination. All temporary Bonds or Parity Bonds so surrendered will be cancelled by the Fiscal Agent and will not be reissued.

Execution and Authentication. The Bonds and Parity Bonds will be signed on behalf of the District by the manual or facsimile signature of the Mayor of the City and by the manual or facsimile signature of the Clerk of the City, or any duly appointed deputy clerk, in their capacity as officers of the District, and the seal of the City (or a facsimile thereof) will be impressed, imprinted, engraved or otherwise reproduced thereon, and attested by the signature of the Clerk of the City. In case any one or more of the officers who will have signed or sealed any of the Bonds or Parity Bonds will cease to be such officer before the Bonds or Parity Bonds so signed and sealed have been authenticated and delivered by the Fiscal Agent (including new Bonds or Parity Bonds delivered pursuant to the provisions hereof with reference to the transfer and exchange of Bonds or Parity Bonds or to lost, stolen, destroyed or mutilated Bonds or Parity Bonds), such Bonds and Parity Bonds will nevertheless be valid and may be authenticated and delivered as provided in the Fiscal Agent Agreement, and may be issued as if the person who signed or sealed such Bonds or Parity Bonds had not ceased to hold such office.

Only the Bonds as will bear such certificate of authentication in the form set forth in the Fiscal Agent Agreement and Parity Bonds as will bear the certificate of authentication in the form set forth in the Supplemental Fiscal Agent Agreement pursuant to which such Parity Bonds are authorized will be entitled to any right or benefit under the Fiscal Agent Agreement, and no Bond or Parity Bond will be valid or obligatory for any purpose until such certificate of authentication will have been duly executed by the Fiscal Agent.

Bond Register. The Fiscal Agent will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the Bonds and any Parity Bonds which will upon reasonable prior notice be open to inspection by the District during all regular business hours, and, subject to the limitations set forth in Section 2.09 below, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds and any Parity Bonds as herein provided.

The District and the Fiscal Agent may treat the Owner of any Bond or Parity Bond whose name appears on the Bond Register as the absolute Owner of that Bond or Parity Bond for any and all purposes, and the District and the Fiscal Agent will not be affected by any notice to the contrary. The District and the Fiscal Agent may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It will be the duty of the Bondowner to give written notice to the Fiscal Agent of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Registration of Exchange or Transfer. Subject to the limitations set forth in the Fiscal Agent Agreement, the registration of any Bond or Parity Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond or Parity Bond for cancellation at the office of the Fiscal Agent, accompanied by delivery of written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney.

Bonds or Parity Bonds may be exchanged at the principal office of the Fiscal Agent for a like aggregate principal amount of Bonds or Parity Bonds for other authorized denominations of the same maturity and issue. The Fiscal Agent will not collect from the Owner any charge for any new Bond or Parity Bond issued upon any exchange or transfer, but will require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Fiscal Agent in connection with any transfer and exchange shall be paid by the District. Whenever any Bonds or Parity Bonds will be surrendered for registration of transfer or exchange, the District will execute and the Fiscal Agent will authenticate and deliver a new Bond or Bonds or a new Parity Bond or Parity Bonds, as applicable, of the same issue and maturity, for a like aggregate principal amount; provided that the Fiscal Agent will not be required to register transfers or make exchanges of (i) Bonds or Parity Bonds for a period of 15 days next preceding any selection of the Bonds or Parity Bonds to be redeemed, or (ii) any Bonds or Parity Bonds chosen for redemption.

Mutilated, Lost, Destroyed or Stolen Bonds or Parity Bonds. If any Bond or Parity Bond will become mutilated, the District will execute, and the Fiscal Agent will authenticate and deliver, a new Bond or Parity Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond or Parity Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Fiscal Agent will be cancelled by the Fiscal Agent pursuant to the Fiscal Agent Agreement. If any Bond or Parity Bond will be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if any indemnity satisfactory to the Fiscal Agent will be given, the District will execute and the Fiscal Agent will authenticate and deliver, a new Bond or Parity Bond, as applicable, of like tenor, maturity and issue, numbered and dated as the Fiscal Agent will determine in lieu of and in substitution for the Bond or Parity Bond so lost, destroyed or stolen. Any Bond or Parity Bond issued in lieu of any Bond or Parity Bond alleged to be mutilated, lost, destroyed or stolen, will be equally and proportionately entitled to the benefits provided in the Fiscal Agent Agreement with all other Bonds and Parity Bonds issued thereunder. The Fiscal Agent will not treat both the original Bond or Parity Bond and any replacement Bond or Parity Bond as being Outstanding for the purpose of determining the principal amount of Bonds or Parity Bonds which may be executed, authenticated and delivered hereunder or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding hereunder, but both the original and replacement Bond or Parity Bond will be treated as one and the same. Notwithstanding any other provision of the Fiscal Agent Agreement, in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Fiscal Agent may make payment with respect to such Bonds or Parity Bonds.

Validity of Bonds and Parity Bonds. The validity of the authorization and issuance of the Bonds and any Parity Bonds will not be affected in any way by any defect in any proceedings taken by the District, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State will be conclusive evidence of their validity and of the regularity of their issuance.

CREATION OF FUNDS AND APPLICATION OF REVENUES AND GROSS TAXES

Creation of Funds; Application of Proceeds.

(A) There is created and established and will be maintained by the Fiscal Agent the following funds and accounts:

(1) The Community Facilities District No. 2000-1 Special Tax Fund (the “Special Tax Fund”) (in which there will be established and created an Interest Account^Δ, a Principal Account, a Redemption Account, a Reserve Account, and an Administrative Expense Account).

(2) The Community Facilities District No. 2000-1 Rebate Fund (the “Rebate Fund”) (in which there will be established a Rebate Account and an Alternative Penalty Account).

(3) The Community Facilities District No. 2000-1 Surplus Fund (the “Surplus Fund”).

(4) The Community Facilities District No. 2000-1 Acquisition and Construction Fund (the “Acquisition and Construction Fund”) (in which there will be established a Costs of Issuance Account and a Project Account).

The amounts on deposit in the foregoing funds, accounts and subaccounts will be held by the Fiscal Agent and the Fiscal Agent will invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Fiscal Agent Agreement and will disburse investment earnings thereon in accordance with the provisions of the Fiscal Agent Agreement.

In connection with the issuance of any Parity Bonds, the Fiscal Agent, at the written direction of an Authorized District Representative, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts, for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds.

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Deposits to and Disbursements from Special Tax Fund. As soon as practicable after the receipt by the District of any Special Taxes, the District will transfer such Special Taxes to the Fiscal Agent. The Fiscal Agent will, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund; provided, however, that any portion of such Special Taxes that represent prepaid Special Taxes that are to be applied to the mandatory redemption of Bonds pursuant to the Fiscal Agent Agreement, or to the mandatory redemption of Parity Bonds pursuant to a Supplemental Fiscal Agent Agreement, will be identified as such by the District and will be deposited in the Redemption Account. The Fiscal Agent will transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- (a) The Administrative Expense Account of the Special Tax Fund;
- (b) The Interest Account of the Special Tax Fund;
- (c) The Principal Account of the Special Tax Fund;
- (d) The Redemption Account of the Special Tax Fund;
- (e) The Reserve Account of the Special Tax Fund;
- (f) The Rebate Fund; and
- (g) The Surplus Fund.

At the maturity of all of the Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Fiscal Agent have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the District for any lawful purpose.

Administrative Expense Account of the Special Tax Fund. In addition to proceeds of Bonds or Parity Bonds deposited therein, the Fiscal Agent will transfer from the Special Tax Fund to the Administrative

Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses upon the written direction of the District. The total amount transferred from the Special Tax Fund to the Administrative Expense Account in any Bond Year will not exceed \$100,000 until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, sufficient to pay the principal of and interest on all Bonds and Parity Bonds due in such Bond Year. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by an Authorized District Representative.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, will be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer required by the Fiscal Agent Agreement, at least five Business Days prior to each February 1 and August 1, the Fiscal Agent will make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account ^Δ or the Principal Account from the proceeds of the sale of an issue of the Bonds or any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency will be made up by an immediate transfer from the Reserve Account:

(A) To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date will be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account will be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.

(B) To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to August 1 of each year, commencing August 1, 2004, will equal the principal payment due on the Bonds and any Parity Bonds maturing on such August 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account will be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account of the Special Tax Fund.

(A) Before each August 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Interest Account and the Principal Account of the Special Tax Fund as required by the Fiscal Agent Agreement, the Fiscal Agent will next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account (excluding prepaid Special Taxes in the Redemption Account that are to be applied to the mandatory redemption of Bonds or Parity Bonds) five Business Days prior to each August 1 equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such August 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency will be made up by an immediate transfer from the Reserve Account, if funded, pursuant to the Fiscal Agent Agreement. Moneys so deposited in the Redemption Account will be used and applied by the Fiscal Agent to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in the Fiscal Agent Agreement and in any Supplemental Fiscal Agent Agreement for such Term Bonds.

(B) After making the deposits to the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Fiscal Agent Agreement and to the Redemption Account for Sinking Fund Payments then due pursuant to the Fiscal Agent Agreement, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Fiscal Agent Agreement, or to call Parity Bonds for optional redemption as set forth in any Supplemental Fiscal Agent Agreement for Parity Bonds, the Fiscal Agent will transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the interest, the principal, and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if

immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(C) Prepaid Special Taxes deposited in the Redemption Account will be applied to the mandatory redemption of Bonds pursuant to the Fiscal Agent Agreement, or to the mandatory redemption of Parity Bonds pursuant to the relevant provision of any Supplemental Fiscal Agent Agreement, on the first allowable date for such mandatory redemption.

(D) Moneys set aside in the Redemption Account will be used solely for the purpose of redeeming Bonds and Parity Bonds and will be applied on or after the redemption date to the payment of the principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in the Fiscal Agent Agreement. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption or a mandatory redemption from prepaid Special Taxes, the premium applicable at the next following call date according to the premium schedule established pursuant to the Fiscal Agent Agreement, or in the case of Parity Bonds the premium established in any Supplemental Fiscal Agent Agreement. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account of the Special Tax Fund. On the delivery date of the Bonds, there will be deposited in the Reserve Account of the Special Tax Fund the Surety Bond in the face amount equal to the Initial Reserve Fund Deposit. Notwithstanding any provision of the Fiscal Agent Agreement to the contrary, the amounts in the Reserve Account will be applied as follows:

(A) Moneys in the Reserve Account will be used to pay the principal of, including Sinking Fund Payments, and interest on any Bonds and Parity Bonds when due in the event (i) that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund pursuant to the Fiscal Agent Agreement upon written direction from the District, and (ii) of a prepayment of Special Taxes the proportionate share of amounts in the Reserve Account will be reduced in accordance with the RMA at the written direction of the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds and Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent will withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(B) If moneys are withdrawn from the Reserve Account for the purpose described in the Fiscal Agent Agreement, or if the value of the amount on deposit in the Reserve Account is decreased due to a loss on amounts invested in the Reserve Account, then the Fiscal Agent will, after making the transfers required by the Fiscal Agent Agreement, transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds that the District elects to apply to such purpose, an amount equal to the lesser of (i) the sum of the amount of such withdrawal plus the amount of any such decrease in value and (ii) the amount needed to restore the amount in the Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund will be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to make the transfer to the Reserve Account required by the Fiscal Agent Agreement, then the District will include in the next annual

Special Tax levy (to the extent permitted by the maximum Special Tax rates) an amount sufficient to make such transfer to the extent of the maximum permitted Special Tax rates.

(C) In connection with any redemption of the Bonds under the Fiscal Agent Agreement or any Parity Bonds in accordance with any Supplemental Fiscal Agent Agreement, or a partial defeasance of the Bonds or any Parity Bonds in accordance with the Fiscal Agent Agreement, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement. To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds or an issue of Parity Bonds in the final Bond Year for such issue.

(D) On the fifth Business Day before each February 1 and August 1, moneys in the Reserve Account in excess of the Reserve Requirement, and not required to be transferred in accordance with the Fiscal Agent Agreement, will be withdrawn from the Reserve Account and transferred to the Project Account of the Acquisition and Construction Fund until the conditions set forth in the Fiscal Agent Agreement are satisfied, and thereafter to the Interest Account of the Special Tax Fund.

Rebate Fund.

The Fiscal Agent will establish and maintain a fund separate from any other fund established and maintained under the Fiscal Agent Agreement designated as the Rebate Fund and will establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund will be held by the Fiscal Agent in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternate Penalty Account will be established for each issue of Bonds and Parity Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with respect to the Bonds and any issue of Parity Bonds will be governed by the Fiscal Agent Agreement and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on such Bonds or Parity Bonds will not be adversely affected if such requirements are not satisfied.

Surplus Fund. After making the transfers required by the Fiscal Agent Agreement, as soon as practicable after each September 1, and in any event prior to each September 1, the Fiscal Agent will transfer all remaining amounts in the Special Tax Fund, if any, to the Surplus Fund, other than amounts in the Special Tax Fund which the District has deemed available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Fiscal Agent Agreement. Moneys deposited in the Surplus Fund may, at the written direction of the District, be used for any lawful purpose of the District permitted under the RMA, the Resolution of Formation, and the Act, including, without limitation, (i) payment of principal, redemption premium, and interest with respect to the Bonds and any Parity Bonds, (ii) deposit to the Reserve Account up to the Reserve Requirement, (iii) payment of Administrative Expenses, (iv) payment of Project Costs, (v) deposit in the Special Tax Fund for the purpose of reducing the next fiscal year's Special Tax levy, and (vi) to pay refunds of Special Taxes in accordance with the RMA. The Fiscal Agent may conclusively rely upon the District's certificate with regard to compliance of (i) through (vi) above.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose in the manner described in the Fiscal Agent Agreement. If the District reasonably expects to use moneys on deposit in the Surplus Fund to pay debt service on Outstanding Bonds or Parity Bonds, then the District will provide the Fiscal Agent with written direction to segregate the amount expected to be used to pay debt service into a separate subaccount of the Surplus Fund and to invest such amount in (i) Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code), (ii) Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amount is expected to be applied, or (iii) Authorized Investments at a yield in excess of the yield on the issue of Bonds or Parity Bonds to which such amount is expected to be applied; provided, however, that

investment at such higher yield will only be made if the Fiscal Agent is first provided an opinion of Bond Counsel to the effect that investment at such higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds. The Fiscal Agent may conclusively rely upon the written directions of the District complying with items (i) through (iii) above.

Acquisition and Construction Fund.

(A) The moneys in the Acquisition and Construction Fund will be applied exclusively to pay the Project Costs or Costs of Issuance. Amounts for Project Costs or Costs of Issuance will be disbursed by the Fiscal Agent from the Project Account or the Cost of Issuance Account, as appropriate, in the Acquisition and Construction Fund designated in a requisition signed by an Authorized District Representative substantially in the form attached to the Fiscal Agent Agreement, which must be submitted in connection with each requested disbursement. Each such requisition of the District shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall have no duty to confirm the accuracy of such facts.

(B) Upon receipt of a Certificate of the District that all or a specified portion of the amount remaining in the Costs of Issuance Account of the Acquisition and Construction Fund is no longer needed to pay Project Costs or Costs of Issuance, the Fiscal Agent will transfer all or such specified portion of the moneys remaining on deposit in such account to the Project Account of the Acquisition and Construction Fund to the Redemption Account to be applied as set forth in the Fiscal Agent Agreement.

(C) Upon receipt of a Certificate of an Authorized District Representative of the District stating that all or a specified portion of the amount remaining in the Project Account of the Acquisition and Construction Fund is no longer needed to pay Project Costs, the Fiscal Agent will transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Project Account of the Acquisition and Construction Fund to the Principal Account or Redemption Account of the Special Tax Fund or to the Surplus Fund, as directed in the Certificate, provided that in connection with any direction to transfer amounts to the Surplus Fund there will have been delivered to the Fiscal Agent with such Certificate an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Investments. Moneys held in any of the Funds, Accounts and Subaccounts under the Fiscal Agent Agreement will be invested at the written direction of an Authorized District Representative in accordance with the limitations set forth in the Fiscal Agent Agreement only in Authorized Investments which will be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments will be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount will be applied as follows: (i) investment earnings on amounts on deposit in the Acquisition and Construction Fund, the Reserve Account, and the Rebate Fund and each account or subaccount therein will be deposited in those respective Funds and Accounts, ^Δ **and (ii) all** other investment earnings will be deposited in the Acquisition and Construction Fund until the balance therein equals zero and thereafter will be deposited in the Interest Account of the Special Tax Fund. Moneys in the Funds, Accounts and Subaccounts held under the Fiscal Agent Agreement may be invested by the Fiscal Agent on the written direction of the District, from time to time, in Authorized Investments subject to the following restrictions:

(A) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund will be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement or Repurchase Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(B) Moneys in the Acquisition and Construction Fund will be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement or Repurchase Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund.

(C) One-half of the amount in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which mature not later than two years from their date of purchase by the Fiscal Agent, and one-half of the amount in the Reserve Account may be invested only in Authorized Investments which mature not more than five years from the date of purchase by the Fiscal Agent; provided that such amounts may be invested in an Investment Agreement or a Repurchase Agreement to the final maturity of Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Fiscal Agent Agreement; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds will mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds to which such amounts relate.

(D) Moneys in the Rebate Fund will be invested only in Authorized Investments of the type described in the Fiscal Agent Agreement which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to the Fiscal Agent Agreement or in Authorized Investments of the type described in the Fiscal Agent Agreement.

(E) In the absence of written investment directions from the District, the Fiscal Agent will invest solely in Authorized Investments specified in the Fiscal Agent Agreement.

The Fiscal Agent will sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts will be valued at their cost, except that amounts in the Reserve Account will be valued at the market value thereof and marked to market at least annually. In making any valuations of investments under the Fiscal Agent Agreement, the Fiscal Agent may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon. Notwithstanding anything in the Fiscal Agent Agreement to the contrary, the Fiscal Agent will not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Fiscal Agent Agreement. The Fiscal Agent may act as principal or agent in connection with the acquisition or disposition of any Authorized Investments. Any Authorized Investments that are registrable securities will be registered in the name of the Fiscal Agent.

For investment purposes, the Fiscal Agent may commingle the funds and accounts established under the Fiscal Agent Agreement (other than the Rebate Fund) but will account for each separately.

The Fiscal Agent or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Fiscal Agent hereunder.

COVENANTS AND WARRANTY

Warranty. The District will preserve and protect the security pledged under the Fiscal Agent Agreement to the Bonds and any Parity Bonds against all claims and demands of all persons.

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

(A) Punctual Payment; Against Encumbrances. The District covenants that it will receive all Special Taxes in trust and will immediately deposit such amounts with the Fiscal Agent, and the District will have no beneficial right or interest in the amounts so deposited except as provided by the Fiscal Agent Agreement. All such Special Taxes will be disbursed, allocated and applied solely to the uses and purposes set

forth in the Fiscal Agent Agreement, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued under the Fiscal Agent Agreement, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with the Fiscal Agent Agreement to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created under the Fiscal Agent Agreement will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Fiscal Agent Agreement, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Fiscal Agent Agreement and all Supplemental Fiscal Agent Agreements and of the Bonds and any Parity Bonds issued under the Fiscal Agent Agreement.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Fiscal Agent Agreement, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds. Nothing in the Fiscal Agent Agreement will prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

(B) Levy of Special Tax. The District covenants that so long as any Bonds or Parity Bonds issued under the Fiscal Agent Agreement are Outstanding, the legislative body of the District will levy the Special Tax in each Fiscal Year in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (1) the principal (including Sinking Fund Payments) of and interest on the Bonds and any Parity Bonds when due, (2) to the extent permitted by law, the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account as required by the Fiscal Agent Agreement.

(C) Commence Foreclosure Proceedings. The District covenants for the benefit of the Owners of the Bonds and any Parity Bonds that it (i) will commence judicial foreclosure proceedings against all parcels owned by a property owner that is delinquent in the payment of Special Taxes in excess of \$10,000 by the September 1 following the close of each Fiscal Year in which such Special Taxes were due; (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the September 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 Tax levied and the amount on deposit in the Reserve Account is at less than the Reserve Requirement; and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid. The District may, but will not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement or to avoid a default in payment on the Bonds and any Parity Bonds.

The District covenants that it will deposit the net proceeds of any foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds.

(D) Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account therein), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided that nothing in the Fiscal Agent Agreement will require the District to make any such payments so long as the District in good faith will contest the validity of any such claims.

(E) Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries will be made of all transactions relating to the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts will at all times during business hours be subject to the inspection of the Owners of not

less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

(F) Federal Tax Covenants. Notwithstanding any other provision of the Fiscal Agent Agreement, absent an opinion of Bond Counsel that the exclusion from gross income of interest on any Parity Bonds issued on a tax-exempt basis for federal income tax purposes and the Bonds will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income.

(G) Reduction of Maximum Special Taxes. The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Fiscal Agent Agreement would interfere with the timely retirement of the District Bonds. The District determines it to be necessary in order to preserve the security for the District Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Taxable Parcels (as defined in the Rate and Method of Apportionment of Special Taxes then in effect in the District) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 115% of the sum on the estimated Administrative Expenses and gross debt service in that Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, and (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultant or special tax administrator will compute the Administrative Expenses for the current Fiscal Year and escalate that amount by 2% in each subsequent Fiscal Year.

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

Continuing Disclosure. The District covenants to comply with the terms of any Continuing Disclosure Agreement executed by it on a Delivery Date with respect to compliance with Rule 15c2-12.

AMENDMENTS TO FISCAL AGENT AGREEMENT

Supplemental Fiscal Agent Agreements or Orders Not Requiring Bondowner Consent. The District and Fiscal Agent may from time to time, and at any time, without notice to or consent of any of the Bondowners, enter into Supplemental Fiscal Agent Agreements for any of the following purposes:

(A) to cure any ambiguity, to correct or supplement any provisions in the Fiscal Agent Agreement which may be inconsistent with any other provision in the Fiscal Agent Agreement, or to make any other provision with respect to matters or questions arising under the Fiscal Agent Agreement or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners;

(B) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Fiscal Agent Agreement, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Fiscal Agent Agreement as theretofore in effect or which further secure Bond or Parity Bond payments;

(C) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Fiscal Agent Agreement;

(D) to modify, amend or supplement the Fiscal Agent Agreement in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially adversely affect the interests of the Owners of the Bonds or any Parity Bonds then Outstanding;

(E) to modify, alter or amend the rate and method of apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under the Fiscal Agent Agreement; or

(F) to modify, alter, amend or supplement the Fiscal Agent Agreement in any other respect which is not materially adverse to the Bondowners.

Supplemental Fiscal Agent Agreements or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Fiscal Agent Agreements described in the Fiscal Agent Agreement, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding will have the right to consent to and approve the execution and delivery by the District of such Supplemental Fiscal Agent Agreements as will be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Fiscal Agent Agreement; provided, however, that nothing therein will permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon, (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond, or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Fiscal Agent Agreement, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District will desire to adopt a Supplemental Fiscal Agent Agreement, which pursuant to the terms of the Fiscal Agent Agreement will require the consent of the Bondowners, the District will so notify the Fiscal Agent and will deliver to the Fiscal Agent a copy of the proposed Supplemental Fiscal Agent Agreement. The Fiscal Agent will, at the expense of the District, cause notice of the proposed Supplemental Fiscal Agent Agreement to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice will briefly set forth the nature of the proposed Supplemental Fiscal Agent Agreement and will state that a copy thereof is on file at the office of the Fiscal Agent for inspection by all Bondowners. The failure of any Bondowners to receive such notice will not affect the validity of such Supplemental Fiscal Agent Agreement when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by the Fiscal Agent Agreement. Whenever at any time within one year after the date of the first mailing of such notice, the Fiscal Agent will receive an instrument or instruments purporting to be executed by the Owners of a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments will refer to the proposed Supplemental Fiscal Agent Agreement described in such notice, and will specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Fiscal Agent, such proposed Supplemental Fiscal Agent Agreement, when duly adopted by the District, will thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Fiscal Agent Agreement, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District will be disregarded and will be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Fiscal Agent Agreement and the receipt of consent to any such Supplemental Fiscal Agent Agreement from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of the Fiscal Agent Agreement, the Fiscal Agent Agreement will be, and will be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Fiscal Agent Agreement of the District and all Owners of Outstanding Bonds and Parity Bonds will thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments.

Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds. After the effective date of any action taken as provided in the Fiscal Agent Agreement, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of his Bond or Parity Bond for the purpose at the office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action will be made on such Bonds or Parity Bonds. If the District will so determine, new Bonds or Parity Bonds so modified as, in the opinion of the District, will be necessary to conform to such action will be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity Bonds will be exchanged at the office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, without cost to each Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

FISCAL AGENT

Fiscal Agent. BNY Western Trust Company will be the Fiscal Agent for the Bonds and any Parity Bonds unless and until another Fiscal Agent is appointed by the District under the Fiscal Agent Agreement. The District may, at any time, appoint a successor Fiscal Agent satisfying the requirements of the Fiscal Agent Agreement for the purpose of receiving all money which the District is required to deposit with the Fiscal Agent under the Fiscal Agent Agreement and to allocate, use and apply the same as provided in the Fiscal Agent Agreement.

The Fiscal Agent is authorized to and will mail by first class mail, postage prepaid, or wire transfer in accordance with the Fiscal Agent Agreement, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Fiscal Agent is authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds all as provided in the Fiscal Agent Agreement, and to provide for the authentication of Bonds and Parity Bonds, and will perform all other duties assigned to or imposed on it as provided in the Fiscal Agent Agreement; provided, however, that no duties of the Fiscal Agent will be implied under the Fiscal Agent Agreement. The Fiscal Agent will keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Fiscal Agent is authorized to redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Fiscal Agent will cancel all Bonds and Parity Bonds upon payment thereof in accordance with the provisions of the Fiscal Agent Agreement.

The District will from time to time, subject to any agreement between the District and the Fiscal Agent then in force, pay to the Fiscal Agent compensation for its services, reimburse the Fiscal Agent for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties under the Fiscal Agent Agreement, and indemnify and save the Fiscal Agent and its officers, directors and employees harmless against costs, claims, expenses and liabilities, including legal fees and expenses, arising from other than the Fiscal Agent's own negligence or misconduct which the Fiscal Agent may incur in the exercise and performance of its powers and duties under the Fiscal Agent Agreement. The foregoing obligation of the

District to indemnify the Fiscal Agent will survive the removal or resignation of the Fiscal Agent or the discharge of the Bonds.

Removal of Fiscal Agent. The District may at any time at its sole discretion remove the Fiscal Agent initially appointed, and any successor thereto, by delivering to the Fiscal Agent a written notice of its decision to remove the Fiscal Agent and may appoint a successor or successors thereto; provided that any such successor, other than the Fiscal Agent, will be a bank corporation or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. Any removal will become effective only upon acceptance of appointment by the successor Fiscal Agent. If any bank corporation or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Fiscal Agent Agreement the combined capital and surplus of such bank corporation or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Fiscal Agent and appointment of a successor Fiscal Agent will become effective only upon acceptance of appointment by the successor Fiscal Agent and notice being sent by the successor Fiscal Agent to the Bondowners of the successor Fiscal Agent's identity and address.

Resignation of Fiscal Agent. The Fiscal Agent may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice will be mailed to the Owners at their addresses appearing in the registration books in the office of the Fiscal Agent. Upon receiving such notice of resignation, the District will promptly appoint a successor Fiscal Agent satisfying the criteria in the Fiscal Agent Agreement by an instrument in writing. Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent will become effective only upon acceptance of appointment by the successor Fiscal Agent. If no successor Fiscal Agent shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of resignation as aforesaid, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Fiscal Agent.

Liability of Fiscal Agent. The recitals of fact and all promises, covenants and agreements contained in the Fiscal Agent Agreement and in the Bonds and any Parity Bonds will be taken as statements, promises, covenants and agreements of the District, and the Fiscal Agent assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of the Fiscal Agent Agreement, the Bonds or any Parity Bonds, and will incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth in the Fiscal Agent Agreement, in the Bonds and any Parity Bonds, or in the certificate of authentication assigned to or imposed upon the Fiscal Agent. The Fiscal Agent will be under no responsibility or duty with respect to the issuance of the Bonds or any Parity Bonds for value. The Fiscal Agent will not be liable in connection with the performance of its duties under the Fiscal Agent Agreement, except for its own negligence or willful misconduct.

The Fiscal Agent will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, requisition, direction, Bond, Parity Bond, certificate of an Independent Financial Consultant or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Fiscal Agent may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered under the Fiscal Agent Agreement in good faith and in accordance therewith.

The Fiscal Agent will not be bound to recognize any person as the Owner of a Bond or Parity Bond unless and until such Bond or Parity Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under the Fiscal Agent Agreement the Fiscal Agent will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Fiscal Agent Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Fiscal Agent Agreement) may, in the absence of negligence or bad faith on the part of the

Fiscal Agent, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate will be full warrant to the Fiscal Agent for any action taken or suffered under the provisions of the Fiscal Agent Agreement upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Fiscal Agent will have no duty or obligation whatsoever to enforce the collection of Special Taxes or other funds to be deposited with it under the Fiscal Agent Agreement, or as to the correctness of any amounts received, but its liability will be limited to the proper accounting for such funds as it will actually receive. No provision in the Fiscal Agent Agreement will require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of its rights or powers.

The Fiscal Agent may rely upon a facsimile transmission with regard to any instruction for any transfer, disbursement or investment of funds held by the Fiscal Agent. The District shall confirm such transmission promptly in writing by mail.

The Fiscal Agent shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Bonds.

Merger or Consolidation. Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, will be the successor to the Fiscal Agent without the execution or filing of any paper or further act, anything in the Fiscal Agent Agreement to the contrary notwithstanding.

EVENTS OF DEFAULT; REMEDIES

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

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

(B) Default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same will become due and payable; or

(C) Except as described in (A) or (B), default will be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Fiscal Agent Agreement, the Bonds or any Parity Bonds, and such default will have continued for a period of 30 days after the District will have been given notice in writing of such default by the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

The District agrees to give notice to the Fiscal Agent immediately upon the occurrence of an event of default under (A) or (B) above and within 30 days of the District’s knowledge of an event of default under (C) above.

Remedies of Owners. Following the occurrence of an event of default, any Owner will have the right for the equal benefit and protection of all Owners similarly situated:

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

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

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

Nothing in the Fiscal Agent Agreement, the Bonds or any Parity Bonds will affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and any Parity Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Fiscal Agent Agreement, out of the Net Taxes and other amounts pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds or any Parity Bonds and in the Fiscal Agent Agreement.

A waiver of any default or breach of duty or contract by any Owner will not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission by any Owner to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Act or by the Fiscal Agent Agreement may be enforced and exercised from time to time and as often as will be deemed expedient by the Owners.

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

No remedy in the Fiscal Agent Agreement conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy will be cumulative and will be in addition to every other remedy given under the Fiscal Agent Agreement or now or thereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

In case the moneys held by the Fiscal Agent after an event of default pursuant to the Fiscal Agent Agreement will be insufficient to pay in full the whole amount so owing and unpaid upon the Outstanding Bonds and Parity Bonds, then all available amounts will be applied after the payment of all fees and expenses of the Fiscal Agent to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

DEFEASANCE AND PARITY BONDS

Defeasance. If the District will pay or cause to be paid, or there will otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Fiscal Agent Agreement or any Supplemental Fiscal Agent Agreement, then the Owner of such Bond or Parity Bond will cease to be entitled to the pledge of Net Taxes, and, other than as set forth in the Fiscal Agent Agreement, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Fiscal Agent Agreement and any Supplemental Fiscal Agent Agreement relating to such Parity Bond will thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to the Fiscal Agent Agreement, the Fiscal Agent will execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent will pay over or deliver to the District's general fund all money or securities held by it pursuant to the Fiscal Agent Agreement which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond will be deemed to have been paid within the meaning expressed in the Fiscal Agent Agreement if such Bond or Parity Bond is paid in any one or more of the following ways:

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

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

(C) by depositing with the Fiscal Agent or another escrow bank appointed by the District, in trust, noncallable Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same will become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds will not have been surrendered for payment, all obligations of the District under the Fiscal Agent Agreement and any Supplemental Fiscal Agent Agreement with respect to such Bond or Parity Bond will cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owner of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in the Fiscal Agent Agreement or any covenants in a Supplemental Fiscal Agent Agreement relating to compliance with the Code. Notice of such election will be filed with the Fiscal Agent not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Fiscal Agent. In connection with a defeasance under (B) or (C) above, there will be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with the Fiscal Agent Agreement, as and when the same will become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Fiscal Agent Agreement and any applicable Supplemental Fiscal Agent Agreement. If a forward supply contract is employed in connection with an advance refunding to be effected under (C) above, (i) such verification report will expressly state that the adequacy of the amounts deposited with the bank under (C) above to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement executed to effect an advance refunding in accordance with (C) above will provide that, in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement will be controlling.

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

Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness. The District may at any time issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special

Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Fiscal Agent Agreement or under any Supplemental Fiscal Agent Agreement for any purposes authorized under the Act. Parity Bonds may be issued subject to the following additional specific conditions, which are made conditions precedent to the issuance of any such Parity Bonds:

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

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

(1) The purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including payment of all costs and the funding of all reserves incidental to or connected with such Parity Bonds;

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

(3) The date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date will fall on a August 1, (ii) all such Parity Bonds of like maturity will be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, will be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

(4) The description of the Parity Bonds, the place of payment thereof, and the procedure for execution and authentication;

(5) The denominations and method of numbering of such Parity Bonds;

(6) The amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(7) The amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account, which amount will be at least equal to the lesser of (a) five percent of the principal amount of such Parity Bonds and (b) the amount necessary to increase the amount in the Reserve Account to the Reserve Requirement following the issuance of such Parity Bonds;

(8) The form of such Parity Bonds; and

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

(C) The District will have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Fiscal Agent (unless the Fiscal Agent will be directed by the District to accept any of such documents bearing a prior date):

(1) A certified copy of the Supplemental Fiscal Agent Agreement authorizing the issuance of such Parity Bonds;

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

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

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

(5) A certificate from one or more Independent Financial Consultants which, when taken together, certify that (i) the amount of the maximum Special Taxes that may be levied by the District pursuant to the Act and the application resolutions and ordinances of the District in each subsequent Fiscal Year is at least 1.10 times the corresponding Annual Debt Service for each remaining Bond Year on all Outstanding Bonds theretofore issued and the Parity Bonds proposed to be issued, and (ii) the Value of District Property is at least eight times the sum of the aggregate principal amount of Outstanding Bonds, the Parity Bonds proposed to be issued, and the Overlapping Debt with respect to all taxable property in the District; provided, however, that no parcel of property may be included in the foregoing determination if there is, at the time of any such determination, a delinquency in the payment of any *ad valorem* real property taxes or Special Taxes levied on such parcel; and

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

MISCELLANEOUS

Cancellation of Bonds and Parity Bonds. All Bonds and Parity Bonds surrendered to the Fiscal Agent for payment upon maturity or for redemption will be upon payment therefor, and any Bond or Parity Bond purchased by the District as authorized in the Fiscal Agent Agreement and delivered to the Fiscal Agent for such purpose will be, cancelled forthwith and will not be reissued. The Fiscal Agent will destroy such Bonds and Parity Bonds, and, upon request of the District, furnish to the District a certificate of such destruction.

Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Fiscal Agent Agreement to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds or Parity Bonds

will be sufficient for the purposes of the Fiscal Agent Agreement (except as otherwise therein provided), if made in the following manner:

(A) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee will also constitute sufficient proof of his authority.

(B) As to any Bond or Parity Bond, the person in whose name the same will be registered in the Bond Register will be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond or Parity Bond, and the interest thereon, will be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond or Parity Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Fiscal Agent will be affected by any notice to the contrary.

Nothing contained in the Fiscal Agent Agreement will be construed as limiting the Fiscal Agent or the District to such proof, it being intended that the Fiscal Agent or the District may accept any other evidence of the matters in the Fiscal Agent Agreement stated which the Fiscal Agent or the District may deem sufficient. Any request or consent of the Owner of any Bond or Parity Bond will bind every future Owner of the same Bond or Parity Bond in respect of anything done or suffered to be done by the Fiscal Agent or the District in pursuance of such request or consent.

Unclaimed Moneys. Anything in the Fiscal Agent Agreement to the contrary notwithstanding, any money held by the Fiscal Agent in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Fiscal Agent at such date, or for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date of deposit of such money if deposited with the Fiscal Agent after the date when such Outstanding Bonds or Parity Bonds become due and payable, will be repaid by the Fiscal Agent to the District, as its absolute property and free from trust, and the Fiscal Agent will thereupon be released and discharged with respect thereto and the Owners will look only to the District for the payment of such Outstanding Bonds or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Fiscal Agent at the written request of the District or the Fiscal Agent will, at the expense of the District, cause to be mailed by first-class mail, postage prepaid, to the registered Owners of such Outstanding Bonds or Parity Bonds at their addresses as they appear on the registration books of the Fiscal Agent a notice that said money remains unclaimed and that, after a date named in said notice, which date will not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Provisions Constitute Contract. The provisions of the Fiscal Agent Agreement will constitute a contract between the District and the Bondowners and the provisions of the Fiscal Agent Agreement will be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy will be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Fiscal Agent, then the District, the Fiscal Agent and the Bondowners will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds the Fiscal Agent Agreement will be irrevocable, but will be subject to modifications to the extent and in the manner provided in the Fiscal Agent Agreement, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Fiscal Agent Agreement will be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of

the Gross Taxes which is subordinate to the pledge under the Fiscal Agent Agreement, or which is payable from the general fund of the District or from taxes or any source other than the Gross Taxes and other amounts pledged thereunder.

Further Assurances. The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Fiscal Agent Agreement, and for the better assuring and confirming unto the Owners of the Bonds or any Parity Bonds the rights and benefits provided in the Fiscal Agent Agreement.

Severability. If any covenant, agreement or provision, or any portion thereof, contained in the Fiscal Agent Agreement, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Fiscal Agent Agreement and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, will be deemed severable and will not be affected thereby, and the Fiscal Agent Agreement, the Bonds and any Parity Bonds issued pursuant to the Fiscal Agent Agreement will remain valid and the Bondowners will retain all valid rights and benefits accorded to them under the laws of the State of California.

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of ^Δ **February 18, 2003**, is executed and delivered by Community Facilities District No. 2000-1 of the City of Belmont (the “Issuer”) and BNY Western Trust Company, as dissemination agent, in connection with the issuance and delivery by the Issuer of the above-captioned bonds (the “Bonds”). The Bonds are being issued pursuant to District Resolution No. 8918 and that certain Fiscal Agent Agreement, dated as of February 1, 2004 (the “Fiscal Agent Agreement”). The Issuer covenants as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure 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 which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income purposes.

“*Dissemination Agent*” shall mean, initially, BNY Western Trust Company, and, thereafter, any successor Dissemination Agent designated in writing by the Issuer which has filed with the then current Dissemination Agent a written acceptance of such designation.

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

“*National Repository*” shall mean any Nationally Recognized Municipal Securities Information Repository for purpose of the Rule. Information with respect to the National Repositories as of a particular date is available on the Internet at www.sec.gov/consumer/nrmsir.htm.

“*Participating Underwriter*” shall mean ^Δ **Stone & Youngberg LLC**.

“*Repository*” shall mean each National Repository and each State Repository.

“*Rule*” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“*State Repository*” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

“*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 February 1 immediately following the end of the Issuer's fiscal year, commencing February 1, 2005, the Issuer shall, provide or shall cause the Dissemination Agent to provide, to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be 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; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify each Repository or the Municipal Securities Rulemaking Board and the Dissemination Agent of a change in the fiscal year dates.

(b) In the event that the Dissemination Agent is an entity other than the Issuer, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a). The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Issuer is the Dissemination Agent and the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the Municipal Securities Rulemaking Board, the Repositories, if any, and the Participating Underwriter in substantially the form attached to this Disclosure Agreement as Exhibit A. If the Dissemination Agent is other than the Issuer and if the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) promptly after receipt of the Annual Report, 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 and listing all the Repositories to which it was provided.

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, which may be included within the audited financial statements of the City, 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. Audited financial statements of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Fiscal Agent Agreement. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that

the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to each Repository, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(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 August 30 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Fiscal Agent Agreement as of the August 30 preceding the filing of the Annual Report, including the Reserve Account and a statement of the Reserve Requirement;

(iii) an update of the information set forth in Table 3 of the Official Statement and information regarding the delinquency rate with respect to the levy of Special Taxes;

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

(v) the status of any foreclosure actions related to parcels with delinquencies in excess of \$10,000 being pursued by the District with respect to delinquent Special Taxes;

(vi) the identity of any property owner whose delinquent special taxes represent more than 5% of the amount levied; and

(vii) any information not already included under (i) through (vi) above that the Issuer is required to file in its annual report to the California Debt and Investment Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

In addition to any of the information expressly required to be provided under paragraphs (a) or (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements set forth in clauses (i) to (vii), in the light of the circumstances under which they were made, not misleading.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The 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 of the Special Tax Fund 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) contingent or unscheduled redemption of any Bond,
- (9) defeasances,
- (10) any release, substitution, or sale of property 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 knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e).

(d) If the Issuer determines that the Listed Event would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Issuer is acting as Dissemination Agent and determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository and the State Repository. 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 (i) the Municipal Securities Rulemaking Board or (ii) each National Repository, and in either case, to each State Repository. 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. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (e) prior to the occurrence of such Listed Event.

(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 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer and the Dissemination Agent under this Disclosure 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, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Agreement as so amended would 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, (3) the Issuer shall have delivered to the Dissemination Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer and the Participating Underwriter, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners, or such amendment shall have been approved by the Owners in the same manner as an amendment to the Fiscal Agent Agreement, and (5) the Issuer shall have delivered copies of such opinion and amendment to each Repository and the Participating Underwriter.

(b) This Disclosure Agreement also may be amended by written agreement of the parties upon obtaining consent of Owners in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of the Owners of the Bonds; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied.

(c) 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.

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

SECTION 9. Additional Information. Nothing in this Disclosure 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 other than the Issuer shall be paid (i) compensation by the Issuer for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Issuer pursuant to this Disclosure 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 shall create no rights in any other person or entity.

SECTION 13. 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.

SECTION 14. Governing Law. This Disclosure Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 15. Notices. Notices with respect to this Disclosure Agreement should be sent in writing to the following address: 1070 Sixth Avenue, Belmont, California 94002, Attention: City Clerk.

COMMUNITY FACILITIES DISTRICT NO. 2000-1 OF
THE CITY OF BELMONT

By: _____
Its: _____

BNY WESTERN TRUST COMPANY, as Dissemination
Agent

By: _____
Its: Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Community Facilities District No. 2000-1 of the City of Belmont
Name of Bond Issue: Community Facilities District No. 2000-1 of the City of Belmont Special Tax Bonds (Library Project), Series 2004A
Date of Issuance: ^Δ **February 18**, 2004

NOTICE IS HEREBY GIVEN that Community Facilities District No. 2000-1 of the City of Belmont (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 February __, 2004. [The Issuer anticipates that the Annual Report will be filed by _____.]

Dated: _____

as Dissemination Agent

cc: City of Belmont

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no 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 securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements which may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Principal, mandatory sinking fund payments, premium and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. 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 which may be in effect from time to time. Payment of principal and interest to 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.

The Authority, the District and the Underwriter cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority, the District and the Underwriter are not responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

DTC may discontinue providing its services with respect to the Bonds at any time by giving notice to the Fiscal Agent and discharging its responsibilities with respect thereto under applicable law or the Authority may terminate participation in the system of book-entry transfers through DTC or any other securities depository at any time. In the event that the book-entry system is discontinued, replacement Bond certificates will be printed and delivered as described in the Indenture.

APPENDIX F

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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