

NEW ISSUE-BOOK ENTRY ONLY

NOT RATED

(See "CONCLUDING INFORMATION - No Rating on the Bonds" herein)

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes and is not an item of preference under section 57(a) of the Code for purposes of the federal alternative minimum tax. See, however, "LEGAL MATTERS - Tax Exemption" herein regarding certain other tax considerations.

COUNTY OF RIVERSIDE

STATE OF CALIFORNIA



**\$24,680,000
CITY OF LAKE ELSINORE
COMMUNITY FACILITIES DISTRICT NO. 2005-2
(ALBERHILL RANCH) SPECIAL TAX BONDS
(IMPROVEMENT AREA A) 2005 SERIES A**

Dated: Date of Delivery

Due: September 1, As Shown Below

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

Interest on the Bonds is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2006, until maturity or earlier redemption (see "THE BONDS - General Provisions" and "THE BONDS - Redemption" herein).

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



Rod Gunn Associates, Inc.

MATURITY SCHEDULE

\$485,000 SERIAL BONDS

<u>Maturity Date</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Reoffering</u> <u>Rate</u>	<u>Maturity Date</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Reoffering</u> <u>Rate</u>
2007	\$5,000	3.650%	3.650%	2010	\$95,000	4.100%	4.300%
2008	35,000	3.900%	3.900%	2011	125,000	4.375%	4.600%
2009	65,000	4.000%	4.200%	2012	160,000	4.500%	4.750%

\$24,195,000 5.45% Term Bond due September 1, 2036, Price 100 %

The Bonds will be issued under the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California). Repayment of the Bonds will be from Special Taxes (as defined herein) to be levied within Improvement Area A of the City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) and certain other funds held under the Fiscal Agent Agreement, as described herein (see "SOURCES OF PAYMENT FOR THE BONDS" and "BONDOWNERS' RISKS" herein). It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company on or about December 20, 2005 (see "THE BONDS - General Provisions - Book-Entry Only System" herein).

The date of the Official Statement December 6, 2005.



**CITY OF LAKE ELSINORE
COMMUNITY FACILITIES DISTRICT NO. 2005-2 (ALBERHILL RANCH)**

CITY COUNCIL

Robert Magee, *Mayor*
Robert Schiffner, *Mayor Pro Tem*
Genie Kelley, *Council Member*
Thomas Buckley, *Council Member*
Daryl Hickman, *Council Member*

CITY STAFF

Robert Brady, *City Manager*
Matt N. Pressey, *Director of Administrative Services*
Frederick Ray, *City Clerk*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

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

City Attorney

Van Blarcom, Leibold, McClendon & Mann, P.C.
Laguna Hills, California

Financing Consultant

Rod Gunn Associates, Inc.
Huntington Beach, California

Fiscal Agent

Union Bank of California, N.A.
Los Angeles, California

Underwriter

Southwest Securities, Inc.
Newport Beach, California

Underwriter's Counsel

McFarlin & Anderson LLP
Lake Forest, California

Special Tax Consultant

Harris & Associates
Irvine, California

Appraiser

Harris Realty Appraisal
Newport Beach, California

Market Absorption

Empire Economics, Inc.
Capistrano Beach, California

FOR ADDITIONAL INFORMATION

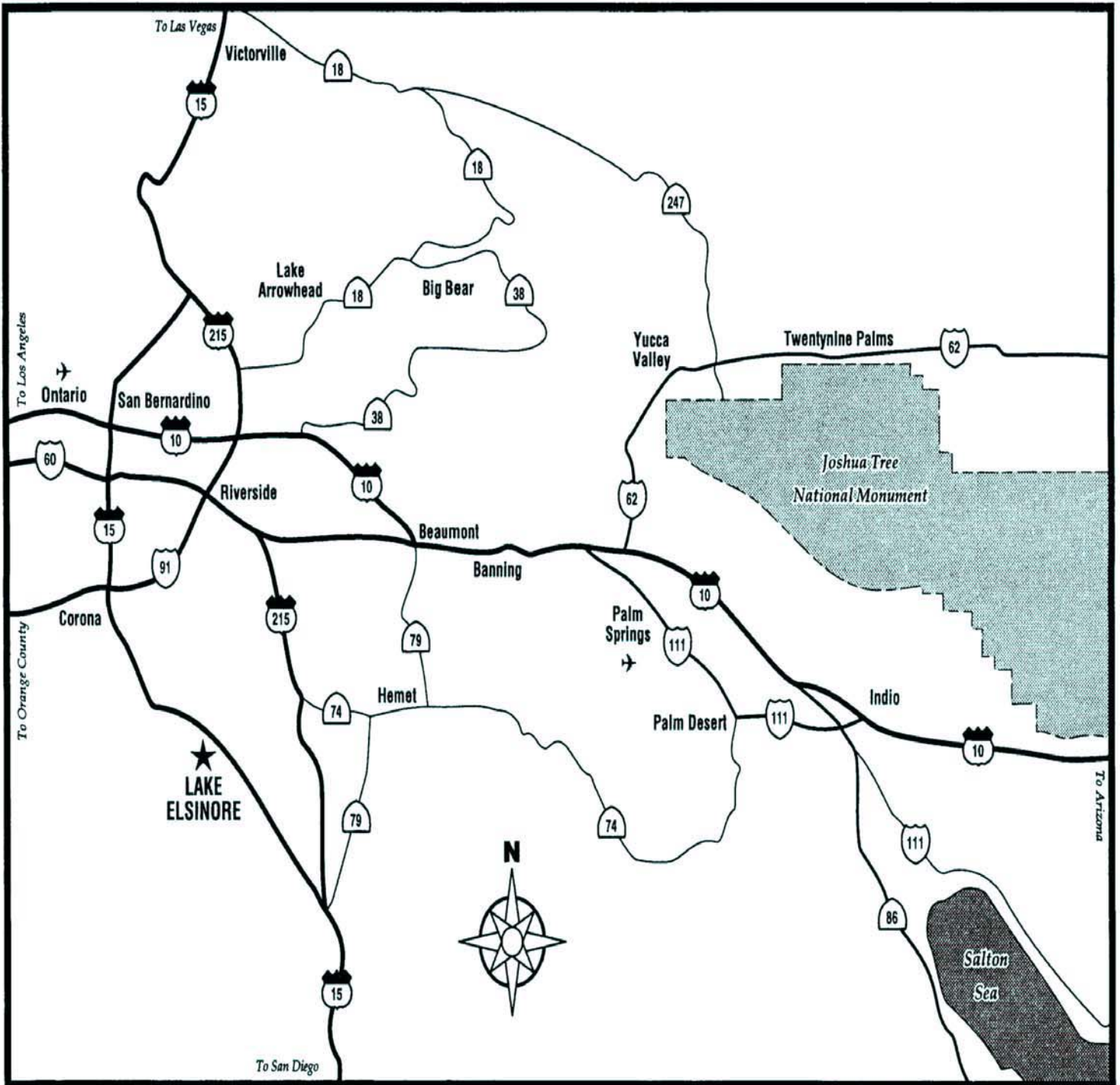
Matt Pressey, City of Lake Elsinore, California (951) 674-3124
Rod Gunn Associates, Inc. (714) 841-3993
Southwest Securities, Inc. (949) 717-2000

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Lake Elsinore Vicinity Map



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OFFICIAL STATEMENT

\$24,680,000

CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2005-2 (ALBERHILL RANCH) SPECIAL TAX BONDS (IMPROVEMENT AREA A) 2005 SERIES A

This Official Statement which includes the cover page and appendices (the “Official Statement”) is provided to furnish certain information concerning the sale of the City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) Special Tax Bonds (Improvement Area A) 2005 Series A (the “Bonds”), in the aggregate principal amount of \$24,680,000.

INTRODUCTORY STATEMENT

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

The City and the District

The City. The City of Lake Elsinore (the “City”) was founded in 1883 and incorporated on April 23, 1888 in San Diego County. In 1893 the Elsinore Valley, previously in San Diego County, became a part of the new County of Riverside. The City encompasses approximately 39 square miles, with over 10 miles of lake shore, and is located at the southwestern end of Riverside County. It is 73 miles east of downtown Los Angeles and 74 miles north of downtown San Diego. Neighboring communities include Canyon Lake, Murrieta and Temecula (see “**Vicinity Map**” herein) herein).

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

On September 13, 2005, the City formed City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) (the “District”) by the adoption of Resolution. The District consists of 3 improvement areas (each an “Improvement Area” and collectively, the “Improvement Areas”). Each Improvement Area has a separate rate and method of apportionment of special tax approved by the City and the qualified electors within each respective Improvement Area. The qualified electors within each Improvement Area voted in favor of the incurrence of bonded indebtedness and each Improvement Area has a separate bond

authorization. The Maximum authorized bonded indebtedness for Improvement Area A is \$28,000,000. (see “DEBT STRUCTURE,” “SELECTED ESSENTIAL FACTS” and “FINANCIAL INFORMATION - Rate and Method of Apportionment” herein). The special tax for facilities authorized to be levied within Improvement Area A to pay for certain facilities, capital fees and to pay debt service on the Bonds is described in the Rate and Method of Apportionment of Special Taxes attached hereto as “APPENDIX D RATE AND METHOD OF APPORTIONMENT” and shall be referred to herein as the “Special Tax” or “Special Taxes.”

The boundaries of the District coincide with the development generally known as Alberhill Ranch. The District is located in the northern portion of the City, 1 1/2 miles west of the Interstate 15 freeway and south of Lake Street. Alberhill Ranch is planned for a total of 1,181 single family homes and approximately 389 multifamily units on approximately 489 gross acres. Development within the approximately 132 acre Improvement Area A is planned for 442 single family homes in four residential communities (the “Development”) (see “IMPROVEMENT AREA A - Description of the Development” herein). As of October 16, 2005, except as otherwise provided below, Castle & Cooke Alberhill Ranch, LLC, a California limited liability company (the “Developer”), owns all of the land with the exception of 18 lots owned by individual homeowners in Improvement Area A. Improvement Area A consists of Tract Nos. 28214-1, 28214-2, 28214-3 and a portion of 28214-5)(see “IMPROVEMENT AREA A-“The Developer” herein). As of October 15, 2005, 4 model homes were complete and 43 production homes were under construction in Tract No. 28214-1; 4 model homes were complete and 52 production homes were under construction in Tract No. 28214-2; Tract No. 28214-3 is in blue top condition; and site grading is underway in Tract No. 28214-5. As of October 16, 2005, 18 homes in Tract No. 28214-1 had closed escrow and an additional 70 homes within Tract Nos. 28214-1 and 28214-2 were in escrow but escrows had not yet closed. As is common with sales at this stage of development, the sales are subject to a number of contingencies and the Developer can provide no assurance that the current sales will result in closed escrows.

Security and Sources of Repayment

The Bonds. The Bonds are secured under the Fiscal Agent Agreement between the District and Union Bank of California, N.A., Los Angeles, California, as fiscal agent (the “Fiscal Agent”) dated as of December 1, 2005 (the “Fiscal Agent Agreement”) (see “SUMMARY OF THE FISCAL AGENT AGREEMENT” herein). The District has covenanted in the Fiscal Agent Agreement to levy in each Fiscal Year the Special Taxes on parcels of land pledged to the repayment of the Bonds in an amount sufficient to pay debt service on the Bonds and the administrative expenses subject to the limitation on the Maximum Annual Special Tax that may be levied on such land within Improvement Area A (see “IMPROVEMENT AREA A” for a description of Improvement Area A and “FINANCIAL INFORMATION - Rate and Method of Apportionment” for a description of the Special Tax within Improvement Area A) (see “SOURCES OF PAYMENT FOR THE BONDS” and “BONDOWNERS’ RISKS” herein).

The Bonds are special obligations of the District. The Bonds do not constitute a debt or liability of the City, the State of California or of any political subdivision thereof, other than the District. The District shall only be obligated to pay the principal of the Bonds, or the interest thereon, from the funds described herein, and neither the faith and credit nor the taxing power of the City, the State of California or any of its political subdivisions is pledged to the payment of the principal of or the interest on the Bonds. See “SOURCES OF PAYMENT FOR THE BONDS” and “BONDOWNERS’ RISKS” herein.

Purpose

The Bonds. The Bonds are being issued to provide the District with funds to finance public infrastructure, including certain capital fees imposed by the City and Elsinore Municipal Water District, related to Improvement Area A (the “Facilities”) (see “IMPROVEMENT AREA A – Facilities to be Financed

by the District”), to fund interest on the Bonds to and including September 1, 2006, to pay the expenses of the District and the Developer in connection with the formation of the District and issuance of the Bonds and to make a deposit to the Reserve Account. The amount of the deposit into the Reserve Account will be in the amount equal to \$2,264,362.78 (see “**THE BONDS – Estimated Sources and Uses of Funds**” herein).

The Bonds

Redemption. The Bonds maturing September 1, 2036 are subject to mandatory redemption, without premium, prior to their maturity date, in part by lot on September 1 in each year commencing September 1, 2013 from Sinking Fund payments under the Fiscal Agent Agreement (see “**THE BONDS - Redemption - Mandatory Redemption**” herein).

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

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

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

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

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

Payment. Principal of the Bonds and any premium upon redemption will be payable in each of the years and in the amounts set forth on the cover page hereof upon surrender at the corporate trust office of the Fiscal Agent in Los Angeles, California. Interest on the Bonds will be paid by check of the Fiscal Agent mailed by first class mail on the Interest Payment Date to the person entitled thereto (except as otherwise described herein for interest paid to an account in the continental United States of America by wire transfer as requested in writing no later than the applicable Record Date by owners of \$1,000,000 or more in aggregate principal amount of Bonds) (see “**THE BONDS - General Provisions**” herein).

Initially, interest on and principal and premium, if any, of the Bonds will be payable when due by wire of the Fiscal Agent to DTC which will in turn remit such interest, principal and premium, if any, to DTC Participants (as defined herein), which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds (see “**THE BONDS - General Provisions - Book-Entry Only System**” herein).

Notice. Notice of any redemption will be mailed by first class mail by the Fiscal Agent at least thirty (30) but no more than sixty (60) days prior to the date fixed for redemption to the registered owners of any

Bonds designated for redemption and to the Securities Depositories and Information Services provided in the Fiscal Agent Agreement. Neither failure to receive such notice nor any defect in the notice so mailed will affect the sufficiency of the proceedings for redemption of such Bonds or the cessation of accrual of interest on the redemption date (see “**THE BONDS - Redemption - Notice of Redemption**” herein).

Legal Matters

The legal proceedings in connection with the issuance of the Bonds are subject to the approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, as Bond Counsel. Such opinion, and certain tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, are described more fully under the heading “**LEGAL MATTERS**” herein. Certain legal matters will be passed on for the City by Van Blarcom, Leibold, McClendon & Mann, P.C., Laguna Hills, California, as City Attorney and by Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by McFarlin & Anderson LLP, Lake Forest, California, Underwriter’s Counsel.

Professional Services

Union Bank of California, N.A., Los Angeles, California, will serve as Fiscal Agent under the Fiscal Agent Agreement. The Fiscal Agent will act on behalf of the Bondowners for the purpose of receiving all moneys required to be paid to the Fiscal Agent, to allocate, use and apply the same, to hold, receive and disburse the Special Taxes and other funds held under the Fiscal Agent Agreement, and otherwise to hold all the offices and perform all the functions and duties provided in the Fiscal Agent Agreement to be held and performed by the Fiscal Agent.

Harris & Associates, Irvine, California, Special Tax Consultant, prepared the cash flow certificate for the District demonstrating that there will be sufficient Special Taxes, assuming timely receipt, to pay debt service on the Bonds (see “**CONCLUDING INFORMATION – Experts**” herein).

Rod Gunn Associates, Inc., Huntington Beach, California, Financing Consultant, advised the City as to the financial structure and certain other financial matters relating to the Bonds.

Fees payable to Bond Counsel, Disclosure Counsel, Underwriter’s Counsel and the Financing Consultant are contingent upon the sale and delivery of the Bonds.

Offering of the Bonds

Authority for Issuance. The Bonds are to be issued and secured pursuant to the Fiscal Agent Agreement, as authorized by Resolution of the City adopted on November 8, 2005. The Bonds are also issued in accordance with the laws of the State of California (the “State”), and particularly the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State).

The Bonds are being sold to Southwest Securities, Inc. (the “Underwriter”) pursuant to a Purchase Contract approved by the City by Resolution adopted on November 8, 2005.

Offering and Delivery of the Bonds. The Bonds are offered when, as and if issued, subject to the approval as to their legality by Fulbright & Jaworski L.L.P., Los Angeles, California, as Bond Counsel. Certain legal matters will be passed upon for the City by Van Blarcom, Leibold, McClendon & Mann, P.C., Laguna Hills, California, as City Attorney and by Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by McFarlin & Anderson, LLP, Lake Forest, California, as Underwriter’s Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company on or about December 20, 2005.

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

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

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

Information Concerning this Official Statement

This Official Statement speaks only as of its date. The information set forth herein has been obtained by the Financing Consultant from the City, the District, the Developer and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness, nor has it been independently verified and is not to be construed as a representation by the Financing Consultant, the City or the District. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended as such and are not to be construed as representations of fact.

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

Continuing Disclosure. The District and the Developer have covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to Improvement Area A each year. The District has agreed to make such information available not later than 225 days after the end of the City's fiscal year, commencing with fiscal year 2004/05 and the Developer has agreed to make such information available not later than 120 days after the end of the Developer's fiscal year (currently December 31 of each year), commencing with the fiscal year ending December 31, 2005 (each an "Annual Report" and collectively the "Annual Reports"), and to provide notices of the occurrences of certain enumerated events, if material. The District and the Developer shall file or cause to be filed the Annual Reports with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State information depository, if any. The notices of material events will be filed by the Dissemination Agent on behalf of the District and the Developer with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). The specific nature of information to be contained in the Annual Reports or the notice of material events is summarized in

“APPENDIX E – FORMS OF CONTINUING DISCLOSURE AGREEMENTS.” These covenants have been made by the District and the Developer in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the “Rule”) promulgated by the Securities and Exchange Commission. The Developer will be released from its obligation under its Continuing Disclosure Agreement to provide its Annual Report at such time as the property owned by the Developer is no longer responsible for payment of 20% or more of the Special Taxes in Improvement Area A. The District has never failed to meet its continuing disclosure requirements under such rule in any material manner. To the Developer’s actual knowledge, it has never failed to comply in all material respects with any previous undertakings imposed upon it to provide disclosure reports or notices of material events pursuant to such code.

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

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

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

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

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

Availability of Legal Documents. The summaries and references contained herein with respect to the Fiscal Agent Agreement, the Bonds, and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Fiscal Agent Agreement. Definitions of certain terms used herein are set forth in “APPENDIX A” hereto. Copies of the documents described herein are available for inspection during the period of initial offering of the Bonds at the offices of the Financing Consultant, Rod Gunn Associates, Inc., 16371 Gothard Street, Suite A, Huntington Beach, California 92647-3652, telephone (714) 841-3993, or the Underwriter, Southwest Securities, Inc., 620 Newport Center Drive, Suite 300, Newport Beach, California 92660, telephone (949) 717-2000. Copies of these documents may be obtained after delivery of the Bonds from the City at 130 S. Main Street, Lake Elsinore, California 92530, telephone (951) 674-3124.

SELECTED ESSENTIAL FACTS

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

THE BONDS

Principal Amount of Bonds:	\$24,680,000
Additional Bonds:	No Additional bonds on a parity with the Bonds are authorized (see “ DEBT STRUCTURE –Additional Obligations ” herein).
First Optional Redemption Date:	September 1, 2012 at 102% of Principal Amount (see “ THE BONDS-Redemption ” herein).
First Special Mandatory Redemption Date:	On any date from prepayment of Special Taxes at a premium, as described herein.
Primary Source of Revenues for Repayment:	Special Taxes levied within Improvement Area A as defined herein (see “ FINANCIAL INFORMATION - Rate and Method of Apportionment ” herein).
Priority:	All Bonds are secured by a first pledge of and lien on all Special Taxes levied within Improvement Area A (see “ SOURCES OF PAYMENT FOR THE BONDS ” and “ BONDOWNERS’ RISKS ” herein).

IMPROVEMENT AREA A

Estimated Acreage:	132 gross acres
Discounted “Bulk Value” of Parcels in Improvement Area A	\$91,900,000
Ratio of Market Value to Principal Amount of Bonds:	3.72to 1. The value to lien ratio of individual parcels may be less or more than the aggregate value to lien ratio for Improvement Area A (see “ Bondowners Risks -Concentration of Ownership ” herein) .
Minimum Ratio of Authorized Maximum Annual Special Taxes in any Fiscal Year to Annual Debt Service on the Bonds:	110%

PROPERTY OWNERS AND DEVELOPMENT

Property Owner: Castle & Cooke Alberhill Ranch, LLC, a California limited liability company (see “**BONDOWNERS’ RISKS– Concentration of Ownership**” and “**IMPROVEMENT AREA A - The Developer**” herein).

Description of Proposed Development: The Developer expects to construct 442 single family homes in 4 residential communities in Improvement Area A. As October 16, 2005, 70 homes were in escrow but had not closed, and 18 homes have closed escrow (see “**IMPROVEMENT AREA A-Description of Development**” herein).

Government Approvals: Final Maps have been recorded for Tract Nos. 28214-1 and 28214-2. The Final Maps for Tract Nos. 28214-3 and 28214-5 are expected to record in November 2005 and March 2006 respectively.

Start of production homes: Production homes started in February 2005 and escrows commenced closing in September 2005.

Estimated Absorption Period: 2005 to 2009

Estimated Price Range of Homes: \$360,000 to \$550,000

Estimated Home Sizes: 1,600 to 3,833 sq. ft.

THE BONDS

General Provisions

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

Each Bond will be dated the Delivery Date, and interest with respect thereto will be payable from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event interest with respect thereto will be payable from such Interest Payment Date; (b) it is authenticated on or before February 15, 2006, in which event interest with respect thereto will be payable from Delivery Date; or (c) interest with respect to any Outstanding Bond is in default, in which event interest with respect thereto will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

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

Book-Entry-Only System. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate 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, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (respectively, "NSCC", "FICC", and "EMCC", also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the

National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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 Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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).

Payments of principal of, premium, if any, and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of

customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC (nor its nominee), the Fiscal Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered. In the event that the book-entry system is discontinued as described above, the requirements of the Fiscal Agent Agreement will apply.

The foregoing information concerning DTC and DTC’s book-entry system has been provided by DTC, and neither the District nor the Fiscal Agent take any responsibility for the accuracy thereof. Neither the District nor the Underwriter can and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by 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. Neither the District nor the Underwriter is 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.

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

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, the District, at the expense of the Bondowner, will execute, and the Fiscal Agent will thereupon authenticate and deliver, a new Bond of like series, tenor and authorized denomination in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent will be canceled by it. If any Bond issued under the Fiscal Agent Agreement is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and the District and, if such evidence is satisfactory to them and indemnity satisfactory to them is given, the District, at the expense of the Bondowner, will execute, and the Fiscal Agent will thereupon authenticate and deliver, a new Bond of like series and tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued under the provisions of the Fiscal Agent Agreement described in this paragraph in lieu of any Bond alleged to be lost, destroyed or stolen will be equally and proportionately entitled to the benefits of the Fiscal Agent Agreement with all other Bonds secured by the Fiscal Agent Agreement.

Authorization

The Bonds are being issued pursuant to the Fiscal Agent Agreement. The Bonds are being sold to the Underwriter pursuant to, and subject to the terms and conditions of, the Purchase Contract by and between the Underwriter and the District (the "Purchase Contract"). The Fiscal Agent Agreement and the Purchase Contract were approved by the City, acting as the legislating body of the District, pursuant to Resolution adopted on November 8, 2005.

Estimated Sources and Uses of Funds

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

Sources of Funds

Principal Amount of the Bonds	\$24,680,000.00
Original Issue Discount	(4,937.15)
Underwriter's Discount	<u>(493,600.00)</u>
Total	\$24,181,462.85

Uses of Funds

Acquisition and Construction Fund	\$20,488,033.33
Interest Account ⁽¹⁾	933,816.74
Reserve Account ⁽²⁾	2,264,362.78
Costs of Issuance Account ⁽³⁾	315,000.00
City Administration and Reimbursements	<u>180,250.00</u>
Total	\$24,181,462.85

(1) Estimated capitalized interest through September 1, 2006.

(2) Equal to the Reserve Requirement.

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

Investment of Funds

All moneys in any of the funds or accounts established with the Fiscal Agent pursuant to the Fiscal Agent Agreement will be invested solely in Permitted Investments (see "APPENDIX A - DEFINITION OF CERTAIN TERMS" herein), as directed pursuant to the Written Request of the District filed with the Fiscal Agent at least two (2) Business Days in advance of the making of such investments. In the absence of any such Written Request, the Fiscal Agent will invest any such moneys in money market funds. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. For the purpose of determining the amount in any fund, the value of Permitted Investments credited to such fund will be calculated at the market thereof (excluding any accrued interest).

Redemption

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

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

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

<u>Redemption Periods</u>	<u>Redemption Prices</u>
March 1, 2006 through August 31, 2010	103.0%
September 1, 2010 through August 31, 2012	102.5%
September 1, 2012 and thereafter	as provided for optional redemption

Mandatory Sinking Payment Redemption. The Bonds maturing September 1, 2036 are subject to mandatory redemption, in part by lot, on September 1 in each year commencing September 1, 2013, from mandatory sinking payments made by the District pursuant to the Fiscal Agent Agreement at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date of redemption as set forth in the following schedule; provided, however, that (i) in lieu of redemption thereof, the Bonds may be purchased by the District and tendered to the Fiscal Agent, and (ii) if some but not all of the Bonds have been redeemed pursuant to optional redemption, mandatory redemption from Special Taxes or special mandatory redemption provisions described herein, the total amount of all future sinking payments will be reduced by the aggregate principal amount of the Bonds so redeemed, to be allocated among such sinking payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000 as determined by the District.

**SCHEDULE OF MANDATORY SINKING PAYMENT REDEMPTIONS
TERM BONDS MATURING SEPTEMBER 1, 2025**

<u>September 1 Year</u>	<u>Principal Amount</u>	<u>September 1 Year</u>	<u>Principal Amount</u>
2013	\$200,000	2025	\$925,000
2014	240,000	2026	1,015,000
2015	285,000	2027	1,105,000
2016	330,000	2028	1,210,000
2017	380,000	2029	1,315,000
2018	435,000	2030	1,430,000
2019	490,000	2031	1,550,000
2020	555,000	2032	1,675,000
2021	620,000	2033	1,810,000
2022	690,000	2034	1,955,000
2023	760,000	2035	2,110,000
2024	840,000	2036	2,270,000 (maturity)

Special Mandatory Redemption.

The Bonds are subject to special mandatory redemption on any date from unused proceeds of the Bonds after completion or abandonment of the improvements to be financed with such proceeds, from the deposit of fees with the District by a public agency which has accepted facilities serving Improvement Area A, and from insurance or condemnation proceeds or other mandatory redemption, without premium,

plus accrued interest to the redemption date, all as determined by the District (see “ **IMPROVEMENT AREA A – Facilities to be Financed by the District**” for a description of the scope of the Development).

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

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

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

SOURCES OF PAYMENT FOR THE BONDS

General

The principal of, premium, if any, and the interest on the Bonds, and the Administrative Expenses, are payable from the Special Taxes collected on real property within Improvement Area A and funds held by the Fiscal Agent and available for such purposes pursuant to the Fiscal Agent Agreement.

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

Special Taxes

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

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

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

Although the Special Taxes will constitute a lien on parcels of real property within Improvement Area A, they do not constitute a personal indebtedness of the owner(s) of real property. There is no assurance that the property owner(s), or any successors and/or assigns thereto or subsequent purchaser(s) of land within Improvement Area A, will be able to pay the annual Special Taxes or if able to pay the Special Taxes that they will do so (see “**BONDOWNERS’ RISKS**” and “**IMPROVEMENT AREA A**” herein).

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

Reserve Account

In order to secure further the timely payment of principal of and interest on the Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Account for the Bonds an amount equal to the Reserve Requirement. Thereafter, the District is required to deposit from the payment of the Bonds and maintain an amount of money equal to the Reserve Requirement in the Reserve Account at all times while the Bonds are Outstanding. Amounts in the Reserve Account will be used to pay debt service on the Bonds to the extent other moneys are not available therefor. Amounts in the Reserve Account in excess of the Reserve Requirement will be deposited into the Acquisition and Construction Fund until all Facilities have been financed or it is determined sufficient funds are on deposit in the Acquisition and Construction Fund to fund all Facilities expected to be funded and thereafter such excess funds shall be deposited into the Interest Account. Amounts in the Reserve Account may be used to pay the final year’s debt service on the Bonds (see “**SUMMARY OF THE FISCAL AGENT AGREEMENT**” herein). Upon

mandatory redemption, amounts on deposit in the Reserve Account shall be reduced (to an amount not less than the Reserve Requirement) and excess money shall be transferred to the Redemption Account and used for the redemption of Bonds.

Capitalized Interest

There will be an initial deposit to the Interest Account out of Bond proceeds which has been calculated to be sufficient to make interest payments on the Bonds due to and including September 1, 2006.

Covenant for Superior Court Foreclosure

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

The District has covenanted in the Fiscal Agent Agreement for the benefit of the owners of the Bonds that the District will determine or cause to be determined, no later than March 1 and August 1 of each year, whether or not any owners of the property within Improvement Area A of the District are delinquent in the payment of Special Taxes and, if such delinquencies exist, the District will order and cause to be commenced not later than April 15 (with respect to the March 1 determination date) or September 1 (with respect to the August 1 determination date), and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due, provided, however, that the District shall not be required to order the commencement of foreclosure proceedings if (i) the total Special Tax delinquency in Improvement Area A of the District for such Fiscal Year is less than five percent (5%) of the total Special Tax levied in such Fiscal Year, and (ii) the District shall have established from any source of lawfully available funds (other than Special Taxes) an escrow fund to provide for the payment of principal of and interest on the Bonds. Notwithstanding the foregoing, if the District determines that any single property owner is delinquent in excess of ten thousand dollars (\$10,000) in the payment of the Special Tax, then it will diligently institute, prosecute and pursue foreclosure proceedings against such property owner. Notwithstanding any provision of the Act or other law of the State to the contrary, in connection with any foreclosure related to delinquent Special Taxes:

(a) The District or the Fiscal Agent is authorized to credit bid at any foreclosure sale, without any requirement that funds be set aside in the amount so credit bid, in the amount specified in Section 53356.5 of the Act, or such less amount as determined under clause (b) below or otherwise under Section 53356.6 of the Act.

(b) The District may permit, in its sole and absolute discretion, property with delinquent Special Tax payments to be sold for less than the amount specified in Section 53356.5 of the Act, if it determines that such sale is in the interest of the Bond Owners. The Bond Owners, by their acceptance of the Bonds, consent to such sale for such lesser amounts (as such consent is described in Section 53356.6 of the Act), and release the District and the City, and their respective officers and agents from any liability in connection therewith. If such sale for lesser amounts would result in less than full payment of principal of and interest on the Bonds, the CFD will use best efforts to seek approval of the Bond Owners.

(c) The District is authorized to use amounts in the Special Tax Fund to pay costs of foreclosure of delinquent Special Taxes.

(d) The District may forgive all or any portion of the Special Taxes levied or to be levied on any parcel in the District so long as the District determines that such forgiveness is not expected to adversely affect its obligation to pay principal of and interest on the Bonds as such payments become due and payable.

No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. Although the Act authorizes the District to cause such an action to be commenced and

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

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

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

Special Taxes Are Not Within Teeter Plan

The County has adopted a Teeter Plan as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. However, by policy, the County does not include assessments, reassessments and special taxes in its Teeter program. The Special Taxes are not included in the County’s Teeter Program.

BONDOWNERS' RISKS

General

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

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

Limited Obligation

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

Insufficiency of Special Taxes

As discussed herein, the amount of Special Taxes that are collected with respect to Improvement Area A could be insufficient to pay principal of, interest and premium, if any, on the Bonds due to nonpayment of the Special Taxes levied and insufficient or no proceeds received from a foreclosure sale of land within Improvement Area A.

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

Section 53317.3 of the Act provides that, if any real property within Improvement Area A not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and be enforceable against the public entity that acquires the property. Additionally, Section 53317.5 provides that, if any property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. However, the constitutionality and operation of these provisions of the Act have not been tested. If for any reason, property subject to the Special Tax becomes exempt from taxation by reason of ownership by a non-taxable entity, such as the federal government or another public agency, and the District is unable to collect the Special Taxes or obtain compensation through the condemnation procedure, the Special Tax will be reallocated to the remaining taxable properties within Improvement Area A up to the Maximum Annual Special Tax. This reallocation would result in the owners of taxable properties within Improvement Area A subject to the Special Tax paying a greater amount of the Special

Tax and could have an adverse impact upon the timely payment of the Special Tax by such owners and therefore the ability to pay debt service on the Bonds.

Concentration of Ownership

Property within Improvement Area A is owned by the Developer and approximately 18 individual homeowners (see “**IMPROVEMENT AREA A**” herein). The only assets of the Developer and the individual homeowners which constitute security for the Bonds are their taxable property within Improvement Area A. There are expected to be subsequent transfers of ownership of the property within Improvement Area A to individual owners of single family homes during the development of the land within Improvement Area A. The fact that the Developer owns most of the land within Improvement Area A presents substantial risk to the Bondowners.

No Personal Liability for Special Taxes

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

Foreclosure and Sale Proceedings

Payment of the Special Taxes is secured by the parcels assessed. In the event an annual installment of the Special Taxes included in the County tax bill of an assessed parcel is not paid when due, the District can institute foreclosure proceedings in court to cause the parcel to be sold in order to recover the delinquent amount from the sale of proceeds (see “**SOURCES OF REPAYMENT FOR THE BONDS**” herein). Foreclosure and sale may not always result in the recovery of any or the full amount of delinquent Special Taxes.

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

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

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

Land Values

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

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

1. Market Absorption Study, Community Facilities District No. 2005-2 (Alberhill Ranch) City of Lake Elsinore, Riverside County, California prepared by Empire Economics, Inc., Capistrano Beach, California, August 19, 2005, 2005.
2. Appraisal Report, City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) Improvement Area A prepared by Harris Realty Appraisal, Newport Beach, California (the "Appraisal"), dated October 18, 2005

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

The purpose of the Appraisal was to estimate the aggregate retail value of the parcels in its "as-proposed" condition (which assumes sale of the Bonds and construction of publicly-financed improvements), as well as the discounted "bulk sale" value of all parcels within Improvement Area A.

On the basis of the assumptions and limitations described in the Appraisal and in the Market Absorption Study, the Appraiser has estimated the aggregate discounted "bulk sale" value of all the parcels in Improvement Area A as of October 15, 2005 to be \$91,900,000, which is approximately 3.72 times the principal amount of the Bonds and all overlapping debt (as described under the heading "**IMPROVEMENT AREA A – Direct and Overlapping Debt**" herein).

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

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

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

Value to Lien Ratio

Valuation to lien ratios are derived by dividing the appraised value of the property in the District by the principal amount of the Bonds, all parity bonds and all overlapping debt (as described under the heading “**THE DISTRICT – Direct and Overlapping Debt**” herein. For example, a 3:1 ratio means that the value is three times the total Bond amount.

According to the Appraisal the value of the land within the District is \$91,900,000. Therefore, the value to lien ratio is 3.72 to 1. The value-to-lien ratio of individual parcels may be less or more than the aggregate value-to-lien ratio for an District. In particular the value of developed property is substantially more than undeveloped property (see “**Concentration of Property Ownership**” above).

Investors must recognize the uncertainties with respect to the fair market values of the parcels, since the Bonds are secured by the Special Taxes levied on the parcels. See “BONDOWNERS’ RISKS” herein.

Potential purchasers of the Bonds should be aware that if a parcel bears a Special Tax liability in excess of its market value, then there may be little incentive for the owner of the parcel to pay the Special Taxes on such parcel and little likelihood that such property would be purchased in a foreclosure sale. See “BONDOWNERS’ RISKS” describing risks relating to market values of parcels in the District.

The Progress of Land Development; Risks of Real Estate Secured Investments

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

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

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

The Special Taxes are to be collected from the owners of property located within Improvement Area A, and levy of the Special Taxes is not dependent on the completion of the development of the properties within Improvement Area A (see “**FINANCIAL INFORMATION - Rate and Method of Apportionment**” herein). Nevertheless, the extent of completion of the development of the property within Improvement Area A may affect the ability and willingness of property owners to pay the Special Taxes and may affect the market value of any property foreclosed upon for nonpayment of installments of the Special Taxes.

Geologic, Topographic and Climatic Conditions

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

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

Endangered and Threatened Species

During the past several years, there has been an increase in activity at the State and federal level related to the listing and possible listing of certain plant and animal species found in the State as endangered species and in programs designed to set aside additional geographical areas for habitat conservation. Although none of the areas within Improvement Area A has been included in the Western Riverside County Multi Species Habitat Conservation Plan (MSHCP) study area, there is no assurance that such areas will not be included in future study areas. An increase in the number of endangered species and/or the designation of additional habitat areas to be subjected to conservation planning similar to areas subject to the Western Riverside County MSHCP is expected to curtail development in a number of areas in the State. The area proposed to be developed within Improvement Area A is not known to contain any plant or animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has listed as endangered or to the knowledge of the District proposed for addition to the endangered species list. Further approval may be required for any planned clearing of land or construction across or impacting waterways, creeks or other drainages. If required, there is no assurance that such approvals will be obtained and that development will be permitted to proceed as projected.

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

Earthquakes

Southern California is among the most seismically active regions in the United States. The occurrence of seismic activity in Improvement Area A could result in substantial damage to properties in Improvement Area A which, in turn, could substantially reduce the value of such properties and could affect the ability

or willingness of the property owners to pay their Special Taxes. Any major damage to structures as a result of seismic activity could result in a greater reliance on Undeveloped Property in the payment of Special Taxes. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in Improvement Area A. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in Improvement Area A could be diminished in the aftermath of such an earthquake, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of Special Taxes.

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

Legal Requirements

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

Other Possible Claims Upon the Values of an Assessed Parcel

In addition to existing property taxes, other governmental obligations, such as general obligation bonds, assessments or special taxes may be authorized in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels within Improvement Area A and may be secured by a lien on a parity with the lien of the Special Taxes securing the Bonds.

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

While governmental taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value of a parcel is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels in Improvement Area A be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming the owner, will become obligated to remedy the condition just as is the seller.

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

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

classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly reduce the value of a parcel.

Bankruptcy Proceedings

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

Bankruptcy and Foreclosure Delays

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

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

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

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

result, the secured creditor was to foreclose on the property and retain all of the proceeds of the sale except the amount of the pre-petition taxes.

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

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

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

Additional Taxation

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

Parity Taxes and Special Assessments

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

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

Disclosure to Future Land Buyers

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

Billing of Special Taxes

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

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

Collection of Special Tax

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

Maximum Rates

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

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the Rate and Method of Apportionment and provisions of the Act. The Act provides that properties or entities of the State, federal or local government at the time of formation of the District or Improvement Area A are exempt from the Special Tax; provided, however, that property within Improvement Area A acquired by a public entity through negotiated transactions, or by gift or devise, which is not otherwise exempt from the Special Tax will continue to be subject to the Special Tax. In addition, the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested. If for any reason property subject to the Special Tax becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, or another public agency, subject to the limitation of the maximum authorized rate of levy, the Special Tax may be reallocated to the remaining taxable properties within Improvement Area A. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the timely payment of the Special Tax; however, the amount of Special Tax to be levied and collected from the property owner is subject to the Maximum Special Tax as set forth in the Rate and Method of Apportionment and to the limitation in the Act that under no circumstances may the Special Taxes levied on any residential parcel be increased by more than ten percent as a consequence of delinquency by the owner of any parcel. If a substantial portion of land within Improvement Area A became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Bonds when due and a default will occur with respect to the payment of such principal and interest.

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

Insufficient Special Taxes

Under the Rate and Method of Apportionment, the annual amount of Special Tax to be levied on each taxable parcel in Improvement Area A will be based primarily on whether such parcel is developed or not and, for Developed Property, on the type of structure and square footage of buildings constructed. See **“APPENDIX D”**. Accordingly, to the extent Undeveloped Property does not become Developed Property, the collection of the Special Taxes will be dependent on the willingness and ability of the owners of

Undeveloped Property to pay such Special Taxes when due. Such event may result in an unwillingness of such owners of the Undeveloped Property to pay additional Special Taxes.

No Acceleration Provision

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

Property Controlled by Federal Deposit Insurance Corporation and other Federal Agencies

The District's ability to collect interest and penalties specified by State law and to foreclose the lien of a delinquent Special Tax payment may be limited in certain respects with regard to properties in which the Internal Revenue Service, the Drug Enforcement Agency, the Federal Deposit Insurance Corporation (the "FDIC") or other similar federal agencies has or obtains an interest. Specifically, with respect to the FDIC, on June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Real Property Taxes. The 1991 Policy Statement was revised and superseded by a new Policy Statement effective January 9, 1997 (the "Policy Statement"). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its proper tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that FDIC generally will not pay non ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and a special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. With respect to property in California owned by the FDIC on January 9, 1997, and that was owned by the Resolution Trust Corporation (the "RTC") on December 31, 1995, or that became property of the FDIC through foreclosure of a security interest held by the RTC on that date, the FDIC will continue the RTC's prior practice of paying special taxes imposed pursuant to the Mello-Roos Act if the taxes were imposed prior to the RTC's acquisition of an interest in the property. All other special taxes, including the Special Taxes which secure the Bonds may be challenged by the FDIC.

The FDIC has filed claims against the County of Orange with respect to Mello-Roos community facilities district special taxes in the United States Bankruptcy Court and in Federal District Court in which the FDIC has taken a position similar to the position outlined in the Policy Statement. While all of such claims have not been resolved, the Bankruptcy Court has issued a tentative ruling in favor of the FDIC on certain of such claims. The County of Orange has appealed such ruling and the FDIC has cross-appealed. The decision of the United States Court of Appeals for the 9th Circuit (the "9th Circuit Court") was filed on August 28, 2001. In its decision, the Court stated that the FDIC, as a federal agency, is exempt from the

Mello-Roos special tax. The FDIC has also filed suit (the “post-bankruptcy” suit) regarding special taxes imposed after 1994. However, such action has been stayed pending resolution of the 9th Circuit Court appeal by the FDIC regarding the bankruptcy case. The post-bankruptcy suit has recently been consolidated with the cases filed by the FDIC against other California counties and is pending in the United States District Court in Los Angeles. The FDIC has filed a motion to lift the bankruptcy stay.

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

Limitations on Remedies

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

Enforceability of the rights and remedies of the owners of the Bonds, and the obligations incurred by the District, may become subject to the federal bankruptcy code and bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor’s rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against joint powers authorities in the State. See **“BONDOWNERS’ RISKS -Bankruptcy and Foreclosure Delays”, “Billing of Special Taxes” and “Property Controlled by Federal Deposit Insurance Corporation and Other Federal Agencies”** herein.

Right to Vote on Taxes Act

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

Among other things, Section 3 of Article XIII C states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” Proposition 218 provides for a procedure, which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, Proposition 218 prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate

the levy of any special tax pledged to repay any debt incurred pursuant to Proposition 218 unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. Although the matter is not free from doubt, it is likely that the exercise by the voters in Improvement Area A of the initiative power referred to in Article XIII C to reduce or terminate the Special Tax is subject to the same restrictions as are applicable to Improvement Area A, pursuant to the Act. Accordingly, although the matter is not free from doubt, it is likely that the Proposition 218 has not conferred on the voters in Improvement Area A the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Bonds.

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

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts.

Ballot Initiatives and Legislative Measures

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

Early Bond Redemption

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

Loss of Tax Exemption

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

IRS Audits

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Debt Service Coverage

The following table presents the projected annual coverage on the Bonds based upon the realization of certain assumptions and the aggregate Assigned Special Tax Rates. No allowance was made for delinquencies. The projection assumes build out at the following unit mix.

**TABLE NO. 1
COMMUNITY FACILITIES DISTRICT NO. 2005-2
(ALBERHILL RANCH)
IMPROVEMENT AREA A
RATES AND LAND USE ASSUMPTIONS
FISCAL YEAR 2006/07**

House Square Footage	No. of Units	Assigned Special Tax	Total Assigned Special Tax
Less than 1,850	22	\$2,753	\$60,566
1,851 - 2,050	55	\$2,896	\$159,280
2,051 - 2,550	82	\$3,220	\$264,040
2,551 - 3,150	215	\$3,373	\$725,195
3,151 - 3650	34	\$4,280	\$145,520
Greater than 3,650	<u>34</u>	\$4,566	<u>\$155,244</u>
	442		\$1,509,845

Until such time as the receipt of Special Taxes from the levy of the assigned tax rate is sufficient to pay debt service on Bonds, the Rate and Method Apportionment provides for the levy of an undeveloped property tax (see “APPENDIX D - Rate and Method of Apportionment” and “Concentration of Property Ownership” above).

The receipt of Special Taxes is subject to several variables described herein. The District provides no assurance that the Special Taxes and the coverage ratios shown will be achieved.

TABLE NO. 2
COMMUNITY FACILITIES DISTRICT NO. 2005-2
(ALBERHILL RANCH) SPECIAL TAX BONDS
(IMPROVEMENT AREA A) 2005 SERIES A
DEBT SERVICE COVERAGE

Fiscal Year	Special Taxes Assumed Assigned Rate	Administrative Expense	Net Special Taxes	Debt Service	Coverage Ratio
2007	\$1,509,845	(\$25,000)	\$1,484,845	\$1,344,339	1.10
2008	1,540,042	(25,500)	1,514,542	1,374,156	1.10
2009	1,570,843	(26,010)	1,544,833	1,402,791	1.10
2010	1,602,260	(26,530)	1,575,729	1,430,191	1.10
2011	1,634,305	(27,061)	1,607,244	1,456,296	1.10
2012	1,666,991	(27,602)	1,639,389	1,485,828	1.10
2013	1,700,331	(28,154)	1,672,177	1,518,628	1.10
2014	1,734,337	(28,717)	1,705,620	1,547,728	1.10
2015	1,769,024	(29,291)	1,739,733	1,579,648	1.10
2016	1,804,405	(29,877)	1,774,527	1,609,115	1.10
2017	1,840,493	(30,475)	1,810,018	1,641,130	1.10
2018	1,877,302	(31,084)	1,846,218	1,675,420	1.10
2019	1,914,849	(31,706)	1,883,142	1,706,713	1.10
2020	1,953,146	(32,340)	1,920,805	1,745,008	1.10
2021	1,992,208	(32,987)	1,959,221	1,779,760	1.10
2022	2,032,053	(33,647)	1,998,406	1,815,970	1.10
2023	2,072,694	(34,320)	2,038,374	1,848,365	1.10
2024	2,114,148	(35,006)	2,079,141	1,886,945	1.10
2025	2,156,430	(35,706)	2,120,724	1,926,165	1.10
2026	2,199,559	(36,420)	2,163,139	1,965,753	1.10
2027	2,243,550	(37,149)	2,206,402	2,000,435	1.10
2028	2,288,421	(37,892)	2,250,530	2,045,213	1.10
2029	2,334,190	(38,649)	2,295,540	2,084,268	1.10
2030	2,380,873	(39,422)	2,341,451	2,127,600	1.10
2031	2,428,491	(40,211)	2,388,280	2,169,665	1.10
2032	2,477,061	(41,015)	2,436,046	2,210,190	1.10
2033	2,526,602	(41,835)	2,484,767	2,253,903	1.10
2034	2,577,134	(42,672)	2,534,462	2,300,258	1.10
2035	2,628,677	(43,526)	2,585,151	2,348,710	1.10
2036	2,681,250	(44,396)	2,636,854	2,393,715	1.10

THE CITY

The City of Lake Elsinore (the “City”) was founded in 1883 and incorporated on April 23, 1888, and in 1893 the Elsinore Valley, previously in San Diego County, became a part of the new County of Riverside. The City is located 73 miles east of Los Angeles, 472 miles south of San Francisco, and 74 miles north of San Diego. It covers an area of approximately 39.1 square miles with 10.5 miles of lake shore and elevation of 1,258 feet above sea level.

The City is incorporated as a general law city. The City has a Council/Manager form of municipal government. The City Council appoints the City Manager who is responsible for the day-to-day administration of City business and the coordination of all departments of the City. The City Council is composed of five members elected bi-annually at large to four-year alternating terms. The mayor is selected by the City Council from among its members. Lake Elsinore employs a staff of 37 full-time employees and 18 part-time employees under the direction of the City Manager.

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

<u>Council Members</u>	<u>Term Expires</u>
Robert Magee, Mayor	November, 2008
Robert Schiffner, Mayor Pro Tem	November, 2008
Genie Kelley, Member	November, 2008
Thomas Buckley, Member	November, 2006
Daryl Hickman, Member	November, 2006

Current City Administrative Staff include:

Robert Brady, *City Manager*

Matt N. Pressey, *Director of Administrative Services*

Frederick Ray, *City Clerk*

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

IMPROVEMENT AREA A

The information set forth herein regarding ownership of real property in Improvement Area A, the Developer and any proposed development of property in Improvement Area A was provided by the Developer and has not been independently verified. The City makes no representation as to the accuracy or completeness of any such information. This information has been included because it is considered relevant to an informed evaluation of Improvement Area A. As development of property in Improvement Area A has not been completed, no assurance can be given that it will occur, that it will occur as described herein, or that it will occur in a timely manner. The information should not be construed to suggest that the Bonds or the Special Taxes that will be used to pay the Bonds are personal obligations of the Developer .

The owner of property within Improvement Area A will not be personally liable for payments of the Special Taxes to be applied to pay the principal of and interest on the Bonds. Accordingly, the Developer's financial statements have not been included in this Official Statement. Furthermore, no representation is made that the Developer will have funds available to complete the development within Improvement Area A.

Boundaries of the District

The boundaries of the District coincide with the development generally known as Alberhill Ranch. The District is located in the northern portion of the City, 1 1/2 miles east of the Interstate 15 freeway and south of Lake Street

The boundaries of the District are described on the reduced scale map entitled "Boundary Map of Community Facilities District No. 2005-2 (Alberhill Ranch)." A full scale map is on file with the Clerk of the City of Lake Elsinore and was recorded with the County Recorder, County of Riverside.

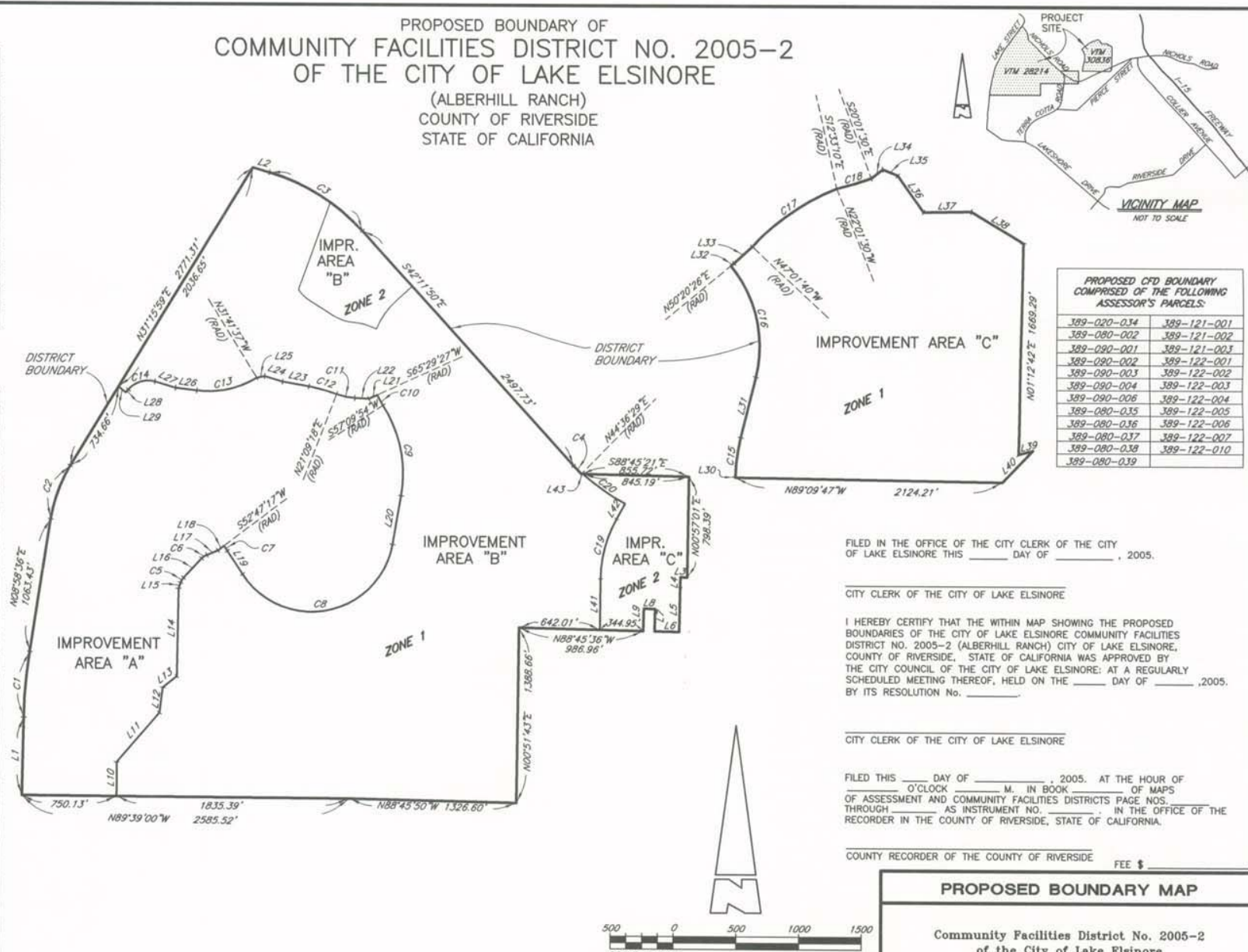
Facilities and Fees to be Financed by the District

The District is authorized to issue the Bonds to fund the planning, design, permitting and construction of public infrastructure consisting primarily of street, sewer, water, storm drain, park facilities as well as the funding of certain City and Elsinore Valley Municipal Water District fees. The following table summarizes authorized District facilities and fees which are to be designed, acquired or constructed, or paid from proceeds of the Bonds:

PROPOSED BOUNDARY OF
COMMUNITY FACILITIES DISTRICT NO. 2005-2
 OF THE CITY OF LAKE ELSINORE
 (ALBERHILL RANCH)
 COUNTY OF RIVERSIDE
 STATE OF CALIFORNIA

CURVE TABLE			
CURVE	LENGTH	RADIUS	DELTA
C1	521.67	3960.00	7°32'52"
C2	451.27	1160.00	22°17'23"
C3	877.97	1600.00	31°26'24"
C4	89.22	1600.00	3°11'41"
C5	45.78	110.00	2°3'50'47"
C6	50.72	117.50	24°44'01"
C7	48.04	650.00	4°14'04"
C8	1555.05	650.00	137°04'24"
C9	746.72	1000.00	42°47'03"
C10	94.45	650.00	8°19'33"
C11	146.79	450.00	18°41'23"
C12	228.11	1160.00	11°16'02"
C13	493.20	730.00	38°42'35"
C14	232.12	200.00	66°29'52"
C15	312.97	1400.00	12°48'30"
C16	937.41	1000.00	53°42'34"
C17	821.71	1883.00	25°00'10"
C18	286.39	2196.00	7°28'20"
C19	495.22	1000.00	28°22'26"
C20	411.35	1750.00	13°28'04"

LINE TABLE		
LINE	LENGTH	BEARING
L1	619.56	N01°25'44"E
L2	136.21	S73°38'14"E
L3	54.74	N88°45'34"W
L4	80.00	N01°14'26"E
L5	352.98	N01°14'10"E
L6	194.92	S88°45'36"E
L7	176.49	N01°14'04"E
L8	89.96	S88°45'35"E
L9	176.49	N01°13'58"E
L10	271.37	S00°20'44"W
L11	516.68	S40°38'30"W
L12	200.19	S07°50'14"W
L13	142.87	N51°13'16"E
L14	697.62	N01°07'41"E
L15	45.80	N19°07'35"E
L16	210.07	N42°58'22"E
L17	93.81	N67°42'23"E
L18	59.36	S52°47'17"W
L19	218.93	S32°58'39"E
L20	390.59	N09°56'57"E
L21	73.08	N65°28'27"E
L22	111.95	N87°32'05"W
L23	210.85	S80°06'44"E
L24	148.52	N72°58'30"W
L25	63.46	S78°06'23"W
L26	169.96	S82°59'01"E
L27	170.00	N73°42'46"W
L28	30.64	S39°47'22"W
L29	73.85	N50°12'38"W
L30	6.39	N01°14'30"E
L31	494.07	N14°03'00"E
L32	33.00	N50°20'26"E
L33	196.14	N47°46'45"E
L34	116.00	N51°55'30"E
L35	129.00	S67°36'40"E
L36	352.32	S35°26'10"E
L37	381.55	N88°19'50"E
L38	484.08	S59°03'50"E
L39	116.39	S75°59'06"W
L40	350.96	N43°57'38"E
L41	405.17	N00°43'18"E
L42	138.54	N29°05'44"E
L43	10.53	S88°45'21"E



PROPOSED CFD BOUNDARY COMPRISED OF THE FOLLOWING ASSESSOR'S PARCELS:

389-020-034	389-121-001
389-080-002	389-121-002
389-080-001	389-121-003
389-090-002	389-122-001
389-090-003	389-122-002
389-090-004	389-122-003
389-090-006	389-122-004
389-080-035	389-122-005
389-080-036	389-122-006
389-080-037	389-122-007
389-080-038	389-122-010
389-080-039	

FILED IN THE OFFICE OF THE CITY CLERK OF THE CITY OF LAKE ELSINORE THIS ____ DAY OF _____, 2005.

CITY CLERK OF THE CITY OF LAKE ELSINORE

I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING THE PROPOSED BOUNDARIES OF THE CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2005-2 (ALBERHILL RANCH) CITY OF LAKE ELSINORE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA WAS APPROVED BY THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE AT A REGULARLY SCHEDULED MEETING THEREOF, HELD ON THE ____ DAY OF _____, 2005, BY ITS RESOLUTION No. _____

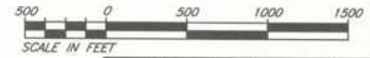
CITY CLERK OF THE CITY OF LAKE ELSINORE

FILED THIS ____ DAY OF _____, 2005, AT THE HOUR OF ____ O'CLOCK ____ M. IN BOOK ____ OF MAPS OF ASSESSMENT AND COMMUNITY FACILITIES DISTRICTS PAGE NOS. THROUGH ____ AS INSTRUMENT NO. ____ IN THE OFFICE OF THE RECORDER IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA.

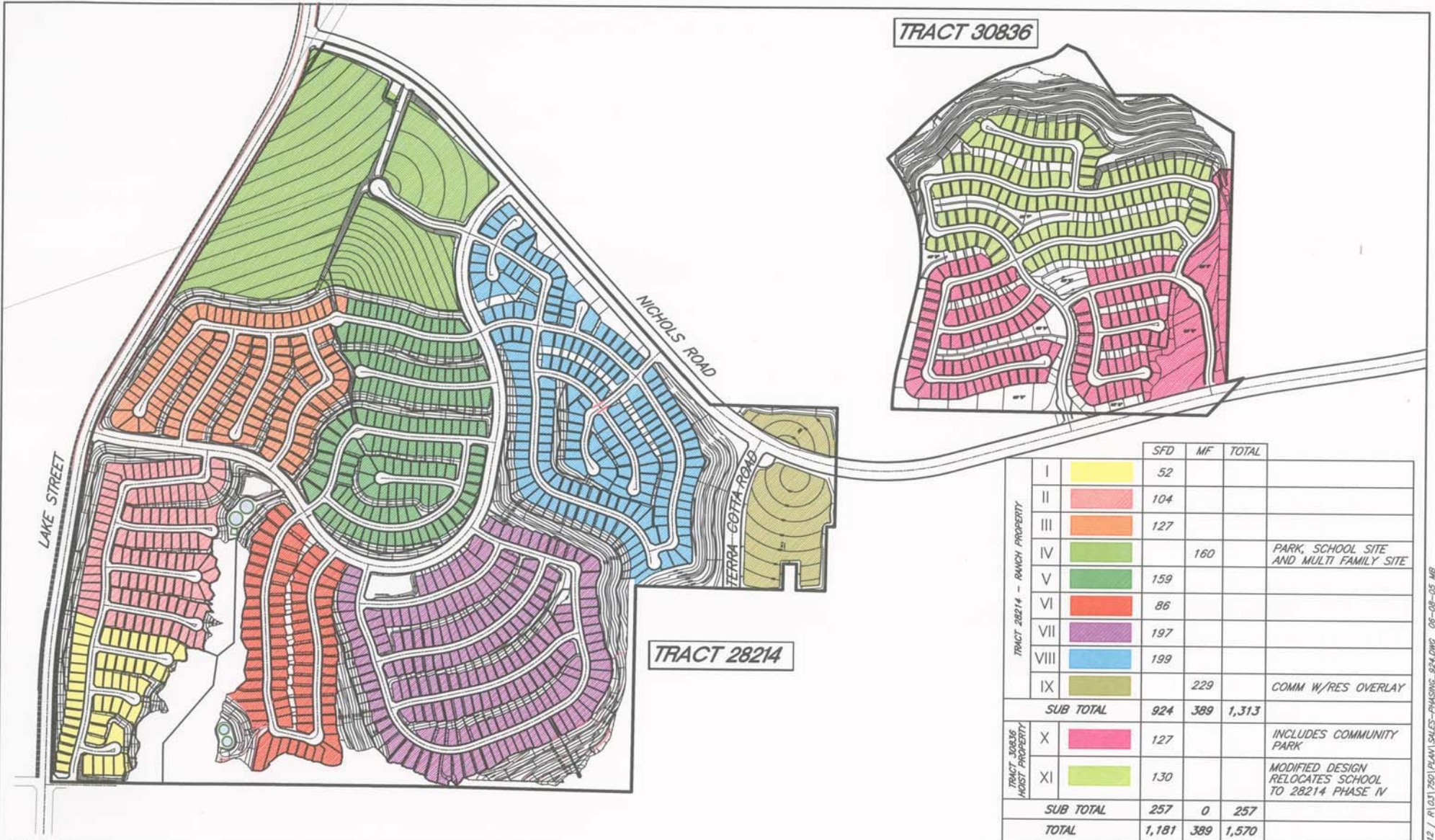
COUNTY RECORDER OF THE COUNTY OF RIVERSIDE FEE \$ _____

PROPOSED BOUNDARY MAP

Community Facilities District No. 2005-2
 of the City of Lake Elsinore
 (ALBERHILL RANCH)
 COUNTY OF RIVERSIDE, CALIFORNIA
 Sheet 1 of 1



REFERENCE THE RIVERSIDE COUNTY ASSESSOR'S MAPS FOR A DETAILED DESCRIPTION OF PARCEL LINES AND DIMENSIONS



		SFD	MF	TOTAL	
TRACT 28214 - RANCH PROPERTY	I	52			
	II	104			
	III	127			
	IV		160		PARK, SCHOOL SITE AND MULTI FAMILY SITE
	V	159			
	VI	86			
	VII	197			
	VIII	199			
	IX		229		COMM W/RES OVERLAY
SUB TOTAL		924	389	1,313	
TRACT 30836 - MOST PROPERTY	X	127			INCLUDES COMMUNITY PARK
	XI	130			MODIFIED DESIGN RELOCATES SCHOOL TO 28214 PHASE IV
SUB TOTAL		257	0	257	
TOTAL		1,181	389	1,570	

REVISED: JUNE 8, 2005
KWC ENGINEERS

KWC ENGINEERS
CIVIL, ENGINEERING, PLANNING AND CONSTRUCTION MANAGEMENT
 1880 COOPERS AVENUE, SUITE 100 • CORONA, CA 92681-3270 • 951-754-1130

ALBERHILL RANCH LAKE ELSINORE PHASING SUMMARY

Designed by MB	Drawn by MB	Checked by KEN
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J:\N. 03.250.1.12 / R10317001\PLAN\SALES-PHASING_924.DWG 06-08-05 MB

City of Lake Elsinore
Community Facilities District No 2005-2
Improvement Area A
Alberhill Ranch

Lake Elsinore

Interstate 15 Fwy

Lake Street

Boundaries Approximate

Flight 10-30-05

**TABLE NO. 3
CITY OF LAKE ELSINORE
COMMUNITY FACILITIES DISTRICT 2005-2 (ALBERHILL RANCH)
ELIGIBLE FACILITIES COSTS
(Estimated Costs)**

Facilities				Cost Estimate
Improvements				
	Water Tanks, Booster Stations, Pipeline Facilities, and Sewer Lift Station Improvements			\$ 14,242,496
	Street Improvements – Lake St., Nichols Rd., Alberhill Ranch Rd., Mountain Ave., and Terra Cotta Ave. (including but not limited to, appurtenant sewer, water, drainage, streetscape, and traffic signals)			\$ 48,261,576
	Community Park Land Acquisition			\$ 10,000,000
	Public Park / Recreational Improvements			\$ 1,900,000
City of Lake Elsinore Impact Fees				
	Library Fee	\$	235,500	
	Traffic Impact Fee	\$	1,872,006	
	Fire Mitigation Fee	\$	235,500	
	DAG Fee	\$	1,570,000	
	Drainage Fee	\$	2,451,297	
	Total Lake Elsinore Impact Fees			\$ 6,364,303
EVMWD Fees				
	Water Fees	\$	8,523,530	
	Sewer Fees	\$	7,465,350	
	Total EVMWD Fees			\$ 15,988,880
Total Estimated Cost				\$ 96,757,255

The City and the Developer have entered into Joint Community Facilities Agreements with the Elsinore Valley Municipal Water District and the California Department of Transportation with respect to the portion of the facilities to be owned by the respective agencies.

To the extent the proceeds of the Bonds are insufficient to fund all of the eligible costs for all of the authorized facilities or fees, such costs will be the responsibility of the Developer.

The Developer

The Developer of Alberhill Ranch is Castle & Cooke Alberhill Ranch, LLC, a California limited liability company. The Developer was formed in 2004 to own and develop Alberhill Ranch. The Developer is owned, directly and/or indirectly, by Murdock Realty, LLC, a Delaware limited liability company (“Murdock Realty”).

Murdock Realty, through its various subsidiaries, owns and/or develops, in addition to Alberhill Ranch, various projects in the United States. These projects include the Sherwood golf course community in Ventura County, California, an approximately 1,785-acre private golf course community approximately 40 miles northwest of Los Angeles. As of September 30, 2005, approximately 440 units had been sold within the community, with 229 units remaining to be developed and sold.

Murdock Realty, through its subsidiaries, also owns the Kannapolis County Club in Kannapolis, North Carolina, an 18-hole golf course and clubhouse facility located on approximately 184 acres, and approximately 425 acres of adjoining land on which, together with portions of the Kannapolis Country Club, is contemplated to be developed as a master planned community.

Other commercial projects owned by Murdock Realty through its subsidiaries include approximately 80,000 square feet of airplane hangar space and approximately 26,500 square feet of office space at Van Nuys Airport in Los Angeles, California, approximately 452,000 square feet of commercial space in Kannapolis, North Carolina, and One Market Center in Baltimore, Maryland, an approximately 202,000 square foot office property.

The Developer and Murdock Realty are affiliates of Castle & Cooke, Inc. and various other companies. Castle & Cooke, Inc. and these various affiliated companies have operations in over 24 states and their diversified businesses include the development and ownership of real estate, leasing of transportation equipment and the manufacture of brick and building materials. Residential real estate projects currently being developed by these companies include Mililani Town on the island of Oahu, Hawaii, Seven Oaks in Bakersfield, California, Keene’s Pointe in Orlando, Florida, and Saddle Creek in Calaveras County, California.

Affiliates of Developer and Murdock Realty own and/or control in the vicinity of Alberhill Ranch approximately 1,374 acres on which various building materials mining and manufacturing operations are conducted, the Lake Elsinore Outlet Center and an additional approximately 215 acres of undeveloped land. In addition, the Developer is under contract to purchase an additional approximately 29 acres in the vicinity of Alberhill Ranch.

Further information regarding the diversified businesses of Murdock Realty and Castle & Cooke, Inc. and their affiliated companies is available at www.castlecooke.net. *This Internet address is included for reference only and the information on the Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the Internet site.*

Description of Development

The following section describes the proposed development in terms of the type of project and the status of land use entitlements. There can be no assurance that the development plan described herein will be completed or that it will not be modified in the future. In addition, there can be no assurance that sufficient funds will or can be made available to complete the development plan or pay special taxes as described.

The development within Improvement Area A is planned for four development phases (Phase 1, 2, 3 & 5) and is expected to have 442 single family residences in four different communities as follows:

1. Saltillo is expected to have 133 single family homes (30.09% of the total Improvement Area A units) that are currently priced from \$393,000 to \$495,000 (an average of \$449,750). The homes are expected to range in size between 2,010 to 3,120 square feet (an average of 2,615 square feet).
2. Capella is expected to have 137 single family homes (31.00% of the total Improvement Area A units) that are estimated to be priced from \$465,000 to \$555,000 (an average of \$515,500). The homes are expected to range in size between 2,531 to 3,838 square feet (an average of 3,237 square feet).
3. Ashbury is expected to have 106 single family homes (23.98% of the total Improvement Area A units) that are currently priced from \$465,000 to \$520,000 (an average of \$491,667). The homes are expected to range in size between 2,775 to 3,582 square feet (an average of 3,160 square feet).
4. Somerset is expected to have 66 single family homes (14.93% of the total Improvement Area A units) that are currently priced from \$375,000 to \$415,000 (an average of \$395,000). The homes are expected to range in size between 1,600 to 2,200 square feet (an average of 1,900 square feet).

**TABLE NO. 4
CITY OF LAKE ELSINORE
COMMUNITY FACILITIES DISTRICT 2005-2 (ALBERHILL RANCH)
IMPROVEMENT AREA A
DESCRIPTION OF DEVELOPMENT**

	Saltillo	Capella	Ashbury	Somerset
Applicable Development Phase	1, 2, 3	2, 3, 5	3 & 5	5
Number of Homes	133	137	106	66
Min. Lot Sizes	5,200 Sq. Ft.	7,000 Sq. Ft.	7,000 Sq. Ft.	4,000 Sq. Ft.
Number of Models	4	4	3	4
Size Range	2,010 to 3,120 Sq. Ft.	2,531 to 3,838 Sq. Ft.	2,775 to 3,582 Sq. Ft.	1,600 to 2,200 Sq. Ft.
Base Price Range	\$393,000 to \$495,000	\$465,000 to \$555,000	\$465,000 to \$520,000	\$375,000 to \$415,000
Homes Sold	64	24	0	0
Escrows Closed	18	0	0	0

Source: Castle & Cooke Aberhill Ranch

**TABLE NO. 5
CITY OF LAKE ELSINORE
COMMUNITY FACILITIES DISTRICT 2005-2 (ALBERHILL RANCH)
IMPROVEMENT AREA A
DEVELOPMENT SCHEDULE**

The following table summarizes actual and projected development milestones as of October 16, 2005.

	Development Phase Tract No.	Phase 1 28214-1	Phase 2 28214-2	Phase 3 28214-3	Phase 5 28213-5
	Activity	Saltillo	Saltillo Capella	Saltillo Capella Ashbury	Capella Ashbury Somerset
1.	Grading Started	August 2004	November 2004	June 2005	October 2005
2.	Grading Completed	November 2004	March 2005	October 2005	December 2005*
3.	Improvement Plans Approved	November 2004	April 2005	August 2005	December 2005*
4.	Final Map Recorded	February 2005	April 2005	November 2005*	March 2006*
5.	Model Homes Started	January 2005	May 2005 (1)	November 2005*(2)	May 2006* (3)
6.	Model Homes Completed	May 2005	August 2005	March 2006*	November 2006
7.	Production Homes Started	March 2005	May 2005	January 2006*	June 2006*
8.	First Escrows Closing	September 2005	November 2005*	July 2006*	February 2007*

* Projected date subject to change

(1) Capella Models

(2) Ashbury Models

(3) Somerset Models

Source: Castle & Cooke Aberhill Ranch

Financing Plan

The following table summarizes the Developer's estimated costs to complete finish lots, amounts spent to date and the remaining costs to complete as of October 15, 2005.

Tract No.	Total Offsite Costs	Less Total Offsite Costs Completed	Total Onsite Costs	Less Total Onsite Costs Completed	Total Intract Costs to Finish Lot	Less Total Intract Costs of Finish Lot Completed	Less Projected Net Bond Proceeds	Total Costs to complete
28214-1	\$1,273,631	(\$661,126)	\$2,383,382	(\$2,314,159)	\$3,497,045	(\$3,575,424)	(\$603,349)	-
28214-2	4,337,650	(1,006,153)	4,744,240	(4,176,903)	5,820,544	(5,977,301)	(3,742,077)	-
28214-3	4,087,717	(267,206)	5,021,831	(3,855,002)	6,841,710	(2,337,436)	(1,520,271)	\$7,971,342
28214-5	4,815,378		6,152,292	(2,385,000)	8,793,299		(1,903,331)	15,472,635
Total	\$14,514,373	(\$1,934,486)	\$18,301,746	(\$12,731,064)	\$24,952,598	(\$11,890,161)	(\$7,769,028)	\$23,443,978

Murdock Realty has been funding and is expected to continue funding through its sources of funds to the Developer the site development and home construction costs. Murdock Realty's sources of funds are in part through a \$200 million credit facility, repayment of which is guaranteed by all of the material subsidiaries of Murdock Realty, including the Developer, and such guaranty agreement is secured by liens on substantially all of the material real estate assets of those subsidiaries, including Alberhill Ranch. There is no assurance that amounts necessary to finance the Developer's remaining site development and home construction costs will be available from Murdock Realty's and/or the Developer's sources of funds or any other source, when needed. Neither the Developer, Murdock Realty or any of their affiliated companies or any of their respective partners or affiliates, is under any legal obligation of any kind to expend funds for the development of the property.

Any internal funding by Murdock Realty or any of its affiliated companies or any or their respective partners or affiliates, or borrowing under any loan arrangement, to finance the Developer's development and home construction costs is entirely voluntary.

If and to the extent that home sales revenue, internal funding and Bond proceeds are inadequate to pay the costs to complete the planned development by the Developer and other financing by the Developer is not put into place, there could be a shortfall in the funds required to complete the proposed development by the Developer in Improvement Area A and portions of the project may not be developed.

History of Property Tax Payment; Loan Defaults; Bankruptcy.

An officer or representative executing a certificate on behalf of the Developer will certify that to his or her actual knowledge:

- Such property owner has never defaulted to any material extent in the payment of special taxes or assessments in connection with Improvement Area A or any other community facilities districts or assessment districts in California within the past five years.
- Such property owner is not currently in default on any loans, lines of credit or other obligation, the result of which could materially adversely affect the development by such property owner of its property in Improvement Area A.
- Such property owner is solvent and no proceedings are pending or, to its actual knowledge threatened in which such property owner may be adjudicated as bankrupt or become the debtor in a bankruptcy proceeding, or discharged from all of its respective debts or obligations, or granted an extension of time to pay its debts or a reorganization or readjustment of its debts.
- There is no litigation or administrative proceeding of any nature in which such property owner has been served or to its actual knowledge, is pending or threatened against such property owner, which if successful, would materially adversely affect the ability of such property owner to complete the development and sale of the property it currently owns within Improvement Area A, or to pay the Special Taxes or ordinary ad valorem property tax obligations when due on its property within Improvement Area A

DEBT STRUCTURE

Outstanding Indebtedness

Improvement Area A does not have any outstanding indebtedness other than the Bonds.

Additional Obligations

The Fiscal Agent Agreement does not authorize additional Bonds.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by National Tax Data, Inc. as of October 28, 2005. The Debt Report is included for general information purposes only. The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement Area A in whole or in part. Such long-term obligations are not payable from Improvement Area A Special Taxes nor are they necessarily obligations secured by property within Improvement Area A. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

Presently, the property within Improvement Area A is subject to \$42.00 of direct and overlapping tax and assessment debt and overlapping general fund obligation debt, a figure which excludes the Bonds (see table below). To repay the direct and overlapping tax and assessment debt and overlapping lease obligation debt, the property owners of the land within Improvement Area A must pay the annual Special Tax and the general property tax levy.

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

CITY OF LAKE ELSINORE
Community Facilities District No. 2005-2
(Improvement Area A)

Detailed Direct and Overlapping Debt

Report Date: 10/28/2005

Report Time: 03:45:13 PM

I. Assessed Value

2005-2006 Secured Roll Assessed Value **\$195,198**

II. Secured Property Taxes

Description on Tax Bill	Type	Total Parcels	Total Levy	% Applicable	Parcels	Levy
Basic Levy	PROP13	786,893	\$1,518,149,874.46	0.00013%	1	\$1,951.98
City of Lake Elsinore CFD No. 2003-1	CFD	679	\$213,802.20	0.58394%	1	\$1,248.48
City of Lake Elsinore Landscape Lighting Maintenance District	LLMD	20,101	\$1,232,594.12	0.72549%	1	\$8,942.38
City of Lake Elsinore Landscape Lighting Maintenance District No. 1	LLMD	814	\$54,715.32	26.87638%	1	\$14,705.50
County of Riverside Flood Control (Santa Ana)	FLOOD	287,143	\$1,982,917.48	0.00003%	1	\$0.56
County of Riverside Service Area No. 152 (Storm water)	CSA	9,714	\$103,875.52	0.55151%	1	\$572.88
Elsinore Valley Municipal Water District CFD No. 98-1	CFD	1,651	\$438,350.00	6.90088%	1	\$30,250.00
Elsinore Valley Municipal Water District Regional Sewer	STANDBY	13,633	\$364,720.30	0.31257%	1	\$1,140.00
Elsinore Valley Municipal Water District Standby Charge	STANDBY	14,198	\$373,750.16	0.61169%	1	\$2,286.20
Metropolitan Water District of Southern California Debt Service	GO	430,514	\$5,247,279.21	0.00019%	1	\$10.15
Metropolitan Water District of Southern California Standby Charge	STANDBY	226,354	\$3,401,915.48	0.08139%	1	\$2,768.90
Northwest Mosquito Abatement District	VECTOR	137,076	\$420,171.00	0.00019%	1	\$0.80
2005-2006 TOTAL PROPERTY TAX LIABILITY						\$63,877.83
TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2005-2006 ASSESSED VALUATION						32.72%

III. Land Secured Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
Lake Elsinore CFD No. 2005-2	CFD	TBD	TBD	100.00000%	1	TBD
TOTAL LAND SECURED BOND INDEBTEDNESS (1)						\$0
TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS (1)						\$0

Authorized Direct and Overlapping Bonded Debt	Type	Authorized	Unissued	% Applicable	Parcels	Amount
Lake Elsinore CFD No. 2005-2	CFD	TBD	TBD	100.00000%	1	TBD
TOTAL UNISSUED LAND SECURED BOND INDEBTEDNESS (1)						\$0
TOTAL OUTSTANDING AND UNISSUED LAND SECURED BOND INDEBTEDNESS (1)						\$0

IV. General Obligation Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
Metropolitan Water District of Southern California Debt Service	GO	\$850,000,000	\$419,390,000	0.00001%	1	\$42
TOTAL GENERAL OBLIGATION BOND INDEBTEDNESS (1)						42
TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS (1)						\$42

Authorized Direct and Overlapping Bonded Debt	Type	Authorized	Unissued	% Applicable	Parcels	Amount
Metropolitan Water District of Southern California Debt Service	GO	\$850,000,000	\$0	0.00001%	1	\$0
TOTAL UNISSUED GENERAL OBLIGATION BONDED DEBT (1)						\$0
TOTAL OUTSTANDING AND UNISSUED GENERAL OBLIGATION BOND INDEBTEDNESS (1)						\$42

TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT	\$42
VALUE TO ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT	3915.71:1
TOTAL OF ALL OUTSTANDING AND UNISSUED DIRECT AND OVERLAPPING BONDED DEBT	\$42
VALUE TO ALL OUTSTANDING AND UNISSUED DIRECT AND OVERLAPPING BONDED DEBT	3915.71:1

(1) Additional bonded indebtedness or available bond authorization may exist but are not shown because a tax was not levied for the referenced fiscal year.
Source: National Tax Data, Inc.

Overlapping debt table

Scheduled Debt Service on the Bonds

The following is the scheduled Debt Service on the Bonds.

Interest Payment Date	Principal	Coupon	Interest	Annual Debt Service
March 1, 2006			\$264,147.36	
September 1, 2006			669,669.38	\$933,816.74
March 1, 2007			669,669.38	
September 1, 2007	\$5,000.00	3.650%	669,669.38	1,344,338.76
March 1, 2008			669,578.13	
September 1, 2008	35,000	3.900%	669,578.13	1,374,156.26
March 1, 2009			668,895.63	
September 1, 2009	65,000	4.000%	668,895.63	1,402,791.26
March 1, 2010			667,595.63	
September 1, 2010	95,000	4.100%	667,595.63	1,430,191.26
March 1, 2011			665,648.13	
September 1, 2011	125,000	4.375%	665,648.13	1,456,296.26
March 1, 2012			662,913.75	
September 1, 2012	160,000	4.500%	662,913.75	1,485,827.50
March 1, 2013			659,313.75	
September 1, 2013	200,000	5.450%	659,313.75	1,518,627.50
March 1, 2014			653,863.75	
September 1, 2014	240,000	5.450%	653,863.75	1,547,727.50
March 1, 2015			647,323.75	
September 1, 2015	285,000	5.450%	647,323.75	1,579,647.50
March 1, 2016			639,557.50	
September 1, 2016	330,000	5.450%	639,557.50	1,609,115.00
March 1, 2017			630,565.00	
September 1, 2017	380,000	5.450%	630,565.00	1,641,130.00
March 1, 2018			620,210.00	
September 1, 2018	435,000	5.450%	620,210.00	1,675,420.00
March 1, 2019			608,356.25	
September 1, 2019	490,000	5.450%	608,356.25	1,706,712.50
March 1, 2020			595,003.75	
September 1, 2020	555,000	5.450%	595,003.75	1,745,007.50
March 1, 2021			579,880.00	
September 1, 2021	620,000	5.450%	579,880.00	1,779,760.00
March 1, 2022			562,985.00	
September 1, 2022	690,000	5.450%	562,985.00	1,815,970.00
March 1, 2023			544,182.50	
September 1, 2023	760,000	5.450%	544,182.50	1,848,365.00
March 1, 2024			523,472.50	
September 1, 2024	840,000	5.450%	523,472.50	1,886,945.00
March 1, 2025			500,582.50	
September 1, 2025	925,000	5.450%	500,582.50	1,926,165.00
March 1, 2026			475,376.25	
September 1, 2026	1,015,000	5.450%	475,376.25	1,965,752.50
March 1, 2027			447,717.50	
September 1, 2027	1,105,000	5.450%	447,717.50	2,000,435.00
March 1, 2028			417,606.25	
September 1, 2028	1,210,000	5.450%	417,606.25	2,045,212.50
March 1, 2029			384,633.75	
September 1, 2029	1,315,000	5.450%	384,633.75	2,084,267.50
March 1, 2030			348,800.00	
September 1, 2030	1,430,000	5.450%	348,800.00	2,127,600.00
March 1, 2031			309,832.50	
September 1, 2031	1,550,000	5.450%	309,832.50	2,169,665.00
March 1, 2032			267,595.00	
September 1, 2032	1,675,000	5.450%	267,595.00	2,210,190.00
March 1, 2033			221,951.25	
September 1, 2033	1,810,000	5.450%	221,951.25	2,253,902.50
March 1, 2034			172,628.75	
September 1, 2034	1,955,000	5.450%	172,628.75	2,300,257.50
March 1, 2035			119,355.00	
September 1, 2035	2,110,000	5.450%	119,355.00	2,348,710.00
March 1, 2036			61,857.50	
September 1, 2036	2,270,000	5.450%	61,857.50	2,393,715.00

SUMMARY OF THE FISCAL AGENT AGREEMENT

The following is a summary of certain provisions of the Fiscal Agent Agreement and does not purport to be a complete restatement thereof. Reference is hereby made to the Fiscal Agent Agreement for the complete terms thereof. Copies of the Fiscal Agent Agreement are available from the City upon request.

Creation of Funds. There is created and established and shall be maintained by the Fiscal Agent the following funds and accounts:

- (1) The Special Tax Fund (the “Special Tax Fund”) (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account);
- (2) The Surplus Fund (the “Surplus Fund”); and
- (3) The Acquisition and Construction Fund (the “Acquisition and Construction Fund”) (in which there shall be established a Costs of Issuance Account).

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Fiscal Agent in trust and the Fiscal Agent shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Fiscal Agent Agreement and shall disburse investment earnings thereon in accordance with the provisions of the Fiscal Agent Agreement. Except as required to be segregated into funds and accounts as described in the Fiscal Agent Agreement, money held by the Fiscal Agent in trust hereunder need not be segregated from other funds except to the extent required by law.

Deposits to and Disbursements from Special Tax Fund. The CFD shall, on each date on which it receives Special Taxes, transfer the Special Taxes to the Fiscal Agent for deposit in the Special Tax Fund in accordance with the terms of 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 following Sections, in the following order of priority, to:

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

At the maturity of all of the Bonds and, after all principal and interest then due on the 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 shall be transferred to the CFD and may be used by the CFD for any lawful purpose.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds until maturity, other than principal due upon redemption, shall 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 will be made when due, at least five Business Days prior to each March 1 and September 1, the Fiscal Agent shall 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 or the Principal Account from the proceeds of the sale of an issue of the 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 shall be made up by an immediate transfer from the Reserve Account:

(1) To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the 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 shall be used for the payment of interest on the Bonds as the same become due.

(2) To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to September 1 of each year, commencing September 1, 2007 shall at least equal the principal payment due on the Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds as the same become due at maturity.

Redemption Account of the Special Tax Fund.

(1) On each September 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, the Fiscal Agent shall 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 five Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded. Moneys so deposited in the Redemption Account shall 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.

(2) After making the deposits to the Interest Account and the Principal Account of the Special Tax Fund and to the Redemption Account for Sinking Fund Payments then due, and in accordance with the CFD's election to call Bonds for optional redemption, the Fiscal Agent shall 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 called for optional redemption; provided, however, that amounts in the Special Tax Fund (exclusive of amounts transferred to the Administrative Expense Account) may be applied to optionally redeem Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(3) All prepayments of Special Tax shall be deposited in the Redemption Account to be used to redeem Bonds on the next date for which notice of redemption can timely be given.

(4) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and shall be applied on or after the redemption date to the payment of the principal of and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such 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. Purchases of Outstanding Bonds may be made by the CFD at public or private sale as and when and at such prices as the CFD 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, the premium applicable at the next following call date according to the premium schedule established pursuant to the Fiscal Agent Agreement. Any accrued

interest payable upon the purchase of 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. There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. The amounts in the Reserve Account shall be applied as follows:

(1) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on any Bonds when due in the event 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. 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 when due, 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, as applicable, moneys necessary for such purposes.

(2) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to in the Fiscal Agent Agreement, the Fiscal Agent shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the CFD elects to apply to such purpose, the amount needed to restore the amount of such 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 restore the Reserve Account to the Reserve Requirement, then the CFD shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

(3) In connection with any redemption of the Bonds, or a partial defeasance of the Bonds, 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, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this paragraph shall be withdrawn from the Reserve Account on the fifth Business Day before each March 1 and September 1 and transferred to the Acquisition and Construction Fund until the Fiscal Agent receives a Certificate of Authorized Representative of the CFD that all Project Costs have been funded, and thereafter to the Interest Account of the Special Tax Fund.

Administrative Expense Account of the Special Tax Fund. The Fiscal Agent shall transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund amounts necessary to make timely payment of Administrative Expenses and shall be disbursed by the Fiscal Agent to pay Administrative Expenses, all as instructed by the CFD pursuant to a Written Request of the CFD. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by an Authorized Representative of the CFD.

Surplus Fund. After making the transfers required by the Fiscal Agent Agreement, as soon as practicable after each September 1, the Fiscal Agent shall transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, other than amounts in the Special Tax Fund which the CFD directs the Fiscal Agent by Written Request of the CFD to retain because the CFD has included such funds as being 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 shall be transferred by the Fiscal

Agent at the written request of the CFD (i) to any other reserve account established in connection with issuance of bonds for any other improvement area within the CFD to the extent amounts in such reserve account is less than the reserve requirement for that reserve account, and (ii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses or, upon the Written Request of the CFD, may be disbursed to the CFD to be expended for any other lawful purpose of the CFD.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds. In the event that the CFD reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds, upon the written direction of the CFD, the Fiscal Agent will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested in 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) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Investments. Moneys held in any of the funds and accounts under the Fiscal Agent Agreement shall be invested at the Written Request of the CFD in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such funds and accounts. Any loss resulting from such Authorized Investments shall be credited or charged to the fund or account from which such investment was made, and any investment earnings on a fund or account shall be applied as follows: (i) investment earnings on all amounts deposited in the Special Tax Fund (exclusive of amounts transferred to the Reserve Account), Surplus Fund, Acquisition and Construction Fund and each Account therein shall be deposited in those respective funds and accounts, and (ii) all other investment earnings shall be deposited in the Interest Account of the Special Tax Fund; provided, however, to the extent moneys in the Reserve Account exceed the Reserve Requirement, such excess amounts shall be deposited and transferred pursuant to the Fiscal Agent Agreement. Moneys in the funds and accounts held under the Fiscal Agent Agreement may be invested by the Fiscal Agent at the Written Request of the CFD received at least 2 Business Days prior to the investment date, from time to time, in Authorized Investments subject to the following restrictions:

(1) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment 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 as the same become due.

(2) Moneys in the Acquisition and Construction Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the CFD estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything in the Fiscal Agent Agreement to the contrary, amounts in the Acquisition and Construction Fund on the Delivery Date for the Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.

(3) 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 three years from the date of purchase by the Fiscal Agent; provided that such amounts may be invested in an Investment Agreement to the final maturity of the 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 shall mature later than the final maturity date of the Bonds.

(4) In the absence of Written Request of the CFD providing investment directions, the Fiscal Agent shall invest solely in Authorized Investments specified in clause (4) of the definition thereof.

The Fiscal Agent shall sell at the best price obtainable, 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 shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the fair market value thereof and marked to market at least annually. Notwithstanding anything in the Fiscal Agent Agreement to the contrary, the Fiscal Agent shall 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 or an affiliate may act as principal or agent in connection with the acquisition or disposition of any Authorized Investments and shall be entitled to its customary fees therefor. Any Authorized Investments that are registrable securities shall be registered in the name of the Fiscal Agent. The Fiscal Agent is authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Fiscal Agent or for any third person or dealing as principal for its own account.

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

(1) Punctual Payment; Against Encumbrances. The CFD covenants that it will receive all Special Taxes in trust and will immediately deposit such amounts with the Fiscal Agent, and the CFD shall have no beneficial right or interest in the amounts so deposited except as provided by the Fiscal Agent Agreement. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Fiscal Agent Agreement, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the CFD.

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

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

(2) Levy of Special Tax. Beginning in Fiscal Year 2006-07 and so long as any Bonds issued under the Fiscal Agent Agreement are Outstanding, the CFD covenants to levy the Special Tax in an amount

sufficient, together with other amounts on deposit in the Special Tax Fund and the Surplus Fund and available for such purpose, to pay (1) the principal of and interest on the Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement.

(3) Commence Foreclosure Proceedings. The CFD covenants for the benefit of the Owners of the Bonds that it will determine or cause to be determined, no later than March 1 and August 1 of each year, whether or not any owner of the property within Improvement Area A are delinquent in the payment of Special Taxes and, if such delinquencies exist, the CFD will order and cause to be commenced no later than April 15 (with respect to the March 1 determination date) or September 1 (with respect to the August 1 determination date), and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due, provided, however, that the CFD shall not be required to order the commencement of foreclosure proceedings if (i) the total Special Tax delinquency in Improvement Area A for such Fiscal Year is less than five percent (5%) of the total Special Tax levied in such Fiscal Year, and (ii) the CFD shall have established from any source of lawfully available funds (other than Special Taxes) an escrow fund to provide for the payment of principal of and interest on the Bonds. Notwithstanding the foregoing, if the CFD determines that any single property owner in Improvement Area A is delinquent in excess of ten thousand dollars (\$10,000) in the payment of the Special Tax, then it will diligently institute, prosecute and pursue foreclosure proceedings against such property owner.

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

(a) The CFD or the Fiscal Agent is authorized to credit bid at any foreclosure sale, without any requirement that funds be set aside in the amount so credit bid, in the amount specified in Section 53356.5 of the Act, or such less amount as determined under clause (b) below or otherwise under Section 53356.6 of the Act.

(b) The CFD may permit, in its sole and absolute discretion, property with delinquent Special Tax payments to be sold for less than the amount specified in Section 53356.5 of the Act, if it determines that such sale is in the interest of the Bond Owners. The Bond Owners, by their acceptance of the Bonds, consent to such sale for such lesser amounts (as such consent is described in Section 53356.6 of the Act), and release the CFD and the City, and their respective officers and agents from any liability in connection therewith. If such sale for lesser amounts would result in less than full payment of principal of and interest on the Bonds, the CFD will use best efforts to seek approval of the Bond Owners.

(c) The CFD is authorized to use amounts in the Special Tax Fund to pay costs of foreclosure of delinquent Special Taxes.

(d) The CFD may forgive all or any portion of the Special Taxes levied or to be levied on any parcel in Improvement Area A so long as the CFD determines that such forgiveness is not expected to adversely affect its obligation to pay principal of and interest on the Bonds as such payments become due and payable.

(4) Payment of Claims. The CFD 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 Special Taxes or; other funds in the Special Tax Fund (exclusive of amounts transferred to the Administrative Expense Account), or which might impair the security of the Bonds then Outstanding; provided that nothing contained in the Fiscal Agent Agreement shall require the CFD to make any such payments so long as the CFD in good faith shall contest the validity of any such claims.

(5) Books and Accounts. The CFD will keep proper books of records and accounts, separate from all other records and accounts of the CFD, in which complete and correct entries shall 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 shall at all times during business hours be subject to the inspection of the Fiscal Agent or of the Owners of the Bonds then Outstanding or their representatives authorized in writing.

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

(7) Reduction of Maximum Special Taxes. The CFD finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern 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 CFD determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the CFD below the levels provided in the Fiscal Agent Agreement would interfere with the timely retirement of the Bonds. The CFD determines it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the CFD does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the CFD, unless, in connection therewith, (i) the CFD 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 Improvement Area A as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment of Special Taxes then in effect in Improvement Area A) in each Bond Year for any Bonds Outstanding will equal at least 110% of the sum on the estimated Administrative Expenses and gross debt service in that Bond Year on all Bonds to remain Outstanding after the reduction is approved, and (ii) the CFD finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultant shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by two percent (2%) in each subsequent Fiscal Year.

(8) Covenants to Defend. The CFD covenants that in the event that any initiative is adopted by the qualified electors in the CFD which purports to reduce the maximum Special Tax below the levels specified in the Fiscal Agent Agreement or to limit the power of the CFD 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.

(9) Annual Reports to CDIAC. Not later than October 30 of each year, commencing October 30, 2005 and until the October 30 following the final maturity of the Bonds, the CFD shall cause the City to supply the information required by Section 53359.5(b) or (c) of the Act to CDIAC (on such forms as CDIAC may specify).

(10) Continuing Disclosure. The CFD covenants to comply with the terms of the Continuing Disclosure Agreement executed by it with respect to the Bonds.

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

(1) 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;

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

(3) to modify, amend or supplement the Fiscal Agent Agreement in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter 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 shall not materially adversely affect the interests of the Owners of the Bonds then Outstanding; or

(4) 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 CFD to an amount which is less than that permitted under the Fiscal Agent Agreement; or

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

Events of Default. Any one or more of the following events shall 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 when and as the same shall 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 when and as the same shall become due and payable; or

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

The CFD 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 CFD’s knowledge of an event of default under (c) above. The Fiscal Agent shall not be deemed to have knowledge of any event of default unless a responsible officer shall have actual knowledge thereof or the Fiscal Agent shall have received written notice at its Principal Office.

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

(1) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the CFD and any of the members, officers and employees of the CFD, and to compel the CFD 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;

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

(3) By a suit in equity to require the CFD and its members, officers and employees to account as the fiscal agent of an express trust.

Nothing in this Article or in any other provision of the Fiscal Agent Agreement or the Bonds shall affect or impair the obligation of the CFD, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Fiscal Agent Agreement, out of the Special 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 and in the Fiscal Agent Agreement.

A waiver of any default or breach of duty or contract by any Owner shall 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 shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Act or by this Article may be enforced and exercised from time to time and as often as shall 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 CFD and the Owners shall 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 shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter 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 shall be insufficient to pay in full the whole amount so owing and unpaid upon the Outstanding Bonds, then all available amounts shall be applied 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. If the CFD shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding 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 shall cease to be entitled to the pledge of Special Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the CFD to the Owner of such Bond under the Fiscal Agent Agreement shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds, the Fiscal Agent shall execute and deliver to the CFD all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent shall pay over or deliver to the CFD'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.

Any Outstanding Bond shall be deemed to have been paid if such 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, 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 amounts transferred to 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, as and when the same shall become due and payable; or

(c) by depositing with the Fiscal Agent or another escrow bank appointed by the CFD, in trust, noncallable Defeasance Securities, in which the CFD 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 amounts transferred to 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, as and when the same shall become due and payable;

then, at the election of the CFD, and notwithstanding that any Outstanding Bonds shall not have been surrendered for payment, all obligations of the CFD under the Fiscal Agent Agreement and any Supplemental Fiscal Agent Agreement with respect to such Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bond not so surrendered and paid, all sums due thereon and except for the covenants of the CFD 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 shall 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 shall be provided to the CFD 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 to be defeased, as and when the same shall 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 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 shall 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 maturity 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 shall 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 shall be controlling.

Upon a defeasance, the Fiscal Agent, upon request of the CFD, shall release the rights of the Owners of such Bonds which have been defeased under the Fiscal Agent Agreement and any Supplemental Fiscal Agent Agreement and execute and deliver to the CFD all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance hereunder of all Outstanding Bonds, the Fiscal Agent shall pay over or deliver to the CFD 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, premium, if any, or interest on the Bonds when due. The Fiscal Agent shall, at the written direction of the CFD, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds have been defeased, in the form directed by the CFD, stating that the defeasance has occurred.

FINANCIAL INFORMATION

City Accounting Records and Financial Statements

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

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

Administration of the Special Tax

The District is required each Fiscal Year to determine the amount of Special Taxes within Improvement Area A needed to pay debt service on the Bonds and Administrative Expenses of the District related to Improvement Area A (the "Special Tax Requirement"). The District is expected to incur Administrative Expenses within Improvement Area A for the levy and collection of the Special Taxes, foreclosure proceedings, Fiscal Agent fees and arbitrage rebate calculations.

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

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

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

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

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

Rate and Method of Apportionment

The District levies the Special Taxes in accordance with the Rate and Method of Apportionment (see "**APPENDIX D - RATE AND METHOD OF APPORTIONMENT** herein). Because the Special Taxes have been authorized by a two-thirds (2/3) vote of the qualified electorate within the District, the Special Taxes are a

special tax imposed within the limitations of Section 4 of Article XIII A of the State Constitution. The City Council, as the legislative body of the District, has the power and is obligated, pursuant to the covenants contained in the Fiscal Agent Agreement, to cause the levy and collection of the Special Taxes annually.

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

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

When a community facilities district is formed, a special tax may be levied on each parcel of taxable property within the community facilities district to pay for the construction, acquisition and rehabilitation of public facilities, to pay for authorized services or to repay bonded indebtedness or other related expenses incurred by the community facilities district. This special tax may be apportioned in any reasonable manner; however, the tax may not be apportioned on an *ad valorem* basis. Pursuant to Section 53325.3 of the Act, the tax imposed “is a Special Tax and not a special assessment, and there is no requirement that the tax be apportioned on the basis of benefit to any property.”

When more than one type of land use or houses of different sizes are present within a community facilities district, several criteria may be considered when apportioning the special tax. Generally, criteria are based on building square footage or residential floor area, acreage, and land use. Categories based on such criteria are established to differentiate between parcels of property. Specific special tax levels are assigned to each category, with all parcels within a category assigned the same special tax rate.

In Improvement Area A categories have been established for Developed Property, as shown in the Tables below. The Special Tax for a single family residential property will vary directly with the amount of residential floor area on each parcel.

Assigned Special Tax Rates

The Tables below show the Assigned Special Tax rates for fiscal year 2006/07 that are to be levied against Developed Property within Improvement Area A. The Maximum Special Taxes for Developed Property cannot exceed the rates shown for fiscal year 2006/07, except when the Backup Special Tax is used as discussed below. The Assigned Special Taxes and Backup Special Taxes will increase at a rate of two percent per year.

Each year, the District shall levy the Special Tax within Improvement Area A, subject to the methodology and Maximum Special Taxes set forth in the Rate and Method of Apportionment, in an amount sufficient to meet the Special Tax Requirement.

Backup Special Tax

Pursuant to the Rate and Method of Apportionment, the Maximum Special Tax for Developed Property within Improvement Area A is the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax. The Backup Special Tax will increase at a rate of two percent per year.

Under certain circumstances, the Special Tax for some parcels classified as Developed Property will be increased above the Assigned Special Tax until the Special Tax Requirement is met. However, under no

circumstances will the Special Tax on an Assessor's Parcel of Developed Property be increased above the greater of the Backup Special Tax or the applicable Assigned Special Tax.

The Assigned Special Tax Rates under the Rate and Method of Apportionment have been designed pursuant to City Policy not to exceed a total tax rate percentage of 2% when taking into account all taxes and assessments on property of all jurisdictions. The following tables shows the assumptions used in setting the Assigned Tax Rates and the effective tax rate within Improvement Area A.

City of Lake Elsinore									
Community Facilities District No. 2005-2 (Alberhill Ranch) Improvement Area A									
Effective Tax Rate Fiscal Year 2006-07									
Home Special Tax Category			Land Use type 1	Land Use type 2	Land Use type 3	Land Use type 4	Land Use type 5	Land Use type 6	
Home Square Footage			>3,650 sf	3,151-3,650 sf	2,551-3,150 sf	2,051-2,550 sf	1,851-2,050 sf	<= 1,850 sf	
Home Price (1)			\$ 550,000.00	\$ 520,000.00	\$ 425,000.00	\$ 409,000.00	\$ 375,000.00	\$ 360,000.00	
Number of Units (1)			34	34	215	82	55	22	
Ad Valorem Tax			\$ 5,500.00	\$ 5,200.00	\$ 4,250.00	\$ 4,090.00	\$ 3,750.00	\$ 3,600.00	
Taxes of all Agencies		Rate							
Metro Water West 1302999		0.0058%	\$ 31.90	\$ 30.16	\$ 24.65	\$ 23.72	\$ 21.75	\$ 20.88	
N.W. Mosquito & Vector Control District		\$10.60	\$ 10.60	\$ 10.60	\$ 10.60	\$ 10.60	\$ 10.60	\$ 10.60	
Flood Control & Stormwater / Cleanwater		\$3.75	\$ 3.75	\$ 3.75	\$ 3.75	\$ 3.75	\$ 3.75	\$ 3.75	
City of Lake Elsinore Citywide LLMD		\$24.90	\$ 24.90	\$ 24.90	\$ 24.90	\$ 24.90	\$ 24.90	\$ 24.90	
City of Lake Elsinore LLMD No. 1		\$63.25	\$ 63.25	\$ 63.25	\$ 63.25	\$ 63.25	\$ 63.25	\$ 63.25	
MWD Water Standby West Charge		\$9.22	\$ 9.22	\$ 9.22	\$ 9.22	\$ 9.22	\$ 9.22	\$ 9.22	
Flood Zone 3 Benefit Assessment District		\$25.50	\$ 25.50	\$ 25.50	\$ 25.50	\$ 25.50	\$ 25.50	\$ 25.50	
CSA 152 Stormwater Assessment		\$7.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00	
City of Lake Elsinore CFD No. 2003-1		\$312.12	\$ 312.12	\$ 312.12	\$ 312.12	\$ 312.12	\$ 312.12	\$ 312.12	
CFD 2005-2 Parks, Open Space and Storm Drain		\$242.00	\$ 242.00	\$ 242.00	\$ 242.00	\$ 242.00	\$ 242.00	\$ 242.00	
EVMWD CFD No. 98-1		\$55.00	\$ 55.00	\$ 55.00	\$ 55.00	\$ 55.00	\$ 55.00	\$ 55.00	
Special Taxes			\$ 4,566.00	\$ 4,280.00	\$ 3,373.00	\$ 3,220.00	\$ 2,896.00	\$ 2,753.00	
Annual Home Tax Rate (%)			1.97%	1.97%	1.98%	1.98%	1.98%	1.98%	

Delinquencies and Foreclosure Actions

No parcels within Improvement Area A have experienced any delinquencies.

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

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

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

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

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

LEGAL MATTERS

Enforceability of Remedies

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

Approval of Legal Proceedings

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

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

Certain legal matters will be passed on for the City and the District by Van Blarcom Leibold, McClendon & Mann, P.C., Laguna Hills, California, as City Attorney. In addition, certain legal matters will be passed on by Fulbright & Jaworski, Los Angeles, California, Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by McFarlin & Anderson LLP, Lake Forest, California, as Underwriter's Counsel.

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

Tax Exemption

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that, assuming compliance with the aforementioned covenant, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on

the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on the Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

The excess, if any, of the stated redemption price at maturity of Bonds of a maturity over the initial offering price to the public of the Bonds of that maturity set forth on the cover of this Official Statement is “original issue discount” under the Code. Such original issue discount accruing on a Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and exempt from California personal income tax to the same extent as would be stated interest on the Bond. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of Bonds who purchase such Bonds other than at the initial offering price and pursuant to the initial offering.

Any person considering purchasing a Bond of a maturity having original issue discount should consult his or her own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the Bonds is exempt from state personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner’s federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the owner’s other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of an owner’s interest expense allocated to interest on the Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86

of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the District as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of the ultimate outcome.

Absence of Litigation

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

CONCLUDING INFORMATION

No Rating on the Bonds

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

Underwriting

Southwest Securities, Inc., Newport Beach, California (the “Underwriter”) is offering the Bonds at the prices set forth on the cover page hereof. The initial offering prices may be changed from time to time and concessions from the offering prices may be allowed to dealers, banks and others. The Underwriter has agreed to purchase the Bonds at a price equal to approximately 97.979995% (\$24,181,462.85) of the aggregate principal amount of the Bonds, which amount represents the principal amount of the Bonds, less the Underwriter’s discount of \$493,600 and an Original Issue Discount of \$4,937.15. The Underwriter will pay certain of its expenses relating to the offering.

Experts

The Market Absorption Study prepared by Empire Economics, Inc., Capistrano Beach, California, and the Appraisal prepared by Harris Realty Appraisal, Newport Beach, California, as well as the Tax Spread projections prepared by Harris & Associates, Irvine, California, Special Tax Consultant, have been included in this Official Statement in reliance on and upon the authority of said firms as experts in the matters covered therein.

The Financing Consultant

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

Additional Information

The summaries and references contained herein with respect to the Fiscal Agent Agreement, the Bonds, statutes and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute and references to the Bonds are qualified in their entirety by reference to the form hereof included in the Fiscal Agent Agreement. Definitions of certain terms used herein are set forth in “APPENDIX A-Definitions of Certain Terms Used In the Fiscal Agent Agreement”. Copies of the Fiscal Agent Agreement are available for inspection during the period of initial offering on the Bonds at the offices of the Financing Consultant, Rod Gunn Associates, Inc., 16371 Gothard Street, Suite A, Huntington Beach, California 92647-3652, telephone (714) 841-3993 or the Underwriter, Southwest Securities, 620 Newport Center Drive, Suite 300, Newport Beach, California 92660, telephone (949) 717-

2000. Copies of these documents may be obtained after delivery of the Bonds from the City through the City Manager, City of Lake Elsinore, 130 S. Main Street, Lake Elsinore, California 92530.

References

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

Execution

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

CITY OF LAKE ELSINORE

By: /s/ Robert Brady
City Manager of the City,
Acting on behalf of Community Facilities
District No. 2005-2 (Alberhill Ranch)

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APPENDIX A

DEFINITIONS OF CERTAIN TERMS USED IN THE FISCAL AGENT AGREEMENT

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

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

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

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

“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):

U.S. Export-Import Bank (“Eximbank”)

Direct obligations or fully guaranteed certificates of beneficial ownership

Farmers Home Administration (“FmHA”)

Certificates of beneficial ownership

Federal Financing Bank

Federal Housing Administration Debentures (“FHA”)

General Services Administration

Participation certificates

Government National Mortgage Association (“GNMA” or “Ginnie Mae”)

GNMA-guaranteed mortgage-backed bonds

GNMA-guaranteed pass-through obligations

U.S. Maritime Administration

Guaranteed Title XI financing

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:

Federal Home Loan Bank System

Senior debt obligations

Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”)

Participation certificates

Senior debt obligations

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

Mortgage-backed securities and senior debt obligations

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

Senior debt obligations

Resolution Funding Corp. (“REFCORP”) obligations

Farm Credit System CM. - 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 AAa, and, if rated by Moody’s, rated Aaa, Aa1 or Aa2 (including those of the Fiscal Agent and its affiliates).

(5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and 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, at least “AA” and “Aa” by the Rating Agency (without regard to gradations of plus or minus within such category), and

(b) any such investment agreement is collateralized with United States Treasury or agency obligations which at least equal 102% of the principal amount invested thereunder, and

(c) any such agreement shall include a provision to the effect that, in the event the long-term debt rating of the provider of such agreement is downgraded below “AA-” or below “Aa” by the applicable Rating Agency, the CFD has the right to withdraw or cause the Fiscal Agent to withdraw all funds invested in such agreement and thereafter to invest such funds pursuant to the Fiscal Agent Agreement.

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

(c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Fiscal Agent; and

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

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

(12) Local Agency Investment Fund ("LAIF") of the State of California.

(13) Any other investment which the CFD is permitted by law to make.

"Authorized Representative of the CFD" means the Mayor, City Manager, Administrative Services Director, or any other person or persons designated by the Council and authorized to act on behalf of the CFD by a written certificate signed on behalf of the CFD by the Mayor or the City Manager and containing the specimen signature of each such person.

"Bond Counsel" means an attorney at law or a firm of attorneys selected by the CFD 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 shall keep or cause to be kept on which the registration and transfer of the Bonds shall be recorded.

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

"Bond Year" means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the Bonds shall begin on the Delivery Date and end of the first September 1 which is not more than 12 months after the Delivery Date.

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

“Certificate of Authorized Representative of the CFD” means a written certificate or warrant request executed by an Authorized Representative of the CFD.

“CFD” means the City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) established pursuant to the Act and the Resolution of Formation.

“Code” means the Internal Revenue Code of 1986 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, including the acceptance and initial annual fees and expenses of the Fiscal Agent and its counsel, legal fees and expenses, costs of printing the Bonds and the preliminary and final official statements for the Bonds, fees of financial consultants and all other related fees and expenses, as set forth in a Certificate of Authorized Representative of the CFD.

“Council” means the City Council of the City of Lake Elsinore.

“Defeasance 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.
- (f) Obligations issued by the following agencies which are backed by the full faith and credit of the United States:

U.S. Export-Import Bank - direct obligations or fully guaranteed certificates of beneficial ownership

Farmers Home Administration - certificates of beneficial ownership

Federal Financing Bank

General Services Administration - participation certificates

U.S. Maritime Administration - guaranteed Title XI financing

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.

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

“Depository” shall mean The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Certificates, or any other securities depository acting as Depository under Article II hereof.

“Fiscal Agent” means Union Bank of California, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America, at its principal corporate trust office in Los Angeles, 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 approved 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.

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

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

“Interest Payment Date” means each March 1 and September 1, commencing March 1, 2006, 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 preceding such date.

“Investment Agreement” means one or more agreements for the investment of funds of the CFD complying with the criteria therefor as set forth in Subsection (7) of the definition of Authorized Investments.

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

- (1) the principal amount of all Outstanding 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 Outstanding in such Bond Year if the Bonds are retired as scheduled.

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

“Nominee” shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Fiscal Agent Agreement.

“Outstanding” or “Outstanding Bonds” means all Bonds theretofore issued by the CFD, except:

- (1) Bonds theretofore cancelled or surrendered for cancellation in accordance with the Fiscal Agent Agreement;
- (2) Bonds for payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Fiscal Agent Agreement; and
- (3) 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.

“Participants” shall mean those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as securities depository.

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

“Principal Office of the Fiscal Agent” means the office of the Fiscal Agent located in Los Angeles, California or such other office or offices as the Fiscal Agent may designate from time to time, or the office of any successor Fiscal Agent where it principally conducts its business of serving as Fiscal Agent 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 Improvement Area A, 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 within the CFD from time to time.

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

“Rating Agency” means Moody’s and Standard & Poor’s, or both, as the context requires.

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

“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.

“Reserve Requirement” means, as of any date of calculation, an amount equal to the lowest of (1) 10% of the original proceeds of the Bonds, less accrued interest, if any, less original issue discount, if any, plus original issue premium, if any, or (2) Maximum Annual Debt Service, or (3) 125% of the average Annual Debt Service of the Outstanding Bonds.

“Resolution of Formation” means a Resolution adopted by the Council on September 13, 2005 pursuant to which the Council formed the CFD.

“Sinking Fund Payment” means the annual payment 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.

“Special Taxes” means the taxes authorized to be levied by the CFD on parcels within Improvement Area A in accordance with the Resolution of Formation, the Act and the voter approval obtained at the September 13, 2005 election in the District and any additional special taxes authorized to be levied by the CFD from time to time which are pledged by the CFD to the repayment of the Bonds, together with the prepayment thereof and 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.

“Standard & Poor’s” means Standard & Poor’s, a division of McGraw-Hill, its successors and assigns.

“Supplemental Fiscal Agent Agreement” means any supplemental fiscal agent agreement amending or supplementing the Fiscal Agent Agreement.

“Tax Certificate” means the certificate by that name to be executed by the CFD 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 on September 1, 2036.

“Underwriter” means the institution or institutions, if any, with whom the CFD enters into a purchase contract for the sale of the Bonds.

“Written Request of the CFD” means a request in writing executed by the Mayor, City Manager, City Treasurer, or written designee, on behalf of the CFD.

APPENDIX B
MARKET ABSORPTION STUDY

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**MARKET ABSORPTION STUDY
SUMMARY AND CONCLUSIONS**

**COMMUNITY FACILITIES DISTRICT NO. 2005-2
ALBERHILL RANCH – IMPROVEMENT AREA A**

**CITY OF LAKE ELSINORE
RIVERSIDE COUNTY, CALIFORNIA**



MODEL COMPLEX IN A PORTION OF THE DISTRICT

**BY EMPIRE ECONOMICS, INC.
AUGUST 19, 2005**

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CERTIFICATION OF INDEPENDENCE

The Securities & Exchange Commission has recently taken action against Wall Street firms that have utilized their research analysts to promote companies that they conduct business with, citing this as a potential conflict of interest. Accordingly, Empire Economics (Empire), in order to ensure that its clients are not placed in a situation that could cause such conflicts of interest, provides a Certification of Independence. Specifically, the Certificate states that Empire performs consulting services for **public entities only** in order to avoid potential conflicts of interest that could occur if it also provided consulting services for developers/builder. For example, if a research firm for a specific Community Facilities District or Assessment District were to provide consulting services to both the public entity as well as the property owner/developer/builder, then a potential conflict of interest could be created, given the different objectives of the public entity versus the property owner/developer.

Accordingly, Empire Economics certifies that the Market Absorption Study for the City of Lake Elsinore CFD No. 2005-2 Improvement Area A (Alberhill Ranch) was performed in an independent professional manner, as represented by the following statements:

- Empire was retained to perform the Market Absorption Study by the City of Lake Elsinore, not the District's property owner or the developer/builder.
- Empire has not performed any consulting services for the District's property owner nor the developer/builder, Castle & Cooke, during at least the past five years.
- Empire will not perform any consulting services for the District's property owner nor the developer/builder, Castle & Cooke, during at least the next three years.
- Empire's compensation for performing the Market Absorption Study for the District is not contingent upon the issuance of Bonds; Empire's fees are paid on a non-contingency basis.

Therefore, based upon the statements set-forth above, Empire hereby certifies that the Market Absorption Study for the City of Lake Elsinore CFD No. 2005-2 IA-A was performed in an independent professional manner.

Empire Economics, Inc.
Joseph T. Janczyk, President

INTRODUCTION TO THE BOND FINANCING PROGRAM

Alberhill Ranch, a Planned Community of some 1,570 single-family detached and attached homes that are being developed by Castle & Cooke, is located in the western portion of the County of Riverside in the northern portion of the City of Lake Elsinore, near Interstate 15 and Lake Street. The current Bond Issue is for the properties that are located in Improvement Area A, and this consists of 442 single-family homes.

The City of Lake Elsinore along with Castle & Cooke have formed a Community Facilities District to assist with the financing of the infrastructure that is required to support the development of their residential products in the District, hereafter referred to as CFD No. 2005-2 Improvement Area A (IA-A). Specifically, the Bond Issue would be utilized to provide funds for various items, including roadway, drainage, park, water and sewer improvements. The specific size of the Bond Issue and the particular improvements included will depend upon various factors which will be finalized when these bonds are sold.

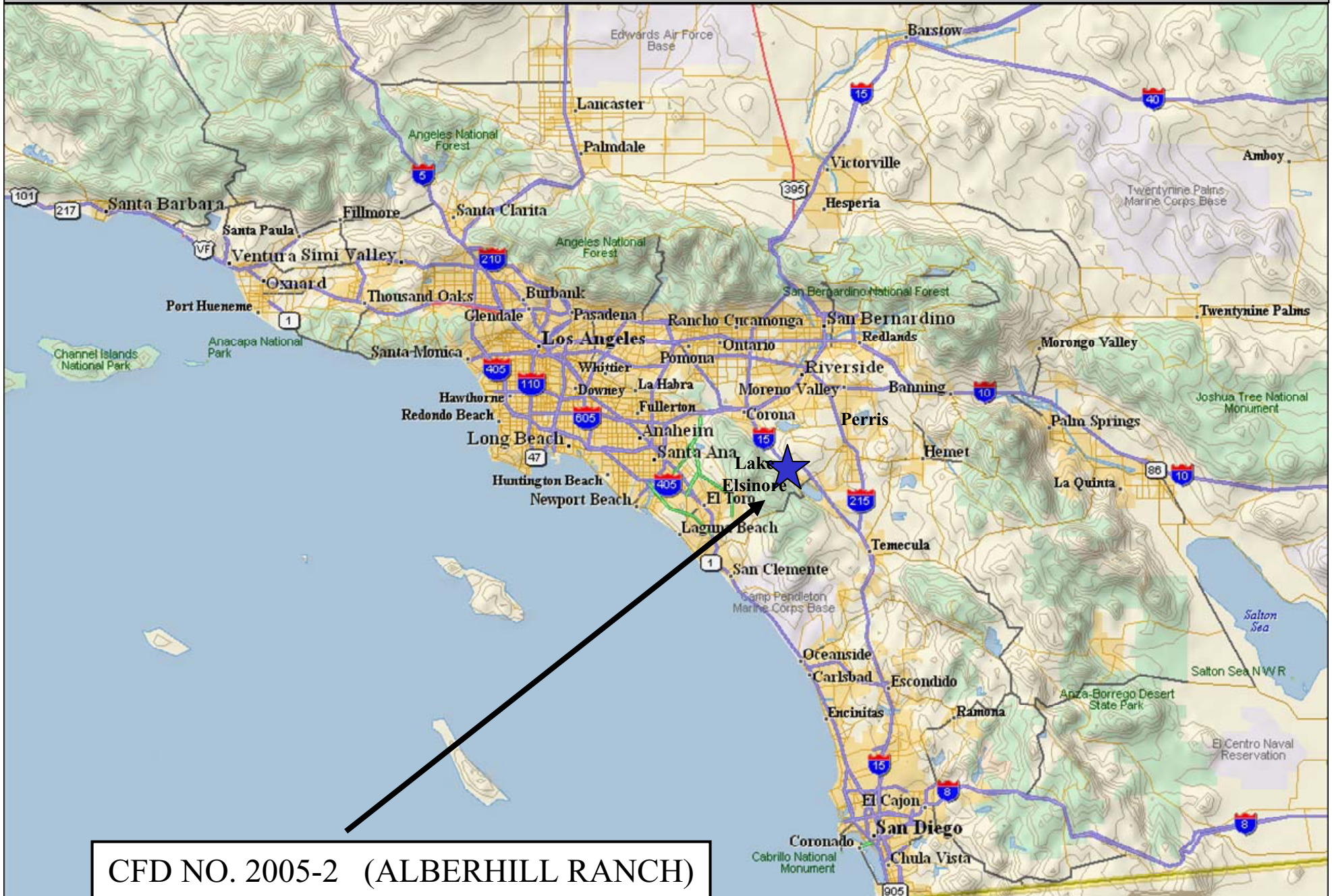
The purpose of the Market Absorption Study for CFD No. 2005-2 IA-A for the City of Lake Elsinore's financing is to provide an estimate of the probable absorption schedules for the residential properties. Specifically, from the viewpoint of prospective Bond Purchasers, the particular components of the infrastructure should be time-phased and location-phased in a manner that approximately coincides with the expected marketability/absorption of the projects in CFD No. 2005-2 IA-A. Otherwise, to the extent that the infrastructure is not appropriately phased, then the following types of market inefficiencies may occur:

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

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

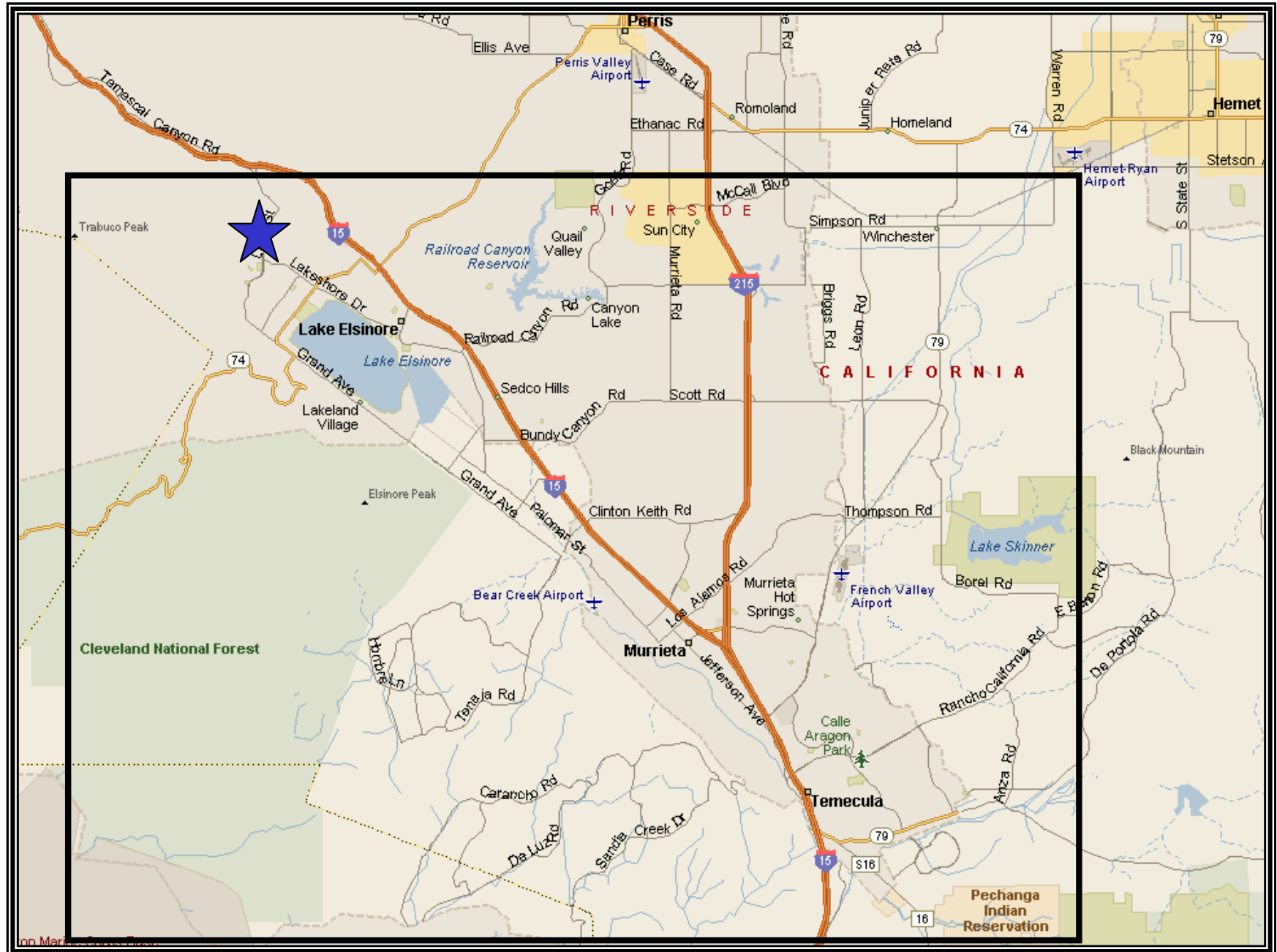
Thus, the Market Absorption Study formulates guidelines on the appropriate or optimal time-phasing and location-phasing of the infrastructure for the properties located in CFD No. 2005-2 IA-A, as a means of providing the bond purchasers with a reasonable amount of security from a market absorption perspective.

SOUTHERN CALIFORNIA MARKET REGION



CFD NO. 2005-2 (ALBERHILL RANCH)

BOUNDARIES OF THE CFD NO. 2005-2 IA-A (ALBERHILL RANCH) MARKET AREA



CHARACTERISTICS OF THE EXPECTED PRODUCT MIX FOR THE CITY OF LAKE ELSINORE CFD NO. 2005-2 IA-A

The projects in the City of Lake Elsinore CFD No. 2005-2 IA-A have received planning approvals/entitlements for some 442 single-family detached housing units; their characteristics are expected to be as follows:

- Sattilo by Castle & Cooke is anticipated to have a total of some 142 single-family homes on lots of some 5,200 sq.ft. that are priced at some \$382,000 to \$465,000, an average of \$420,500, for 2,010 to 3,120 sq.ft. of living area, an average of 2,615 sq.ft., and they are expected to commence escrow closings during 4th-2005.

- Capella by Castle & Cooke is anticipated to have a total of some 127 single-family homes on lots of some 7,000 sq.ft. that are priced at some \$450,000 to \$540,000, an average of \$497,500, for 2,531 to 3,838 sq.ft. of living area, an average of 3,237 sq.ft., and they are expected to commence escrow closings during 4th-2005.

- Ashbury by Castle & Cooke is anticipated to have a total of some 107 single-family homes on lots of some 7,000 sq.ft. that are priced at some \$465,000 to \$520,000, an average of \$491,667, for 2,775 to 3,582 sq.ft. of living area, an average of 3,160 sq.ft., and they are expected to commence escrow closings during 3rd-2006.

- Product A by Castle & Cooke is anticipated to have a total of some 66 single-family homes on lots of some 4,000 sq.ft. that are priced at some \$360,000 to \$398,000, an average of \$378,667, for 1,600 to 2,200 sq.ft. of living area, an average of 1,900 sq.ft., and they are expected to commence escrow closings during 1st-2007.

Therefore, the 442 housing units in CFD No. 2005-2 IA-A by Castle & Cooke are single-family detached homes on lots of 4,000 to 7,000 sq.ft. that are expected to be priced at some \$360,000 to \$540,000, an overall average of \$453,606, for some 1,600 to 3,833 sq.ft. of living area, an overall average of 2,819 sq.ft., and they are expected to commence escrow closings starting in 4th-2005.

ROLE OF THE MARKET STUDY IN THE BOND FINANCING

The Market Absorption Study for CFD No. 2005-2 IA-A (Alberhill Ranch) has a multiplicity of roles with regards to the Bond Financing; accordingly, these are now discussed.

Marketing Prospects for the
Various Products Types

Official Statement

Prospective Bond Purchasers

Aggregate Levels of
Special Tax Revenues

Maximum Special Taxes
for the Residential Products
Conforming to the Issuer's Policies

Share of Payments:
Developer/Builder vs. Final-Users
Determined by the Absorption Schedules

Appraisal of Property

Discounted Cash Flow – Present Value

Absorption Schedules

The Issuing Agency for the Bond Issue, the City of Lake Elsinore, along with the Financial Advisor, can utilize the Market Absorption Study, Appraisal, and Special Tax Revenue to structure the Bond Issue for CFD No. 2005-2 IA-A.

METHODOLOGY UNDERLYING THE MARKET STUDY

To perform a comprehensive analysis of the macroeconomic and microeconomic factors that are expected to influence the absorption of the residential single-family detached housing products in CFD No. 2005-2 IA-A, Empire's Market Absorption Study conducts a systematic analysis of the following factors:

MACROECONOMIC FACTORS FOR CFD NO. 2005-2 IA-A MARKET AREA

- * Market Supply
Planning Projections
- * Market Demand
Economic Conditions
- * Reconciliation
- * Growth Potential for the
Market Area

MICROECONOMIC FACTORS FOR CFD NO. 2005-2 IA-A

- * Regional Development Patterns
Socioeconomic: School and Crime
Housing Price Trends and Patterns
Competitive Market Analysis – Product Types
Residential Projects
- * Location
- * Product Types
- * Prices
- * Special Taxes/Assessments

ABSORPTION SCHEDULES

- Each Product Type**
- * Residential
Single-Family Detached Homes
- * Market Entry to Build-Out

Therefore, the Market Absorption Study systematically proceeds from the macroeconomic analysis of the Market Region's future housing, industrial and commercial growth to the microeconomic analysis of the estimated absorption schedules for the residential single-family detached housing products/projects in the City of Lake Elsinore CFD No. 2005-2 IA-A.

RECENT/EXPECTED ECONOMIC TRENDS/PATTERNS

The purpose of this section is to discuss the recent/expected economic trends/patterns for the United States (US), California (CA), and Riverside County (RC), including Gross Domestic Product, employment, housing starts, mortgage rates and gas prices.

Recent /Expected Real Gross Domestic Product Trends/Patterns - Annually

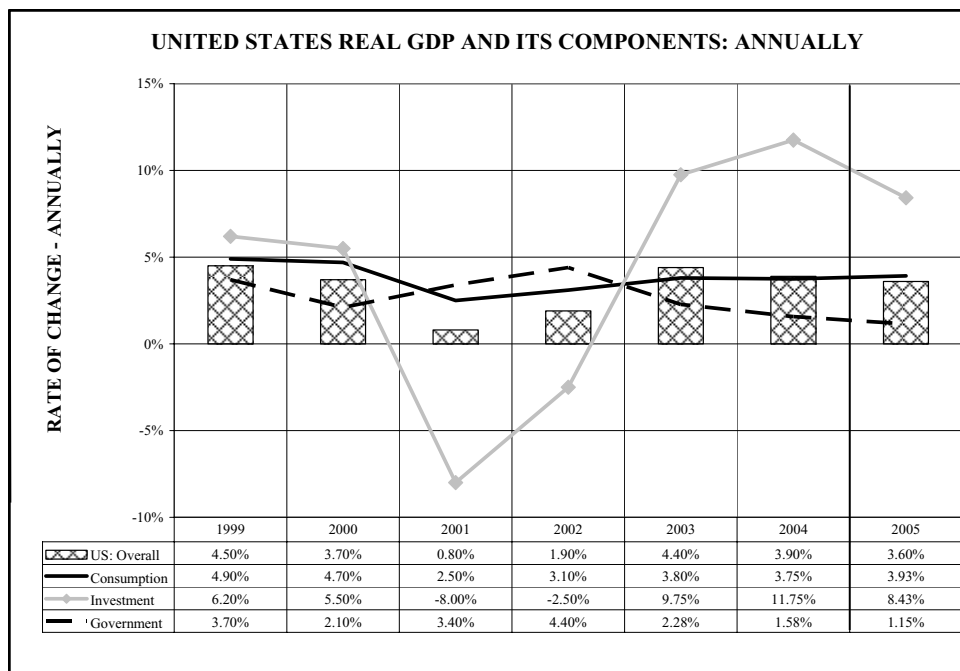
With regards to the recent/expected growth rates for Gross Domestic Product (GDP) for the United States economy, these are as follows:

- During 1999 and 2000, real GDP increased at strong rates of by 4.5% and 3.7%, respectively.
- Then, in 2001, as the economy slowed, real GDP increased by only 0.8%.
- In 2002 and 2003, when the economy rebounded, real GDP increased by 1.9% and some 4.4% respectively.
- For 2004, real GDP growth moderated to somewhat a rate of 3.90%, as the economy continued to expand at a healthy rate.
- Then, for 2005, real GDP is expected to continue to decrease slightly to a rate of some 3.60%.

Next, with respect to the rates of change for the various components of real GDP during 2003 through 2005, they are as follows:

- Consumption, which increased at some 3.80% in 2003, decreased slightly to a rate of some 3.75% in 2004, and it expected to rise somewhat to a rate of some 3.93% in 2005.
- Business investment, which recorded an increase of some 9.75% in 2003, peaked at some 11.75% in 2004, and is expected to diminish to 8.43% in 2005.
- Finally, with respect to government purchases, these are expected to diminish: 2.28% in 2003 to 1.58% in 2004, and then decrease further to 1.15% in 2005.

Therefore, comparing the rates of growth for the various components of real GDP for 2005 as compared to 2004 reveals that the overall rate of growth is expected to moderate slightly; however, among the various sectors, consumption is expected to rise slightly while the rates of growth for investment and government spending diminish.



Recent/Expected Employment Trends/Patterns - Annually

With regards to the recent/expected growth rates for employment, these are now discussed for the United States, California, and Riverside-San Bernardino economies, both on an annual as well as a quarterly basis.

For the United States economy, the recent trends/patterns for employment have been as follows:

- In 1999 and 2000, employment growth was strong, some 2.44% and 2.20%, respectively.
- Then, in 2001, due to the economic slowdown, employment was virtually stable.
- For 2002, employment declined by -1.13% followed by a smaller decline of -0.26% in 2003.
- In 2004, as the economy moved into its recovery phase, employment rose by some 1.13%.
- For 2005, the economy is expected to expand further with employment rising 1.42%.

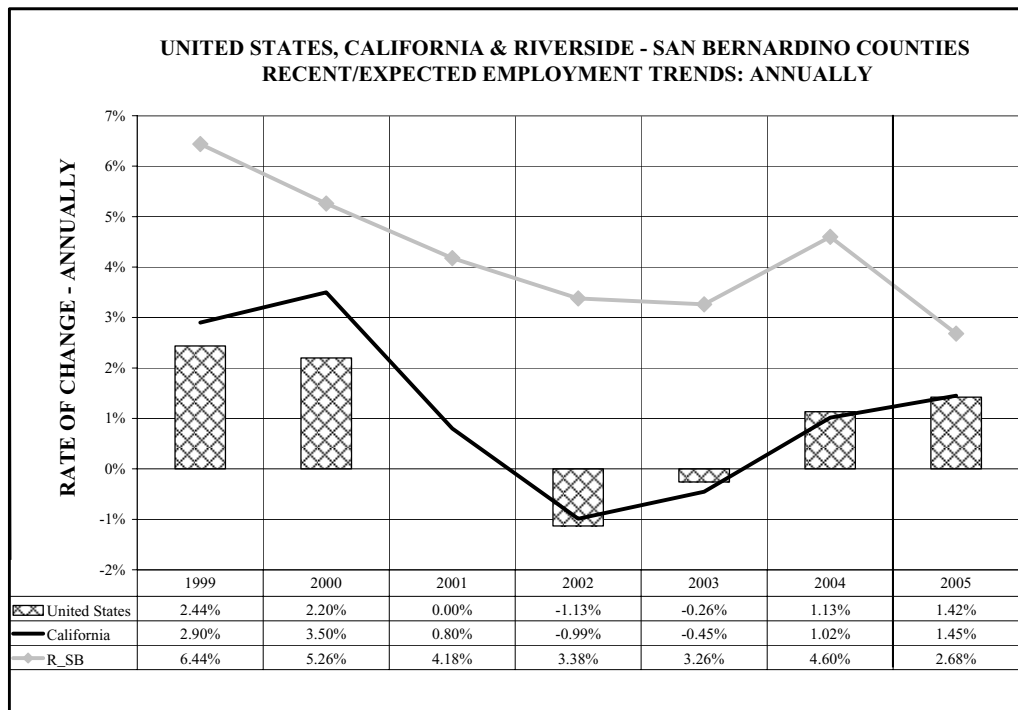
California's employment followed a generally similar pattern:

- Strong rates of employment growth in 1999 and 2000 of 2.9% and 3.5%, respectively.
- Then in 2001, employment rose only moderately, some 0.80%.
- However, in 2002 to 2003, employment declined to -0.99% and -0.45%, respectively.
- For 2004, the economy moved into a recovery, with an employment gain of 1.02%.
- In 2005, the economy is expected to have stronger growth, with employment growing at a rate of 1.45%.

Riverside-San Bernardino counties, on a comparative basis, have performed favorably:

- R-SB counties experienced strong, though diminishing, rates of employment growth during 1999-2002, from 6.44% in 1999 to 3.38% in 2002.
- Employment growth moderated in 2003, with a growth rate of 3.26%.
- Then, in 2004, employment rose at higher level of some 4.60%.
- For 2005, employment growth is expected to moderate to a rate of some 2.68%.

Therefore, during 2005, the United States, California, and Riverside-San Bernardino counties are expected to generally experience favorable rates of employment growth.

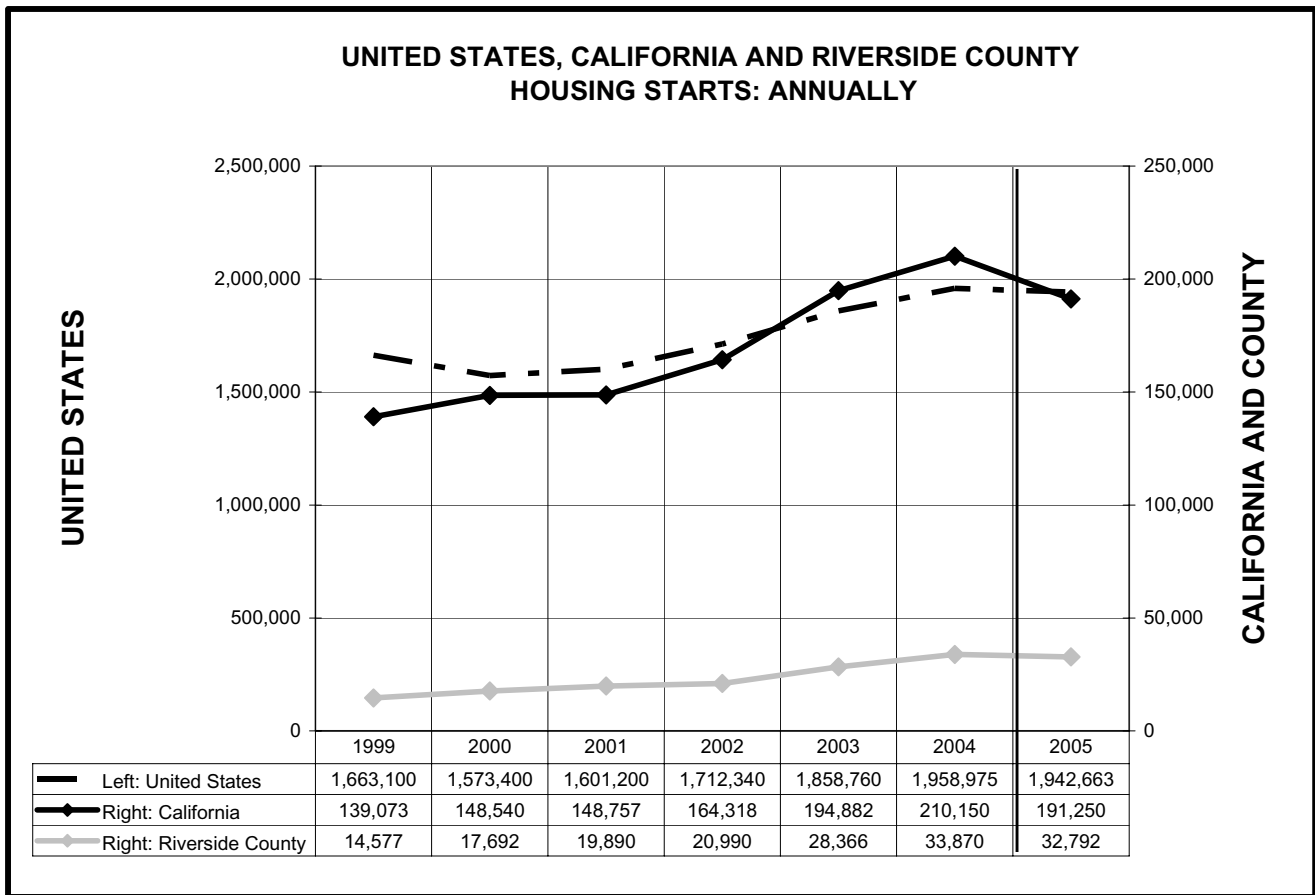


Recent/Expected Trends/Patterns for Housing Starts - Annually

With regards to the recent trends and patterns for housing starts, they are as follows:

- The United States housing market experienced a strong recovery during the 2000 to 2004 time period, with the number of new homes rising from 1,573,400 in 2000 to 1,958,975 in 2004. For 2005, the United States housing market is expected to decrease somewhat, to 1,942,663, due to higher mortgage rates.
- For the California housing market, housing starts have had a strong recovery during 2000 to 2004, as the number of new homes rose from 139,073 in 1999 to 210,150 in 2004. The California housing market is expected to decrease somewhat in 2005 to some 191,250, again as a result of higher mortgage rates.
- Finally, with respect to Riverside County, housing starts rose dramatically during the 1999-2004 time period, from 14,577 homes in 1999 to 33,870 homes in 2004. For 2005, the level of activity is expected to moderate slightly, to some 32,792 homes, due to the expectation of higher mortgage rates.

So, for 2005, the United States, California, and Riverside County housing markets are expected to decline somewhat from their 2004 levels, due primarily to higher levels of mortgage rates.

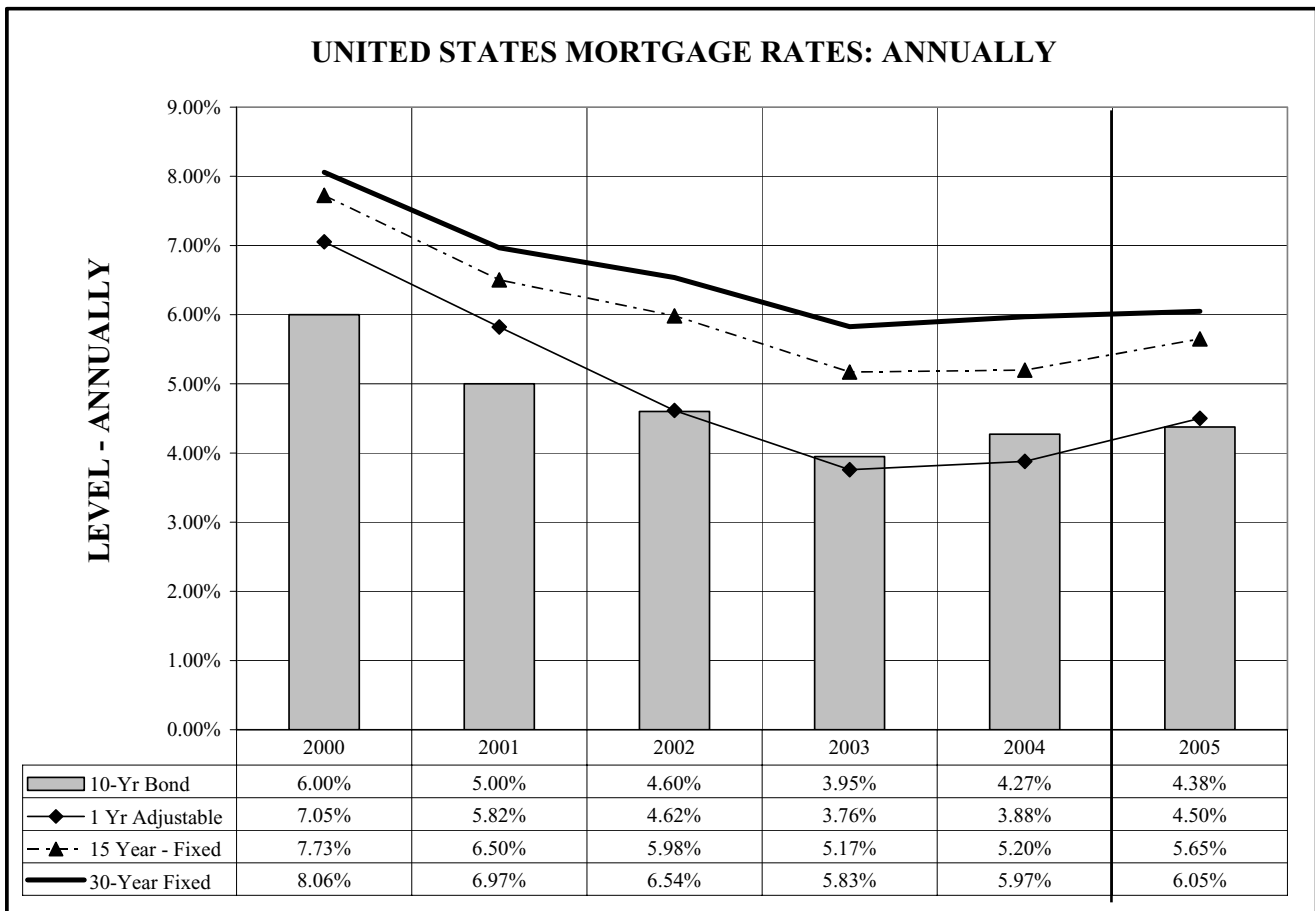


Recent/Expected Trends in Mortgage Rates - Annually

The recent/expected trends/patterns for mortgage rates, including the 15 year fixed rate mortgage, as well as the 10-year Treasury Bond which influences the 15 year fixed rate mortgage, and also the 1-year adjustable, are now discussed:

- During the 2000 to 2003 time period, the rates on the 10-year Treasury Bond, 15 year fixed mortgage and the 1 year adjustable mortgage all declined: the 10-year Treasury Bond from 6.00% to 3.95% (-2.05%), the 15 year fixed mortgage from 7.73% to 5.17% (-2.56%), and the 1 year adjustable mortgage from 7.05% to 3.76% (-3.29%).
- From 2003 to 2004, the rates started to rise: on the 10-year Treasury Bond from 3.95% to 4.27% (+0.32%), the 15 year fixed mortgage from 5.17% to 5.20% (+0.03%), and the 1 year adjustable mortgage from 3.76% to 3.88% (0.12%).
- For 2005, as compare to 2004, the rates are expected to rise moderately, on the 10-year Treasury Bond from 4.27% to 4.38% (+0.11%), the 15 year mortgage from 5.20% to 5.65% (+ 0.45%), and the 1 year adjustable mortgage from 3.88% to 4.50% (+0.62%).

So, during 2005, financial rates are expected to rise at a moderate pace, the increase in the 10-year Bond will drive the 15 year fixed rates up by some 0.45% while the increases in the federal funds by the Federal Reserve Board will drive up the 1 year adjustable rate mortgages by some 0.62%.

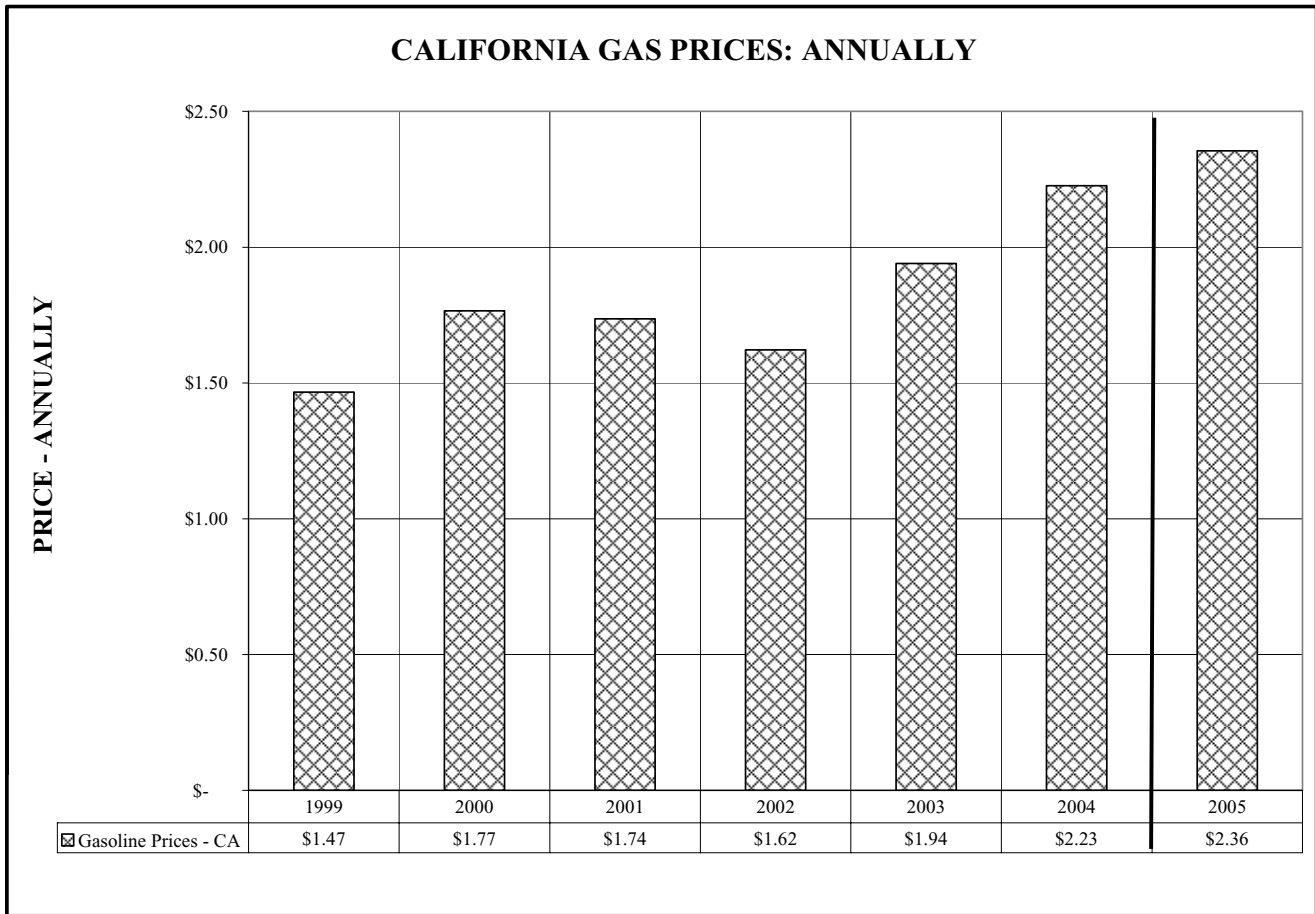


Recent/Expected Trends/Patterns for Gas Prices in California - Annually

With regards to the recent/expected annual gas prices per gallon in California, they are as follows:

- From 1999 to 2000, California gas prices rose significantly from \$1.47 to \$1.77, respectively, an increase of some \$0.30.
- Then, gas prices declined to \$1.62 in 2002, a decrease of -\$0.12 from \$1.74 in 2001.
- However, with the invasion of Iraq and uncertainty in the Middle East, California gasoline prices rose dramatically to \$2.23 in 2004, an increase of \$0.61 from 2002.
- For 2005, gas prices are expected to rise further to \$2.36, an additional increase of some \$0.13 from 2004.

So, during 1999 to 2004, California gas prices have risen significantly, by some \$0.76 per gallon, and they are expected to increase by another \$0.13 in 2005.



SOCIOECONOMICS CHARACTERISTICS: CRIME LEVELS AND THE QUALITY OF SCHOOLS

When households consider the purchase of a home, the primary factors are the location (relative to their place of employment) and price (within their income/affordability levels). Furthermore, secondary socioeconomic factors that are significant include the safety of the neighborhood as well as the quality of the schools; accordingly, these are now discussed

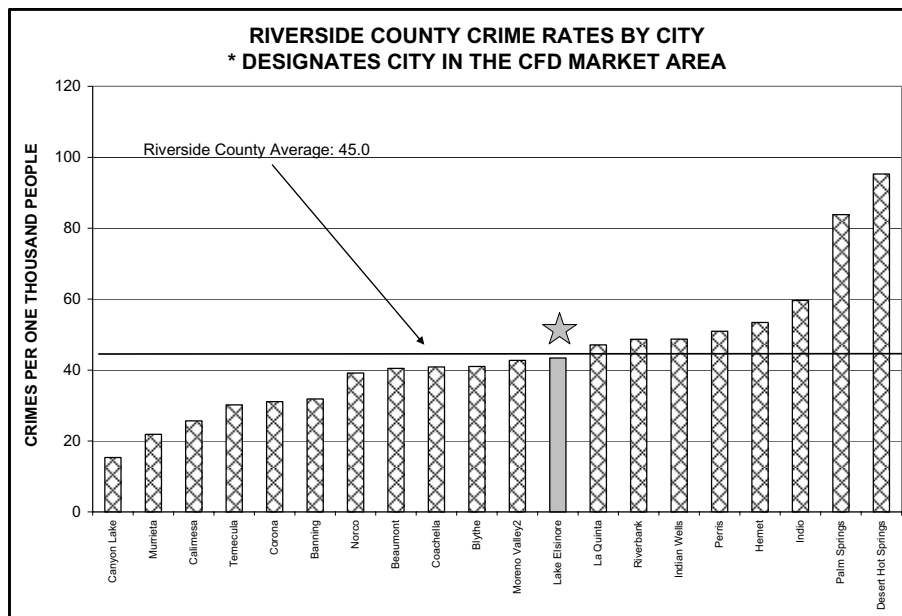
Crime Levels and Neighborhood Safety

To gauge the safety of Riverside County and the CFD No. 2005-2 IA-A Neighborhood Area, information on crime levels was obtained utilizing the Federal Bureau of Investigation (FBI) Index for the 2003 calendar year.

The FBI Crime Index represents a compilation of crime data using the Uniform Crime Reporting system to ensure reliability and consistency among various geographical areas. The FBI Crime Index has two components for crime: violent crime and property crime. Violent crime consists of murder and non-negligent man-slaughter, forcible rape, robbery, and aggravated assault. Property crime consists of burglary, larceny-theft, motor vehicle theft and arson. For the State of California, approximately 88% of all crimes are property crimes whereas 12% are violent crimes. However, it should be noted that these statistics do not measure the “human or emotional” reactions of individuals to different types of crime. To adjust for the population differences of various geographical areas, Empire Economics divides the crime levels by the population to represent the number of crimes per 1,000 people.

For California, as a whole, the average crime rate is approximately 40.2 per 1,000 people per year. For Southern California the rate is 39.1, slightly lower than the state, while for Riverside County, the rate is 45.0. So, Riverside County has a somewhat higher crime rate than either California or Southern California.

According to the FBI index, Riverside County has a crime rate of about 45 per 1,000 people per year. With respect to the CFD No. 2005-2 IA-A Neighborhood Area, which includes the City of Lake Elsinore, has a slightly lower crime rate, some 43.4.

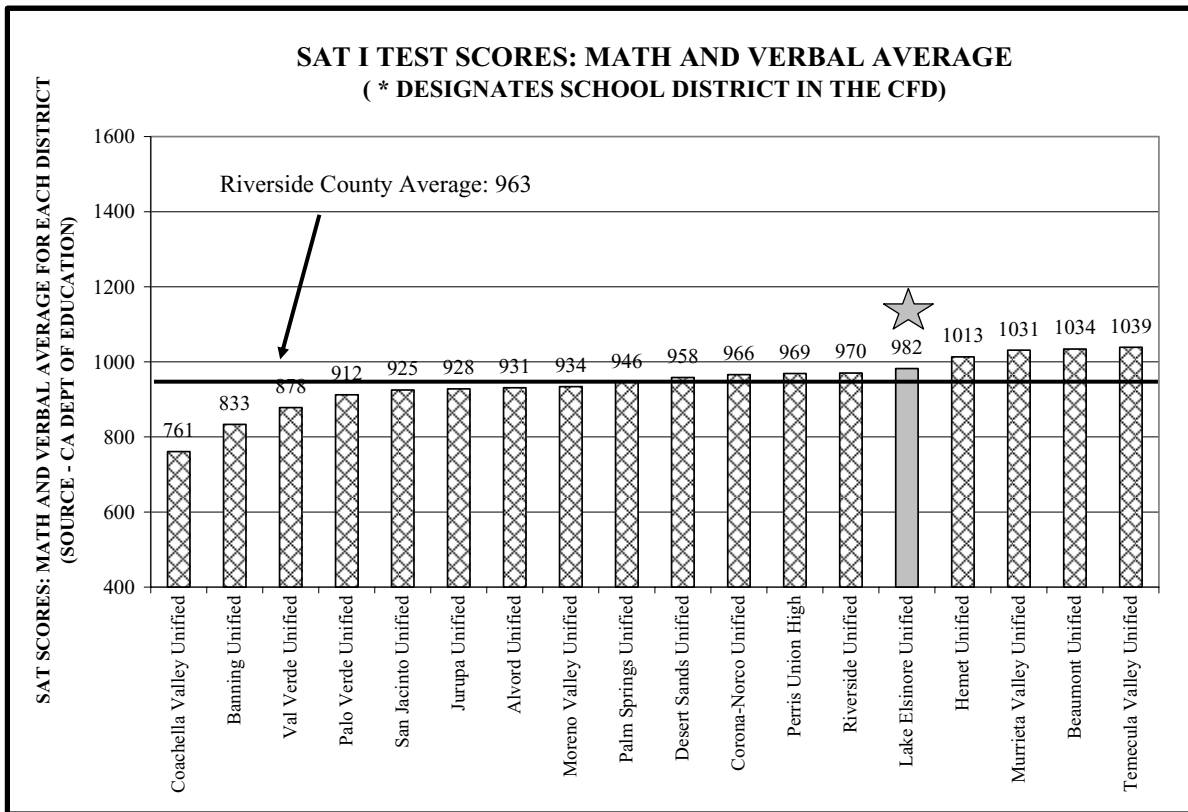


Quality of Schools and Education

To gauge the quality of schools in Riverside County and the CFD No. 2005-2 IA-A Neighborhood Area, information was compiled on educational achievement, specifically the SAT I scores.

For the Southern California counties, as a whole, the SAT I scores (with 1,600 being the highest possible) were at a level of 1,014 and this is similar to the scores for California as a whole, some 1,015. While for Riverside County, in particular, the SAT I scores amount to 963, somewhat below the overall averages for California and also Southern California.

For Riverside County, the average SAT I score was 963. For the school district in the CFD No. 2005-2 IA-A Neighborhood Area, the Lake Elsinore Unified School District, their SAT I score amounts to 982, and this is somewhat higher than for Riverside County as a whole.



Therefore, from a socioeconomic perspective, Riverside County has a somewhat higher crime rate and a somewhat lower educational achievement level than California and also Southern California, as a whole. By comparison, the City of Lake Elsinore, wherein CFD No. 2005-2 IA-A is situated, has a slightly lower crime rate and the school district has a slightly higher educational achievement level than the county as a whole, and so CFD No 2005-2 IA-A is considered to be in a generally desirable socioeconomic area.

OVERVIEW OF RECENT/EXPECTED FACTORS UNDERLYING CHANGES IN HOUSING PRICES

During 1980-2001 housing appreciation was driven by the fundamental factor of employment growth, along with accommodating financial factors, such as stable or somewhat declining mortgage rates. However, since early 2002, the primary fundamental factor, employment growth, has experienced only minimal growth; instead, housing appreciation has been driven by financial factors. Thus, there has been a structural shift in the forces driving housing price appreciation, from employment growth to financial factors. Specifically, these financial factors include first, fixed mortgage rates declining to historic lows, then a shift to adjustable rate mortgages, and, most recently, the use of “creative” mortgage structures.

The acceptance of these aggressive financial structures by households has been based, to a large, degree, on their perceptions of escalating rates of housing price appreciation and a severe housing shortage; however, these perceptions may have been somewhat exaggerated. Furthermore, the use of these aggressive mortgage structures has been bolstered by homebuilders that have their own mortgage companies as well as lending institutions that desire to retain their business levels.

However, unlike fundamental factors, these financial factors are subject to a substantial amount of volatility within a short period of time; in fact, there are substantial economic forces that are likely to emerge during the near term that should result in a substantial rise in interest rates, such as record levels of federal and trade deficits. As mortgage rates rise, particularly for households with adjustable rate loans and creative loan structures, some of them, that cannot keep pace with the higher payments will need to sell their homes at reduced prices, since the new purchasers will have to qualify for loans with higher mortgage rates.

The result would be a housing market bubble that will cause some price adjustments, but these adjustments are not expected to be broad based but rather specific to those homeowners that overburdened themselves by using adjustable rate loans and creative mortgage structures. By comparison, those homeowners who positioned themselves with fixed-rate loans and who do not sell their home during the next several years are not likely to be impacted adversely.

Interrelationships of Employment Growth, Mortgage Rates and Housing Price Changes: 1984-2001

The most significant factor underlying changes in housing prices/sales has been the rate of employment growth. Specifically, employment growth is regarded as being a “fundamental” factor because the creation of job growth drives the demand for housing: when employment growth is robust, housing prices/sales are also strong, and, conversely, when employment losses occur, then housing prices/sales are weak.

The next most significant factor underlying housing price changes would be the mortgage financing that is available to households. This includes the effective mortgage rate on a loan as well as the credit criteria utilized by lending institutions, such as the loan to value ratio and the mortgage to income ratio. This is regarded as a “financial” factor, since it is not, by itself, a direct determinant of the amount of housing demand; instead, it impacts the price of a home that a household can afford. More favorable financial factors, such as declining mortgage rates and/or easier qualifying terms, typically result in stronger rates of housing price appreciation.

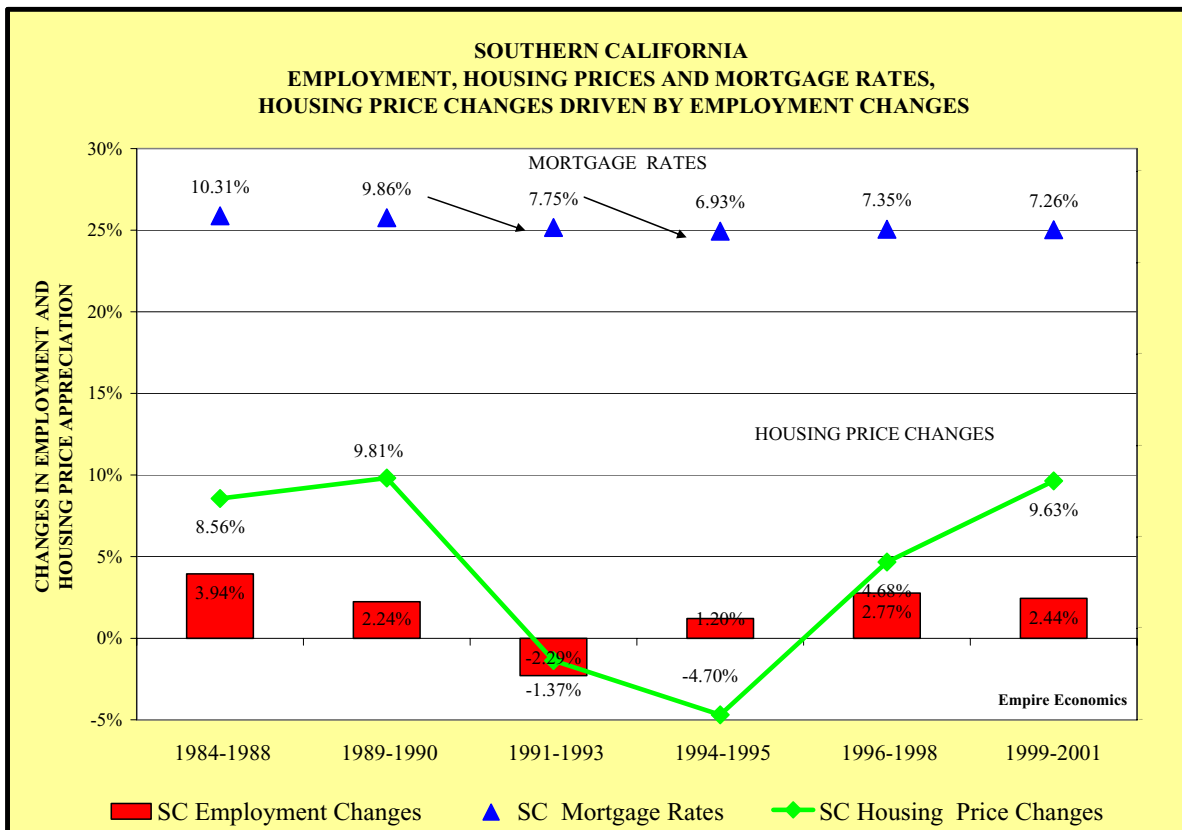
The specific impacts of employment growth and mortgage rates on housing prices for Southern California (SC) during the two recent economic cycles that span the 1984-2001 time period are now discussed.

Prior Economic Cycle: 1984-1993

- During 1984-1988, employment growth in SC was strong (+3.94%/yr.) but housing appreciation was only moderate (+8.56%/yr.) because mortgage rates were relatively high (10.31%).
- During 1989-1990, as the rate of employment growth for SC continued to be strong (+2.24%/yr.) and mortgage rates declined (from 10.31% to 9.86%), there was an acceleration in the rate of housing price appreciation (+9.81%/yr.).
- Then, during 1991-1993, when the SC economy experienced an economic recession with employment losses (-2.29%/yr.), housing prices declined (-1.37%/yr.) despite a significant decrease in mortgage rates (9.86% to 7.75%).

Current Economic Cycle: 1994 to 2001

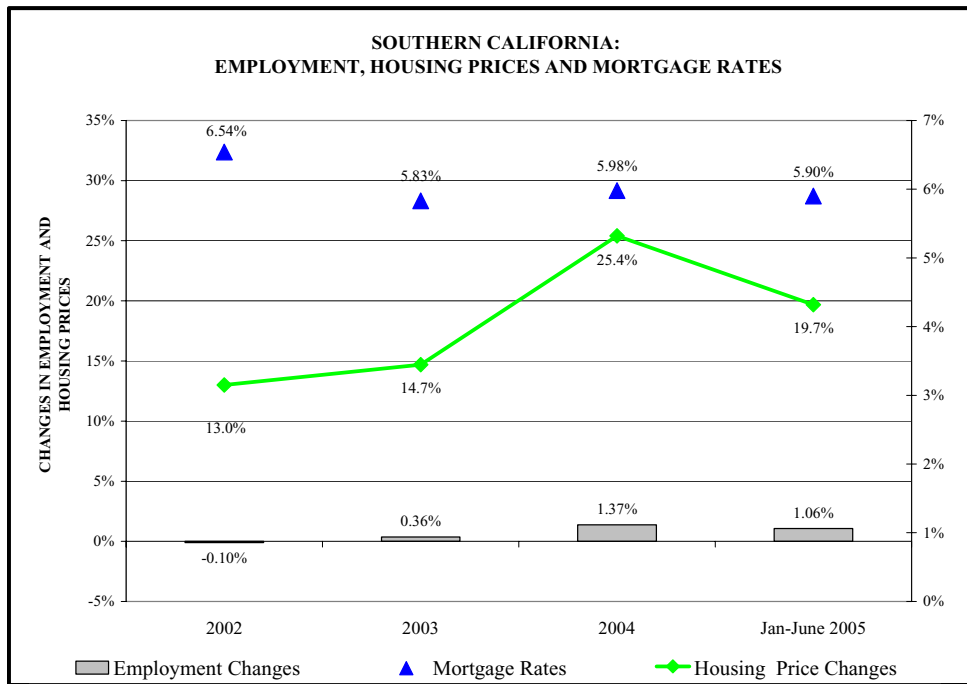
- During 1994-1995, the SC economy started to recover, with increasing employment growth (1.20%) but housing prices continued to decline (-4.70%) further despite lower mortgage rates (7.75% to 6.93%); this can be attributed to the time lags between the employment and housing markets, as households required additional time to gain their confidence as they recovered from the economic recession.
- Then, during 1996-1998, as the SC economic recovery gained momentum with stronger employment growth (+2.77%/yr.), prices started to rise (+4.68%) despite slightly higher mortgage rates (6.93% to 7.35%).
- During 1999-2001, the rate of SC employment growth continued at a strong level (+2.44%/yr.) and mortgage rates declined (7.35% to 7.26%), resulting in a strong rate of price appreciation (9.63%).



Housing Price Appreciation: 2002 to Mid-2005: Financial Factors

During 2002 to mid-2005 the primary factors underlying housing price appreciation have been financial factors, such as historically low fixed rates as well as adjustable rate mortgages, rather than the traditional factor of employment growth, which has been minimal.

- For 2002, SC's employment declined (-0.10%) yet price appreciation accelerated (+13.0%), primarily as a result of lower levels of mortgage rates (6.97% to 6.54%), reflecting a disequilibrium between weak employment growth and very strong price appreciation.
- For 2003, SC's employment growth was meager (+0.36%) yet price appreciation continued to be strong (+14.7%), primarily as a result of dramatically lower levels of mortgage rates (6.54% in 2002 to 5.83% in 2003), reflecting a continuation of the disequilibrium between weak employment growth and very strong price appreciation.
- For 2004, SC's employment started to recover (+1.37%) but price appreciation continued to be even stronger (+25.4%), despite fixed rate mortgages rising slightly (5.83% in 2003 to an estimated 5.98% in 2004); the continued price appreciation can be explained by households shifting from fixed rate to variable rate mortgages as well as creative mortgage structures.
- During January – June 2005, SC's employment continued to be minimal (+1.06%) and price appreciation moderated some (+19.7%), and fixed rate mortgages declining slightly (5.98% in 2004 to 5.90% during January to June 2005); the continued price appreciation can be explained by households shifting from fixed rate to variable rate mortgages as well as creative mortgage structures.



Financial Factors and Housing Price Appreciation: 2002 to Mid-2005

The housing price appreciation during 2002 to mid-2005 for Southern California has been driven primarily by financial factors: first, fixed mortgage rates declining to historic lows, then a shift to adjustable rate mortgages, and, most recently, the use of “creative” mortgage structures; accordingly, these are now discussed.

- During 2002 to 2nd-2003, fixed-rate mortgage loans declined from 6.54% in 2002 to an historic low of 5.51% in 2nd-2003. Given the same monthly mortgage payment, the decline in the mortgage rates would support a housing price increase of some 14%. By comparison, the actual rate of housing price appreciation amounted to some 14% on an annualized basis.
- Starting in 3rd-2003, fixed rate mortgage rose significantly from 5.51% in 2nd-2003 to 6.03% in 3rd-2003, and have remained above their historic lows, with the most recent being some 5.90% for the 2nd-2005. However, since the Federal Reserve Board continued to maintain a low discount rate, 1 year adjustable rate mortgages, based upon short-term yields, remained at low levels. This created a significant differential between the 30 year fixed rate of 6.03% versus the 1 year adjustable variable rate of 3.74% in the 3rd-2003. Consequently, homebuyers shifted from fixed to variable types of loans. Given the same monthly mortgage payment, a shift to the variable rate (full amortized) would support a housing price increase of some 17%. By comparison, the actual rate of housing price appreciation amounted to some 17% on an annualized basis.
- Starting in June 2004, the Federal Reserve Board began to increase the discount rate from 1.0% to 3.25% in June 2004, thereby resulting in the rate on 1 year adjustable mortgages from 3.53% in the 1st-2004 to 4.30% in the 2nd-2005. In response to the increase in adjustable rate mortgages, the next step for home buyers was to shift from adjustable loans being amortized (payment of principal and interest) to various types of creative financial structures, such as interest only loans. Given the same monthly mortgage payment, a shift to the variable rate (interest-rate only – no amortization) would support a housing price increase of some 21%. By comparison, the actual rate of housing price appreciation amounted to some 23% on an annualized basis.

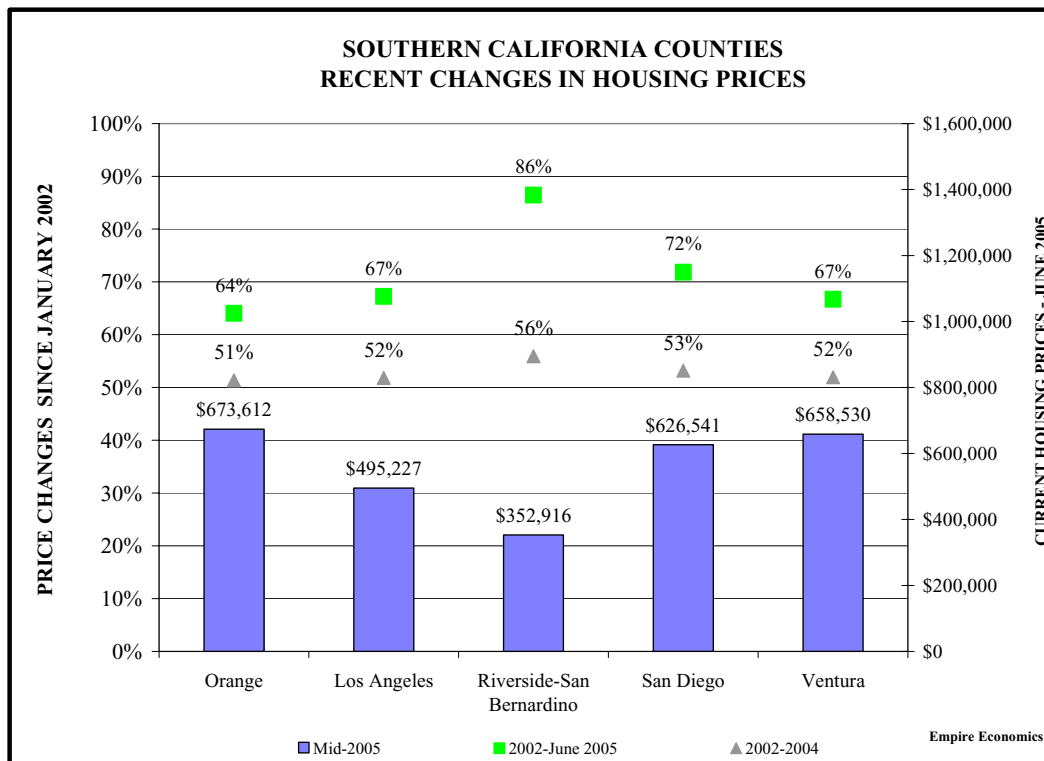
Therefore, housing price appreciation since early 2002 has been driven by households taking advantage of historic low fixed rates, then a shift to adjustable rate mortgages, and finally, the use of creative financing structures. Specifically, for the same monthly mortgage payment, the use of lower mortgage rates have enabled households to bolster prices substantially since early 2002.

For additional information on the role of the financial factor underlying price appreciation during 2002 to mid-2005 for Southern California and Riverside County, please refer to the following graphs

Potential Impact of “Other” Non-Financial Factors on Recent Price Appreciation

The above analysis has demonstrated that the primary factors underlying the strong rates of housing price appreciation during 2002 to mid-2005 have been historically low level of mortgage rates along with homes buyers utilizing variable rate mortgages as well as creative mortgage structures.

The prices for homes in some counties, such as Orange, Ventura and San Diego, are higher than for homes in all of the other counties, particularly Riverside and San Bernardino (Source: Dataquick);. However, the recent rates of housing price appreciation during 2002 to 2004, have been similar for all of counties, some 51% to 56%. During 2002 to the mid-2005, the rates of appreciation have been somewhat different, due to varying rates during January-June 2005, a range of some 64% to 86% (Source: Federal Housing).



Therefore, the rate of housing price appreciation, during 2002 to Mid-2005 has been generally similar among all of the Southern California counties, a range of some 64%-86%, despite significant differences in their geographic location, employment growth and housing supply; accordingly these are now discussed.

- The nominal prices of homes varies significantly among the SC counties, from a low of \$352,916 for Riverside-San Bernardino counties to a high of \$673,612 for Orange County.
- The geographic locations vary substantially, from the coastal areas of Orange, San Diego and Ventura counties to the Inland Valley and Desert areas of Riverside, San Bernardino and Los Angeles counties (most of the development in LA county is inland rather than coastal).

- The rates of employment growth have also varied substantially during 2002 to mid-2005, from a low of -0.51% per year for Los Angeles County to a high of 3.53% per year for Riverside-San Bernardino counties.
- The sectors underlying employment growth also vary substantially, among the counties: For most of the counties, financial services and construction are the strongest sectors, with the other sectors, varying by county, such as education/health, professional services, government and retail trade.
- The supply of new housing has also exhibited a wide variation during 2002 to mid-2005 as compared to 1999-2001, from declines of -26% in Ventura County and -14% in Orange County to increases of 80% in Riverside-San Bernardino counties.

Therefore, these financial factors have been so strong that they have effectively overshadowed the traditional factors such as geographical locations, employment growth and its composition and housing supply.

**COMPARATIVE ANALYSIS OF FACTORS UNDERLYING HOUSING PRICE APPRECIATION
SOUTHERN CALIFORNIA COUNTIES: 2002 to Mid-2005**

Specific Factors	Orange	Los Angeles	San Diego	Riverside San Bernardino	Ventura
Price Appreciation - Similar Among all of the SC Counties					
Price Appreciation: 2002 - 2004 (Price Index - Repeat Sales)	51.3%	51.8%	53.2%	55.9%	51.9%
Price Appreciation: 2002 - Mid-2005 (Price Index - Repeat Sales)	64.1%	67.3%	71.8%	86.4%	66.7%
Other Factors Vary Significantly Among the SC Counties					
Housing Prices: Mid - 2005	\$673,612	\$495,227	\$626,541	\$352,916	\$658,530
Geographic Location - Development	Coastal	Inland/Desert	Coastal	Inland	Coastal
Employment Growth Rate 2002 to Mid-2005	1.16%	-0.51%	1.12%	3.53%	0.79%
Strongest Employment Sectors					
Financial Services	Yes	Yes	Yes	Yes	
Construction	Yes		Yes	Yes	Yes
Education/Health	Yes	Yes			Yes
Professional Services				Yes	
Government			Yes		Yes
Retail Trade				Yes	
Residential Permits - Change (Change 2002-2004 vs. 1999-2001)	-14.3%	35.3%	5.1%	80.2%	-26.3%

Conclusions on Housing Prices

The above analysis reveals that the recent rates of housing price appreciation will need to come to terms with the weak underlying fundamental factor, low levels of employment growth. There are two primary scenarios for the resolution of the current employment/price appreciation disequilibrium, and each of these, in turn depends upon the extent to which there is a re-emergence of the fundamental factors, the economic recovery along with its employment growth.

Scenario A: Smooth Transition

This scenario is characterized by the Southern California and Riverside County economies entering their recovery phases during the foreseeable future, thereby generating employment growth and providing “fundamental” support for the housing market. Under this scenario, such employment growth would provide support for the recent rates of housing appreciation, and allow the market to return to an equilibrium, even if mortgage rates rise moderately.

Scenario B: Abrupt Transition

This scenario is characterized by the Southern California and Riverside County economies experiencing only minimal amounts of employment growth during the foreseeable future, and so the recovery phase would be delayed. Consequently, there would not be sufficient employment growth to provide the “fundamental” support for the housing market. Under this scenario, without substantial employment growth, the rate of housing appreciation could stabilize, and there may even be a potential for actual declines in housing prices, if mortgage rates should rise substantially.

The most probable scenario for Riverside County is for the rate of housing price appreciation to moderate during 2005, as compared to the relatively strong rates that were experienced during 2001-2004, based upon a consideration of the following factors:

Factors which will tend to bolster price appreciation are as follows:

- Economic recovery, with stronger rates of employment growth.
- Willingness of households to utilize variable rate and interest-rate only loans.

Factors that may tend to mitigate price appreciation are as follows:

- The strong rates of price appreciation in recent years and record levels of prices have caused housing affordability to be relatively low.
- Upward pressure on mortgage rates as the economy recovers.
- Upward pressure as a result of the large federal budget deficits.
- Risk of short-term variable rate loan rates rising as the economy recovers.

Therefore, based upon a consideration of the factors discussed above, the rate of housing price appreciation for Riverside County during 2005 is expected to moderate.

COMPETITIVE MARKET ANALYSIS OF THE PROJECTS IN THE CFD NO. 2005-2 IA-A COMPETITIVE HOUSING MARKET AREA

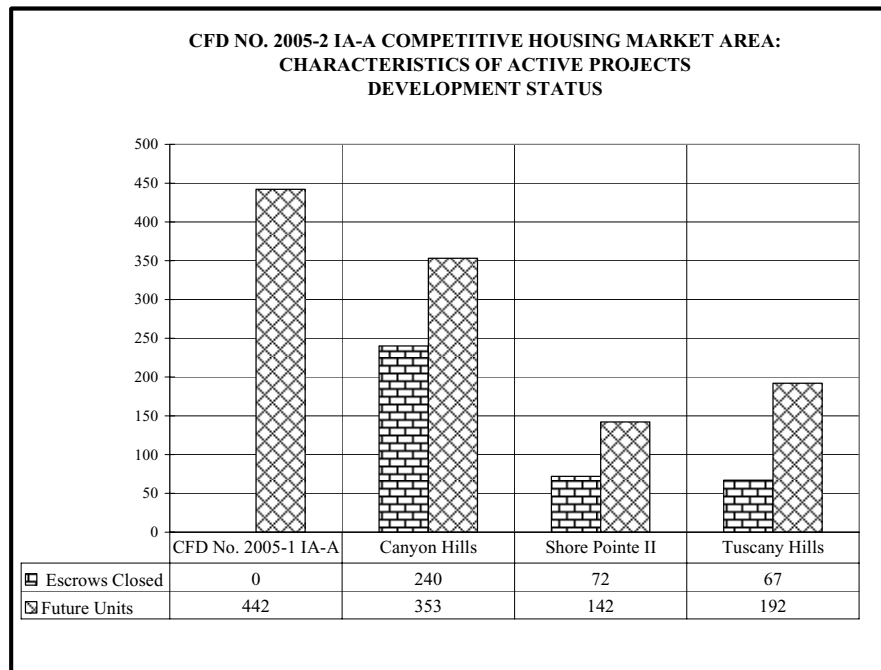
The purpose of this section is to provide an overview of the currently active Planned Communities and their projects in the CFD No. 2005-2 IA-A Competitive Housing Market Area, and then to compare these to the expected characteristics of the active/forthcoming residential projects in CFD No. 2005-2 IA-A.

Competitive Market of CFD No. 2005-2 IA-A by Planned Communities/Projects

The CFD No. 2005-2 IA-A Housing Competitive Market Area currently has three Major Planned Communities (PCs) that are located in the City of Lake Elsinore: Canyon Hills, Shore Pointe II and Tuscany Hills.

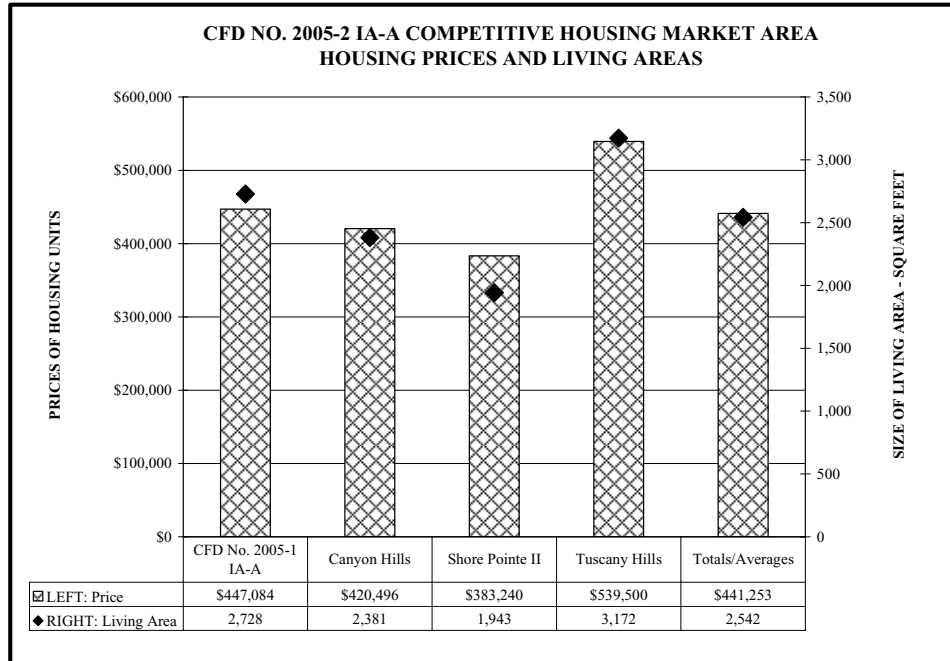
These PCs, with their nine active projects, along with CFD No. 2005-2 IA-A, with its four active/forthcoming projects, have a total of 1,508 housing units: 1,066 homes in the currently active projects in the PCs and another 442 homes in the active/forthcoming projects in CFD No. 2005-2 IA-A. Of these, 379 homes have closed escrow, all of which are in the PCs, and so they are considered to be occupied.

- CFD No. 2005-2 IA-A: 2 active and 2 forthcoming projects with 442 homes.
- Canyon Hills: 5 projects with 593 homes of which 240 have closed escrow.
- Shore Pointe II: 2 projects with 214 homes of which 72 have closed escrow.
- Tuscany Hills: 2 projects with 259 homes of which 67 have closed escrow.



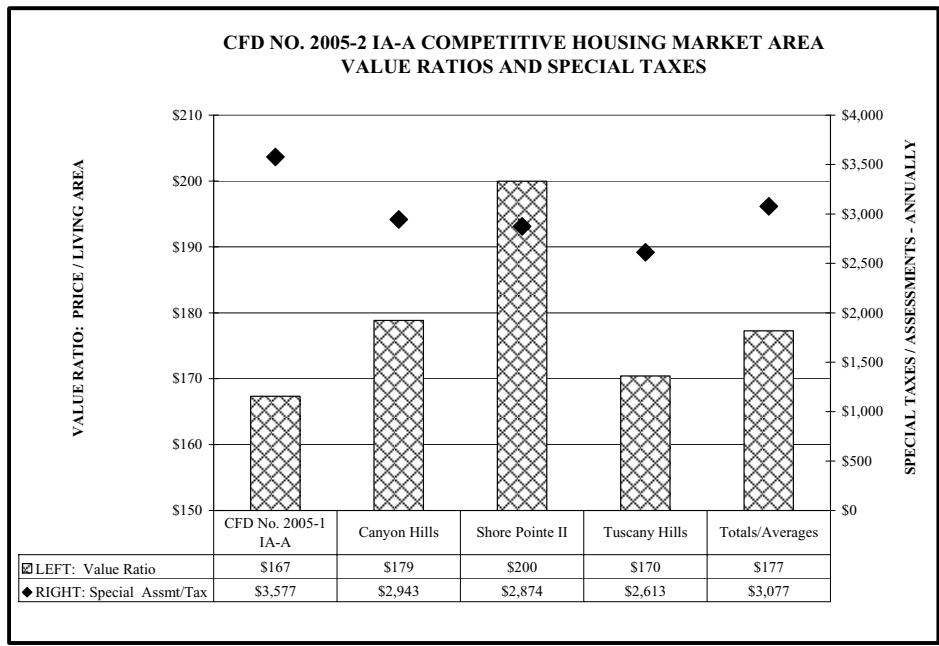
The prices of homes in these projects, including the currently active comparable projects and also the projects in the CFD, are some \$441,253 for some 2,542 sq.ft., on the average, and the prices for the projects in the various categories are as follows:

- CFD No. 2005-2 IA-A: \$447,084 for some 2,728 sq.ft. of living area.
- Canyon Hills: \$420,496 for some 2,381 sq.ft. of living area.
- Shore Pointe II: \$383,240 for some 1,943 sq.ft. of living area.
- Tuscany Hills: \$539,500 for some 3,172 sq.ft. of living area



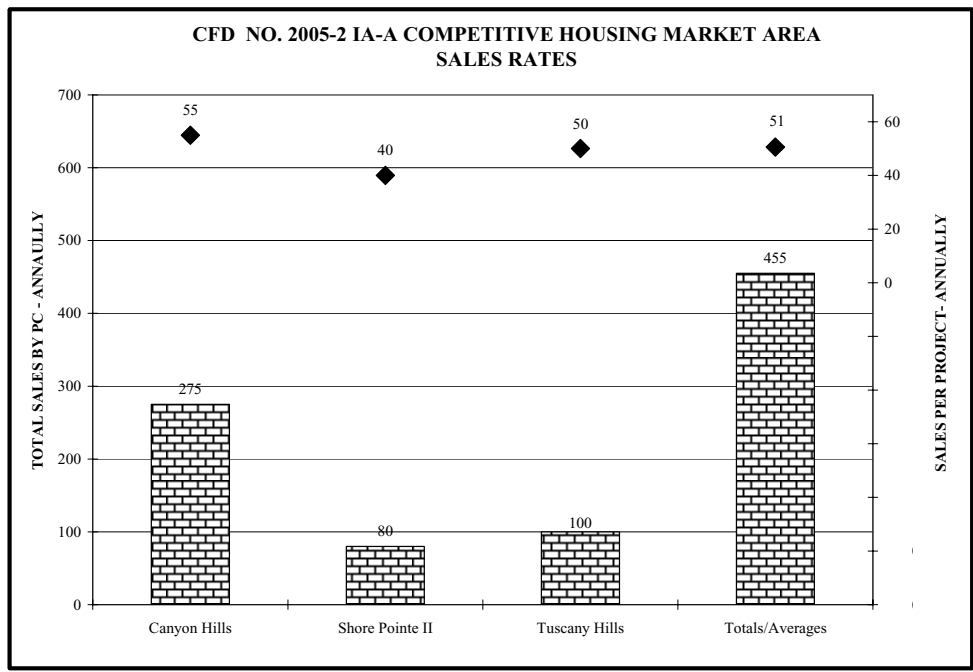
To compare the prices of the homes in these projects, their value ratios are utilized, the price per sq. ft. of living area, since this effectively makes adjustments for differences in their sizes of living areas. Accordingly, the value ratios for all of the projects amount to \$177 per sq. ft. of living area and their Special Taxes/Assessments amounts to some \$3,077/yr. (0.71% as a ratio to the housing prices); accordingly, the value ratios and Special Tax/Assessment characteristics for the product types in CFD No. 2005-2 IA-A and the currently active comparable projects are as follows:

- CFD No. 2005-2 IA-A has an expected value ratio of \$167 and the Special Taxes/Assessments amount to \$3,577/yr. (0.80%).
- Canyon Hills has a value ratio of \$179 and the Special Taxes/Assessments amount to \$2,943/yr. (0.70%).
- Shore Pointe II has a value ratio of \$200 and the Special Taxes/Assessments amount to \$2,874/yr. (0.75%).
- Tuscany Hills has a value ratio of \$170 and the Special Taxes/Assessments amount to \$2,613/yr. (0.49%).

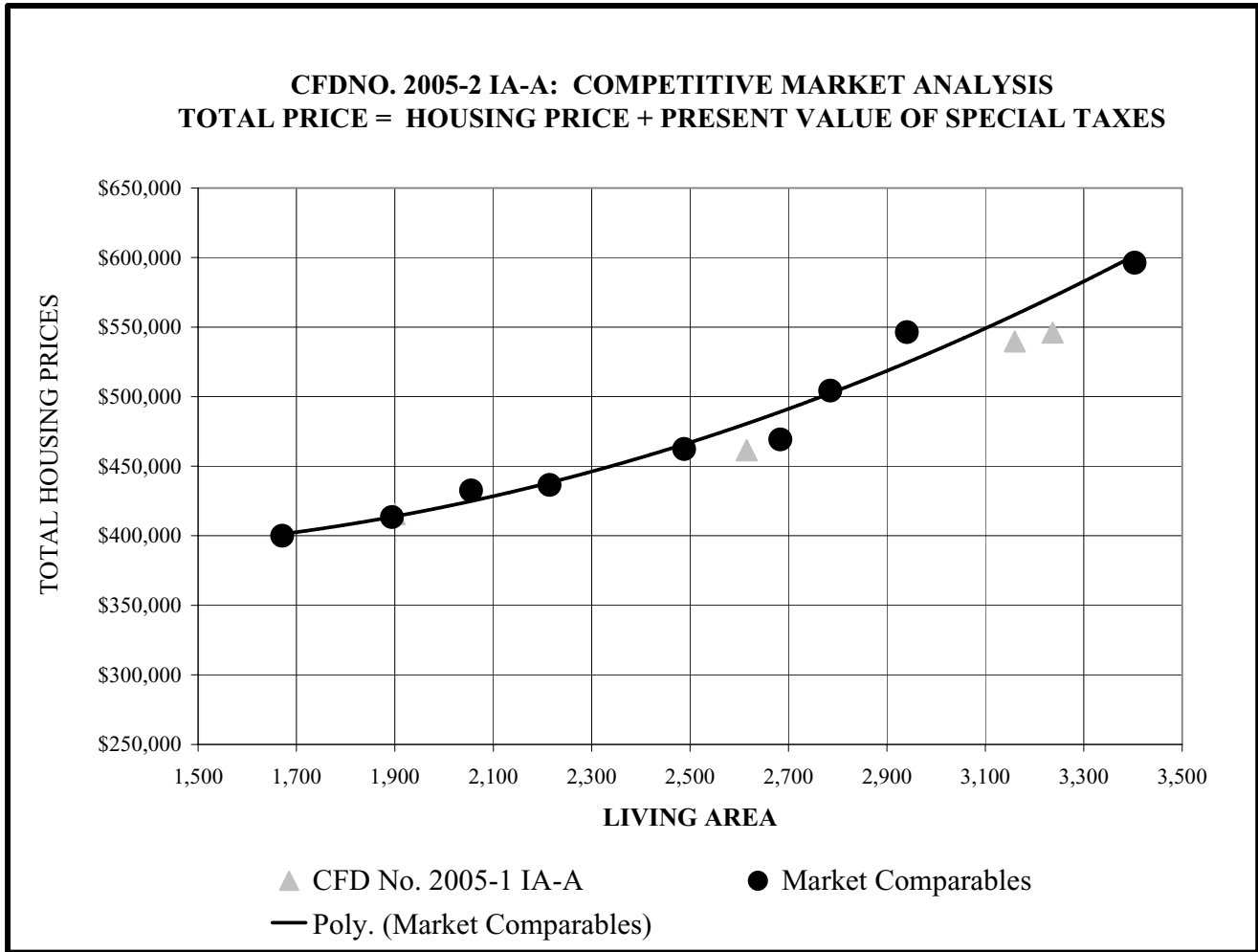


The currently active residential projects have experienced a sales rate/escrow closings at a rate of some 455 homes per year, for an average of some 51 units per project per year; the distribution of these sales among the various PCs/Projects is as follows:

- The five projects in Canyon Hills have an overall sales rate of 275 homes annually, some 55 per project, on the average.
- The two projects in Shore Pointe II have an overall sales rate of 80 homes annually, some 40 per project, on the average.
- The two projects in Tuscany Hills have an overall sales rate of 100 homes annually, some 50 per project, on the average.



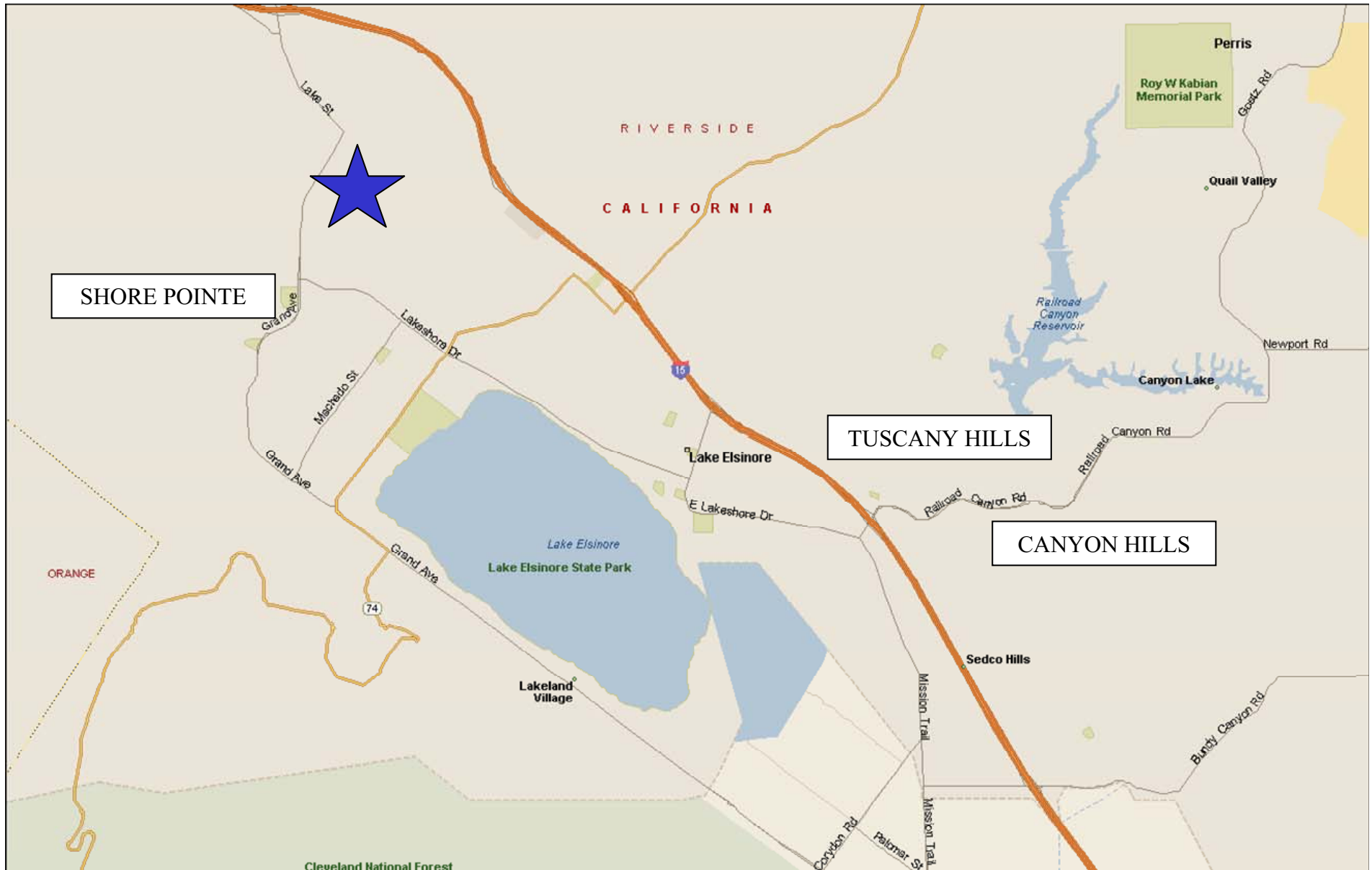
Finally, a comparison of the “total price” (the base price along with the present value of the Special Taxes) for the projects in CFD No. 2005-2 IA-A is compared to the other projects with detached housing products, and this reveals that the proposed prices for the CFD No. 2005-2 IA-A products are competitive in the marketplace.



Therefore, based upon a competitive market analysis, the products/projects in CFD No. 2005-2 IA-A are regarded as being competitive in the marketplace, with regards to its “total prices” being similar to the other comparable projects that offer single-family detached housing products.

Project Locations	Code	Project	Builder	Product Type / Lot Sizes	Project Size and Sales				Housing Prices.			Size of Living Area			Value Ratio	Special Assessments/Taxes	
					Total	Escrows Closed	Future	Sales Rate/Yr.	Lower	Average	Upper	Lower	Average	Upper		Amount/Year	Ratio/Price
CFD No.2005-2 IA-A	* Star	Saballo	Castle & Cooke	Single-family Detached	142	0	142	N/A	\$382,000	\$420,500	\$465,000	2,010	2,615	3,120	\$161	\$3,364	0.80%
CFD No.2005-2 IA-A	* Star	Capella	Castle & Cooke	Single-family Detached	127	0	127	N/A	\$450,000	\$497,500	\$540,000	2,531	3,237	3,838	\$154	\$3,980	0.80%
CFD No.2005-2 IA-A	* Star	Ashbury	Castle & Cooke	Single-family Detached	107	0	107	N/A	\$465,000	\$491,667	\$520,000	2,775	3,160	3,582	\$156	\$3,933	0.80%
CFD No.2005-2 IA-A	* Star	Product A	Castle & Cooke	Single-family Detached	66	0	66	N/A	\$360,000	\$378,667	\$398,000	1,600	1,900	2,200	\$199	\$3,029	0.80%
Canyon Hills	1	Riverbend	Pardee Homes	4,000	127	102	25	65	\$361,800	\$380,895	\$399,990	1,683	1,894	2,105	\$201	\$2,666	0.70%
Canyon Hills	2	Cross Creek	Pardee Homes	4,600	147	0	147	60	\$373,900	\$398,588	\$423,275	1,671	2,055	2,439	\$194	\$2,790	0.70%
Canyon Hills	3	Cedar Point	KB Home	6,000	111	42	69	35	\$398,990	\$425,995	\$453,000	2,103	2,488	2,873	\$171	\$2,982	0.70%
Canyon Hills	4	The Willows	Pardee Homes	7,500	99	96	3	60	\$368,900	\$432,313	\$495,725	2,093	2,684	3,274	\$161	\$3,026	0.70%
Canyon Hills	5	Briarcliff	Pardee Homes	5,000	109	0	109	55	\$454,050	\$464,688	\$475,325	2,485	2,785	3,085	\$167	\$3,253	0.70%
Shore Pointe II	6	Emerald Collection	Forecast Homes	7,500	98	0	98	40	\$355,990	\$366,490	\$376,990	1,342	1,671	2,000	\$219	\$2,749	0.75%
Shore Pointe II	7	Diamond Collection	Forecast Homes	9,000	116	72	44	40	\$384,990	\$399,990	\$414,990	1,871	2,215	2,558	\$181	\$3,000	0.75%
Tuscany Hills	8	Stone's Throw	Pulte Homes	6,000	126	55	71	50	\$505,000	\$515,000	\$525,000	2,388	2,941	3,493	\$175	\$2,575	0.50%
Tuscany Hills	9	Watermark	Pulte Homes	8,000	133	12	121	50	\$543,000	\$564,000	\$585,000	2,965	3,404	3,842	\$166	\$2,651	0.47%
Statistical Summary																	
			Sales / Year														
CFD No. 2005-2 IA-A			N/A	4	442	0	442	0	\$414,250	\$447,084	\$480,750	2,229	2,728	3,185	\$167	\$3,577	0.80%
Canyon Hills			55	5	593	240	353	275	\$391,528	\$420,496	\$449,463	2,007	2,381	2,755	\$179	\$2,943	0.70%
Shore Pointe II			40	2	214	72	142	80	\$370,490	\$383,240	\$395,990	1,607	1,943	2,279	\$200	\$2,874	0.75%
Tuscany Hills			50	2	259	67	192	100	\$524,000	\$539,500	\$555,000	2,677	3,172	3,668	\$170	\$2,613	0.49%
Totals/Averages			51	13	1,508	379	1,129	455	\$415,663	\$441,253	\$467,100	2,117	2,542	2,955	\$177	\$3,077	0.71%

COMPETITIVE HOUSING MARKET AREA LOCATION OF PLANNED COMMUNITIES



BUILDING PERMIT TRENDS IN THE CITY OF LAKE ELSINORE

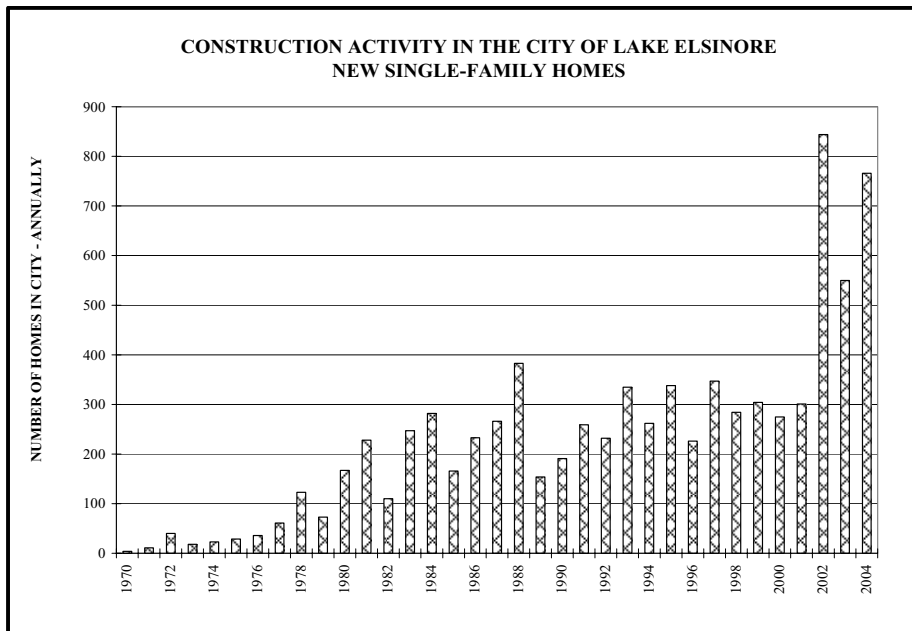
The purpose of this section is to discuss the construction activity for single-family, multiple-family, industrial, retail, and office in the City of Lake Elsinore, in particular.

Accordingly, a discussion of these factors will provide an understanding of the recent trends and patterns for construction of new homes and industrial-commercial buildings in the City of Lake Elsinore.

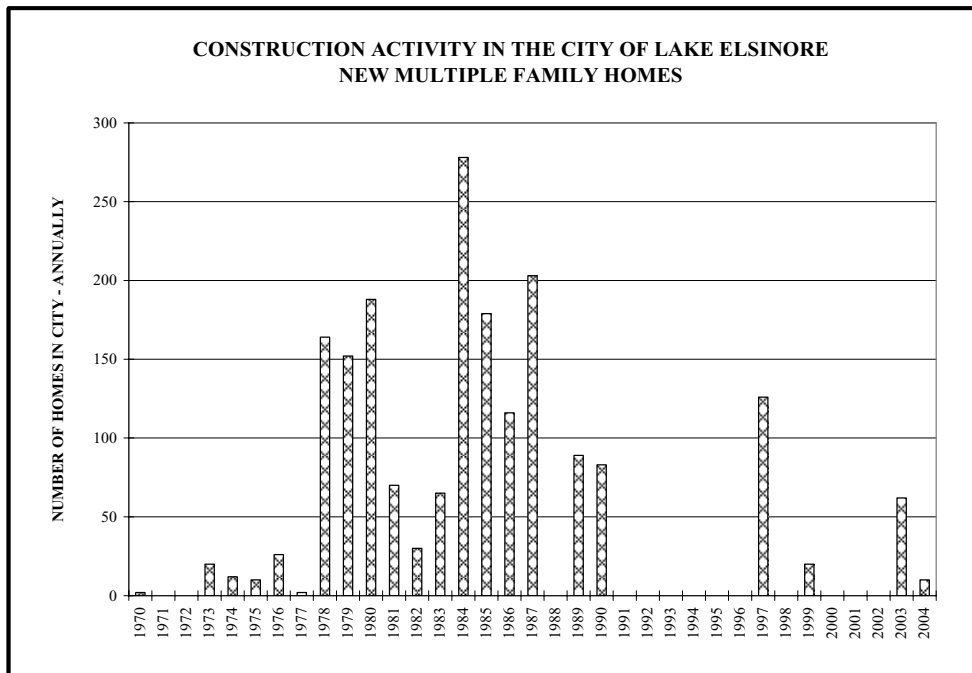
Industrial, office, and retail construction activity is reported in dollar valuations; these are adjusted to real 2004 dollars so that the impact of inflation does not distort the analysis.

City of Lake Elsinore: Single-Family and Multiple-Family Homes

For the City of Lake Elsinore, the number of new single-family homes during 1970-2004 has demonstrated consistently higher levels of activity: 42 homes per year during the 1970s, on the average, 224 homes per year in the 1980s, on the average, 278 homes per year in the 1990s, on the average, and then some 547 homes per year during 2000-2004, on the average.



For the City of Lake Elsinore, the number of new multiple-family homes (primarily apartments) during 1970-2004 has been minimal with the exception of a major period of growth during 1978 to 1987, when the level of activity amounted to some 145 units per year, on the average, and then a spurt of activity in 1997, with some 126 units.



City of Lake Elsinore: Industrial, Office, and Retail Values

For the City of Lake Elsinore, there has been a moderate amount of new industrial construction activity 1982-1990, when activity amounted to some \$3.3 million per year, on the average, but then the amount of activity rose to some \$4.9 million per year during 1999-2004, on the average; for the other years, the level of activity has been minimal.

For the City of Lake Elsinore, the development of new office occurred during the 1980-1992 time period; since then, there has not been any such activity. During 1980-1992 time period, office development activity amounted to some \$1.926 million per year, on the average.

For the City of Lake Elsinore, the construction of new retail structures has occurred in a somewhat sporadic pattern during the 1980-2004 time period, with the overall level of activity amounting to some \$3.3 million per year, on the average. The peak levels of activity occurred in 1987, 1991 and 1994, as a result of new large commercial centers entering the marketplace.

City of Lake Elsinore: Conclusions on New Construction Activity

The City of Lake Elsinore experienced a record level for single-family activity in 2002, some 844 homes, and this was followed by strong years in 2003 with 550 homes and 2004 with 766 homes. For multiple-family homes, the level of activity has been minimal since 1990, with 126 new units in 1997 and 62 new units in 2003. For industrial development, the levels of activity have been moderately strong since 1999 and so the City is starting to establish its own economic base. However, with regards to new office development, there has not been any such activity since 1992. Finally, for retail development, there has been only a moderate amount of such activity in recent years.

Therefore, the City of Lake Elsinore has exhibited record levels of activity for single-family homes during 2002 through 2004; however, due to the moderate level of industrial activity and no office activity, the demand for new housing is coming primarily from commuters which also has resulted in moderate levels of retail developments.

ESTIMATED ABSORPTION SCHEDULES FOR THE PROJECTS IN CFD NO. 2005-2 IA-A (ALBERHILL RANCH)

The purpose of this section is to estimate the absorption schedules for the residential products/projects in CFD No. 2005-2 IA-A; accordingly, this is based upon a consideration of the following:

First, the potential demand schedules for the residential products/projects for CFD No. 2005-2 IA-A were derived, based upon a consideration of the following:

- The growth prospects for the Southern California Market Region, in general, and Riverside County, in particular.
- How much of this growth the CFD No. 2005-2 IA-A Market Area is expected to capture, in particular.
- The proportion of the Market Area demand that is expected to be captured by the projects in CFD No. 2005-2 IA-A, based upon an evaluation of their competitiveness in the marketplace.

Then, the absorption rate for the residential and products/projects in the various market segments are calculated, from the year in which the products/projects are expected to enter the marketplace, and continuing thereafter on an annualized basis, until all of the units are occupied. The absorption represents the completed construction of the structure as well as being occupied by a homeowner.

Accordingly, the estimated absorption schedule for the projects in CFD No. 2005-2 IA-A are estimated to be as follows:

- Satio by Castle & Cooke is anticipated to have a total of some 142 single-family homes on lots of some 5,200 sq.ft. that are priced at some \$382,000 to \$465,000, an average of \$420,500, for 2,010 to 3,120 sq.ft. of living area, an average of 2,615 sq.ft.

The homes in this project are expected to commence escrow closings during the 4th-2005 with an estimated absorption of 45 homes in 2005, 65 homes in 2006 and then the remaining 32 homes in 2007.

- Capella by Castle & Cooke is anticipated to have a total of some 127 single-family homes on lots of some 7,000 sq.ft. that are priced at some \$450,000 to \$540,000, an average of \$497,500, for 2,531 to 3,838 sq.ft. of living area, an average of 3,237 sq.ft.

The homes in this project are expected to commence escrow closings during the 4th-2005 with an estimated absorption of 20 homes in 2005, 55 homes in 2006 and then the remaining 52 homes in 2007.

- Ashbury by Castle & Cooke is anticipated to have a total of some 107 single-family homes on lots of some 7,000 sq.ft. that are priced at some \$465,000 to \$520,000, an average of \$491,667, for 2,775 to 3,582 sq.ft. of living area, an average of 3,160 sq.ft.

The homes in this project are expected to commence escrow closings during the 3rd-2006 with an estimated absorption of 45 homes in 2006 and then the remaining 62 homes in 2007.

- Product A by Castle & Cooke is anticipated to have a total of some 66 single-family homes on lots of some 4,000 sq.ft. that are priced at some \$360,000 to \$398,000, an average of \$378,667, for 1,600 to 2,200 sq.ft. of living area, an average of 1,900 sq.ft..

The homes in this project are expected to commence escrow closings during the 1st-2007 with an estimated absorption all of the 66 homes in 2007.

So, for the residential projects/products in CFD No. 2005-2 IA-A, they are expected to be absorbed during the 2005 to 2007 time period, starting with 65 homes in 2006, another 165 homes in 2007 and then the remaining 212 homes in 2008.

The expected absorption schedule for the residential projects in CFD No. 2005-2 IA-A can also be expressed as a capture rate of the expected market demand for the Market Area, the southwestern portion of Riverside County. Specifically, the residential capture rate reflects the percentage of the MA's demand that is fulfilled by the absorption of the homes in CFD No. 2005-2 IA-A. For the 2005-2007 time period, as a whole, the capture rate amounts to some 4.4%, on the average. In 2005, as the projects enter the marketplace, the CFD No. 2005-2 IA-A's capture rate on the MA's demand is some 1.9%. Then, during 2006, as more projects enter the marketplace, the capture rate amounts to 5.1%. Finally, in 2007, as the final project enters the marketplace, the capture rates amounts to 6.3%.

Closing Comments

The estimated absorption schedule for the residential products/projects in the CFD No. 2005-2 IA-A is subject to change due to potential shifts in economic/real estate market conditions and/or the development strategy by the builder, Castle & Cooke.

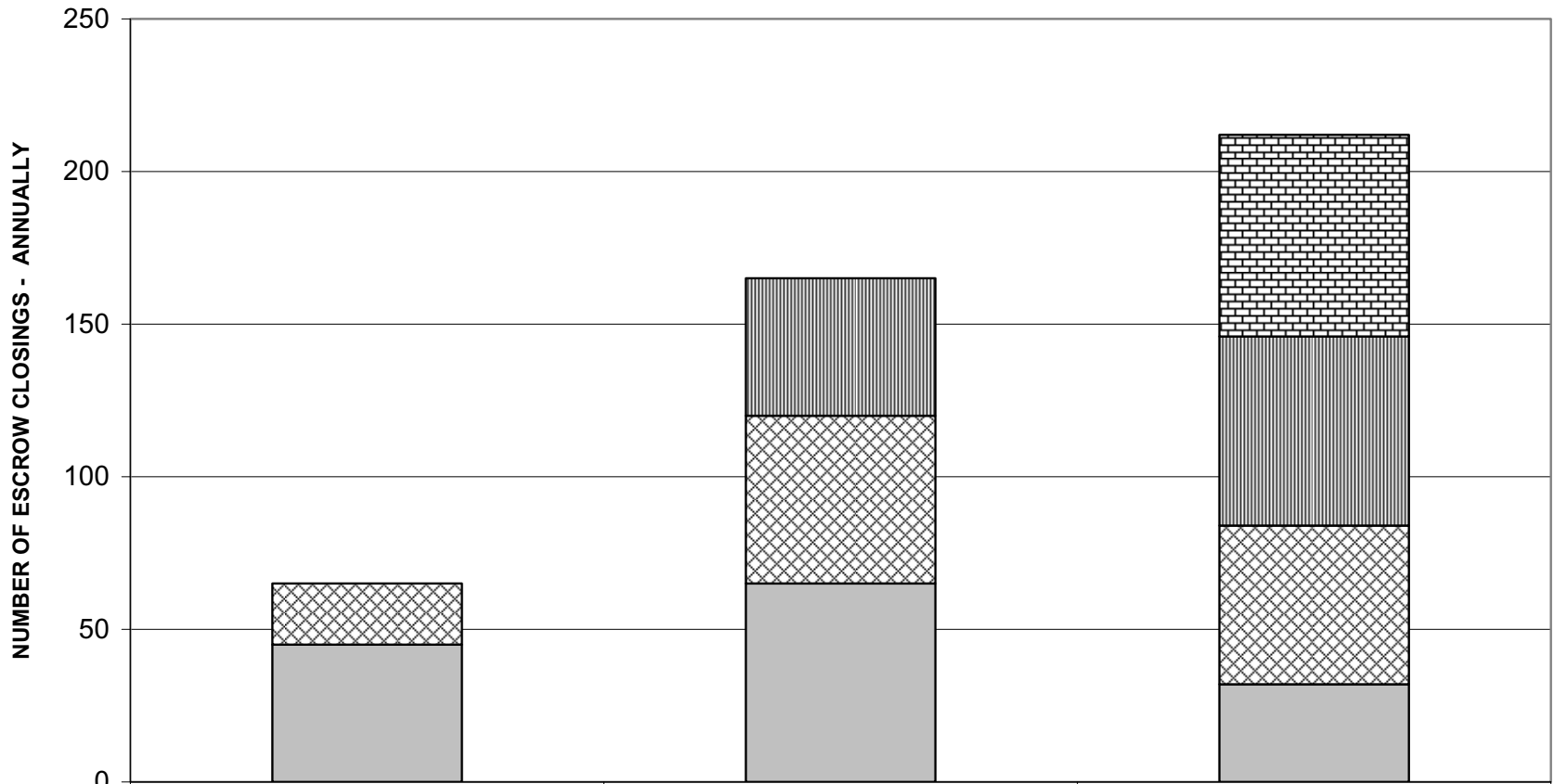
For additional information on the estimated absorption schedules for CFD No. 2005-2 IA-A, please refer to the following table and graphs.

ESTIMATED ABSORPTION SCHEDULES
CITY OF LAKE ELSINORE CFD NO. 2005-2 IA-A (ALBERHILL RANCH)

AUGUST 19, 2005; Subject to Revision

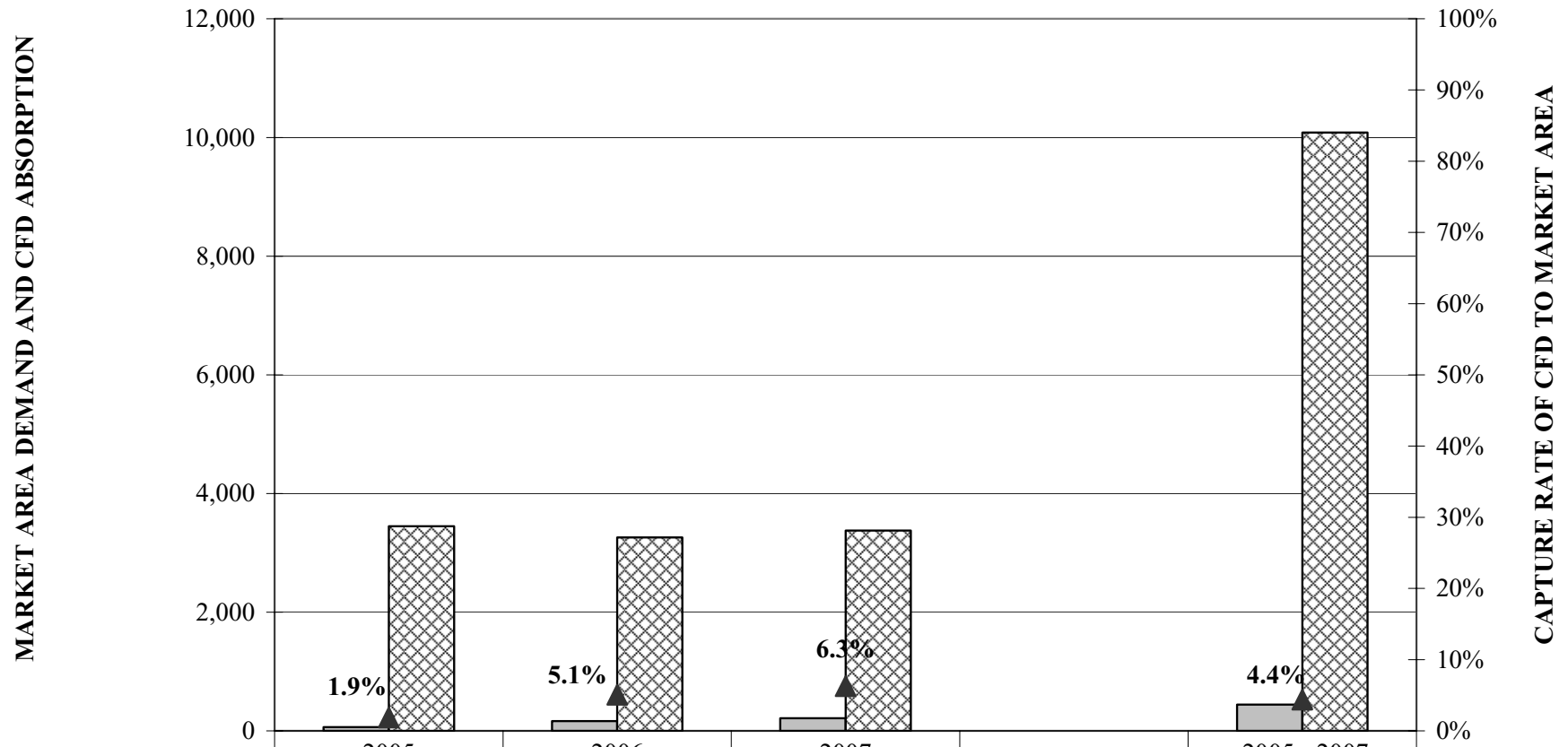
CFD Projects	Satillo	Capella	Ashbury	Product A	Annually	Cumul.
Builders	Castle & Cooke	Castle & Cooke	Castle & Cooke	Castle & Cooke		
Product Type	Single-Family Detached	Single-Family Detached	Single-Family Detached	Single-Family Detached		
Lot-Size	5,200	7,000	7,000	4,000		
Total Units - Forthcoming	142	127	107	66	442	
Share	32.1%	28.7%	24.2%	14.9%	100.0%	
Housing Prices - Builder						
Plan # 1	\$382,000	\$450,000	\$465,000	\$360,000		
Plan # 2	\$395,000	\$480,000	\$490,000	\$378,000		
Plan # 3	\$440,000	\$520,000	\$520,000	\$398,000		
Plan # 4	\$465,000	\$540,000				
Average	\$420,500	\$497,500	\$491,667	\$378,667	\$453,606	
Living Areas - Builder						
Plan # 1	2,010	2,531	2,775	1,600		
Plan # 2	2,483	3,005	3,124	1,900		
Plan # 3	2,845	3,575	3,582	2,200		
Plan # 4	3,120	3,838				
Average	2,615	3,237	3,160	1,900	2,819	
Value Ratio (Price/Living Area)	\$161	\$154	\$156	\$199	\$161	
Commence Occupancies	4th-2005	4th-2005	3rd-2006	1st-2007		
Estimated Absorption:						
2005	45	20	0	0	65	65
2006	65	55	45	0	165	230
2007	32	52	62	66	212	442
Totals	142	127	107	66	442	

CITY OF LAKE ELSINORE CFD NO. 2005-2 IA-A (ALBERHILL)
ESTIMATED RESIDENTIAL ABSORPTION SCHEDULES



	2005	2006	2007
Product A	0	0	66
Ashbury	0	45	62
Capella	20	55	52
Sattilo	45	65	32

**CITY OF LAKE ELSINORE CFD NO. 2005-2 IA-A (AMBERHILL RANCH)
ABSORPTION SCHEDULE AS WELL AS THE CAPTURE RATES**



■ CFD No.2005-2- IA-A	65	165	212		442
▣ Market Area	3,449	3,259	3,376		10,085
▲ Capture Rate	1.9%	5.1%	6.3%		4.4%

ASSUMPTIONS AND LIMITING CONDITIONS

The Market Absorption Study for CFD No. 2005-2 IA-A is based upon various assumptions and limiting conditions; accordingly, these are as follows:

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

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

**APPENDIX C
APPRAISAL REPORT**

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APPRAISAL REPORT
CITY OF LAKE ELSINORE
COMMUNITY FACILITIES DISTRICT No. 2005-2
IMPROVEMENT AREA A
ALBERHILL RANCH

Prepared for:

CITY OF LAKE ELSINORE
130 S. Main Street
Lake Elsinore, CA 92530

James B. Harris, MAI
Berri J. Cannon Harris
Harris Realty Appraisal
5100 Birch Street, Suite 200
Newport Beach, CA 92660

October 2005

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Harris Realty Appraisal

5100 Birch Street, Suite 200
Newport Beach, California 92660
949-851-1227 FAX 949-851-2055
www.harris-appraisal.com

October 18, 2005

Mr. Matt N. Pressey
Director of Administrative Services
CITY OF LAKE ELSINORE
130 S. Main Street
Lake Elsinore, CA 92530

Re: **CFD No. 2005-2**
Improvement Area A
Alberhill Ranch

Dear Mr. Pressey:

In response to your authorization, we have prepared a self-contained appraisal report that addresses all of the taxable property within the boundaries of Improvement Area A of Community Facilities District No. 2005-2 (CFD No. 2005-2). This appraisal includes an estimate of Market Value of the land and site improvements subject to special tax. This land is under the ownership of one developer/merchant builder, Castle & Cooke Alberhill Ranch, LLC. The land ranges from rough graded to finished lots with site improvements under construction. In addition, eight model homes are complete and 95 production homes are in various stages of unit construction. Eighteen units have closed.

According to the specific guidelines of the California Debt and Investment Advisory Commission (CDIAC), the ownership is valued in bulk, representing a discounted value to that ownership as of the date of value.

Based on the investigation and analyses undertaken, our experience as real estate appraisers and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value is formed as of October 15, 2005.

NINETY-ONE MILLION NINE HUNDRED THOUSAND DOLLARS

\$91,900,000

The estimated value assumes bond proceeds of \$19,500,000 for eligible facilities and/or fees, as described in the Community Facilities Report, are available at the time of sale.

Mr. Matt N. Pressey
October 18, 2005
Page Two

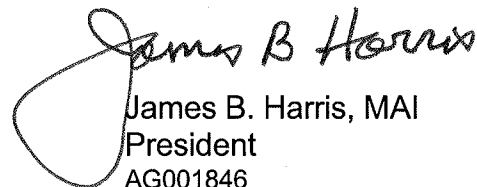
The self-contained report that follows sets forth the results of the data and analyses upon which our opinion of value is, in part, predicated. This report has been prepared for the City of Lake Elsinore for use in the issuance of Community Facilities District No. 2005-2, Improvement Area A bonds. The intended users of this report are the City of Lake Elsinore, its Underwriter, Legal Counsel, Consultants, and potential bond investors. This appraisal has been prepared in accordance with and is subject to the requirements of the Appraisal Standards for land secured financing as published by the California Debt and Investment Advisory Commission; the *Uniform Standards of Professional Appraisal Practice* (USPAP) of the Appraisal Foundation; and the *Code of Professional Ethics* and the *Standards of Professional Appraisal Practice* of the Appraisal Institute.

We meet the requirements of the Competency Provision of the *Uniform Standards of Professional Practice*. A statement of our qualifications appears in the Addenda.

Respectfully submitted,



Berri J. Cannon Harris
Vice President
AG009147



James B. Harris, MAI
President
AG001846

City of Lake Elsinore
Community Facilities District No 2005-2
Improvement Area A
Alberhill Ranch

Lake Elsinore

Interstate 15
FRWY

Lake Street

Boundaries Approximate

Flight 10-30-05



SUMMARY OF FACTS AND CONCLUSIONS

EFFECTIVE DATE OF APPRAISAL	October 15, 2005
DATE OF REPORT	October 18, 2005
INTEREST APPRAISED	Fee Simple Estate, subject to special tax liens
LEGAL DESCRIPTION	According to the City's Special Tax Consultant, the CFD is identified as: Assessor Parcel No. 389-020-034 Final Tract Nos. 28214-1, 28214-2, and Tentative Tract Nos. 28214-3 and 28214-5
OWNERSHIP	Castle & Cooke Alberhill Ranch, LLC
SITE CONDITION	Land in rough graded to finished lot condition, with site improvements under construction. Eight model homes are complete and 95 production homes are under construction. Eighteen dwellings have closed escrow.
HIGHEST AND BEST USE	Development of four subdivisions with floor plans ranging from 1,600 square feet to 3,838 square feet on 4,000 to 7,000 square foot minimum lots.
VALUATION CONCLUSION	\$91,900,000 MARKET VALUE <i>The estimated value assumes bond proceeds of \$19,500,000 for eligible facilities and/or fees, as described in the Community Facilities Report, are available at the time of sale.</i>

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Site Construction Costs	

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INTRODUCTION

Purpose of the Report

The purpose of this appraisal is to estimate the Market Value for the *fee simple estate, subject to special tax liens* for all the taxable property within Improvement Area A of Community Facilities District No. 2005-2, located in the City of Lake Elsinore. The purpose of this appraisal is to estimate the "As Is" Market Value of the land and improvements under the ownership of the developer/merchant builder.

The opinions set forth are subject to the assumptions and limiting conditions set forth in this appraisal, and the appraisal guidelines as set forth by the City of Lake Elsinore.

Function of the Report and Intended Use

It is our understanding that this appraisal report is to be used for Community Facilities District bond purposes only. The subject properties are described more particularly within this report. The bonds are issued pursuant to the Mello-Roos Community Facilities District Act of 1982. The maximum authorized bond indebtedness for the CFD is \$28,000,000.

Client and Intended Users of the Report

This report was prepared for our client, the City of Lake Elsinore. The intended users of the report include the City, its Legal Counsel, Underwriter, Consultants, and potential bond purchasers.

Scope of the Assignment

According to the CDIAAC guidelines, the total value conclusion includes the "As Is" estimate of Market Value for the property under the ownership of the developer/merchant builder within the boundaries of Improvement Area A of CFD No. 2005-2. This is a fully documented self-contained appraisal report. Any lands designated for park, open space

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or civic uses within these tracts not subject to special tax are not included in this assignment.

The residential land is valued in its "As Is" condition as of the date of value. Site development for the subject property ranges from rough-graded lots to a finished lot condition with eight model homes complete and 95 production homes in various stages of unit construction. The completed models and production homes under construction are in Tract Nos. 28214-1 and 28214-2. Eighteen dwellings have closed escrow.

We have analyzed the subject property based upon the proposed uses and our opinion of its highest and best use. We have searched for sales of residential land to estimate the value of the property.

The following paragraphs summarize the process of collecting, confirming and reporting of data used in the analysis.

1. Gathered and analyzed demographic data from sources including the California Department of Finance (population data), Employment Development Department of the State of California (employment data), City of Lake Elsinore (zoning information, building permit trends), Lake Elsinore Chamber of Commerce (local demographic trends), Hanley Wood Market Intelligence (housing sales, inventory levels, and absorption), and sales personnel of comparable projects (market trends of individual home sales). Subject information was gathered from the developer/builder and their consultants.
2. Inspected the subject's neighborhood and reviewed proposed product and similar products for consideration of Highest and Best Use of the proposed lots.
3. Gathered and analyzed comparable merchant builder land sales within the Lake Elsinore market areas, and residential detached unit sales, within the subject's primary and secondary market areas. Data was gathered from sources including, Comps.com, brokers, appraisers, builders active in the area and developers within the Southern California area. Where feasible, data were confirmed with both the buyer and seller. The data gathered are presented on summary data sheets within this report.

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Date of Value and Report

The opinion of Market Value expressed in this report is stated as of October 15, 2005. The date of the appraisal report is October 18, 2005.

Date of Inspection

The subject property was inspected on several occasions, with the most recent on September 29, 2005.

Property Rights Appraised

The property rights appraised are those of the *fee simple estate subject to special tax liens* of the real estate described herein.

Property Identification

The subject property consists of land under site and unit construction in the City of Lake Elsinore. According to the City's Special Tax Consultant, Improvement Area A of CFD No. 2005-2 is identified as APN 389-020-034. The subject property is further defined as Final Tract Map No. 28214-1, Lots 1 through 52; Final Tract Map No. 28214-2, Lots 1 through 104; Tentative Tract Map No. 28214-3, Lots 1 through 127; and Tentative Tract Map No. 28214-5, Lots 1 through 159. The subject property is a part of the Alberhill Ranch Specific Plan. The Specific Plan in its entirety consists of 1,853 gross acres. The Castle & Cooke ownership contains approximately 511 gross acres. CFD No. 2005-2, Improvement Area A contains 134.7 gross acres proposed for 442 dwelling units. The Improvement Area is currently proposed for four subdivisions.

Legal Description and Ownership

The table below identifies lot and tract, and ownership for the subject property.

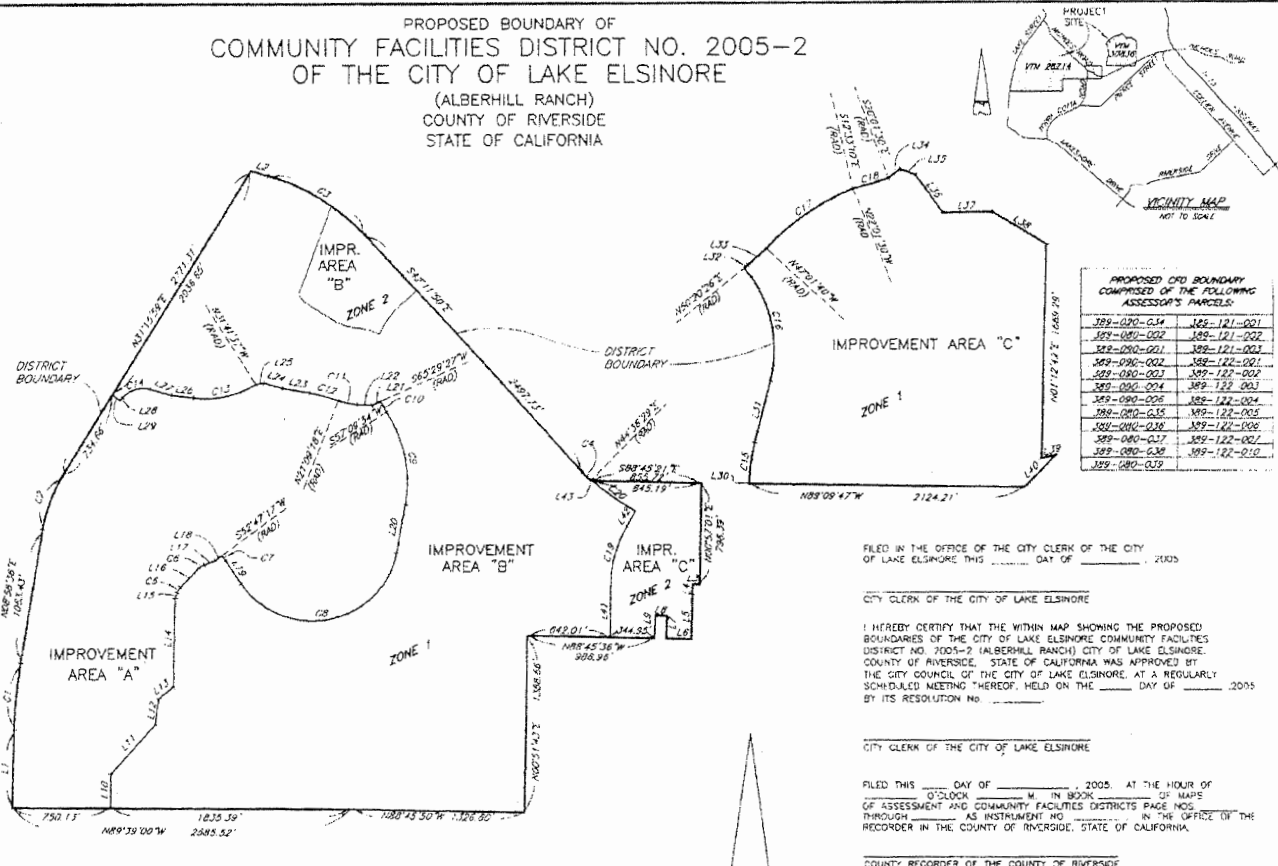
<u>Planning Area</u>	<u>Tract Map</u>	<u>No. of Lots</u>	<u>Ownership</u>
1	FM 28214-1	52	Castle & Cooke
2	FM-28214-2	104	Castle & Cooke
3	TTM 28214-3	127	Castle & Cooke
5	TTM 28214-5	159	Castle & Cooke

CFD No. 2005-2 - Improvement Area A

PROPOSED BOUNDARY OF
COMMUNITY FACILITIES DISTRICT NO. 2005-2
OF THE CITY OF LAKE ELSINORE
(ALBERHILL RANCH)
COUNTY OF RIVERSIDE
STATE OF CALIFORNIA

CURVE	LENGTH	RADIUS	DELTA
C1	521.87	3090.00	7°14'32"
C2	451.27	1169.00	22°14'24"
C3	872.92	1600.00	31°26'24"
C4	89.22	1800.00	2°11'41"
C5	45.78	116.00	21°50'42"
C6	56.72	117.50	24°44'30"
C7	48.04	650.00	4°14'04"
C8	1355.03	650.00	112°04'24"
C9	746.72	1000.00	42°47'03"
C10	84.45	650.00	8°18'31"
C11	146.78	450.00	18°41'20"
C12	298.11	1169.00	11°18'30"
C13	493.20	750.00	58°42'25"
C14	436.12	200.00	69°28'32"
C15	312.97	1400.00	12°48'30"
C16	937.47	1000.00	51°44'24"
C17	821.71	1893.00	26°00'16"
C18	296.39	2195.00	2°28'20"
C19	483.22	1000.00	20°22'28"
C20	411.35	1750.00	11°20'04"

LINE	LENGTH	BEARING
L1	612.58	N01°25'41"E
L2	116.21	S23°36'14"E
L3	54.74	N88°45'34"W
L4	80.00	N01°14'28"E
L5	352.98	N01°14'10"E
L6	184.92	S88°45'35"E
L7	178.49	N01°14'04"E
L8	86.58	S88°45'35"E
L9	178.49	N01°14'04"E
L10	271.37	S88°45'34"E
L11	516.66	S40°36'07"E
L12	1002.19	S07°30'14"W
L13	742.87	N41°11'16"E
L14	897.82	N01°07'21"E
L15	45.80	N16°07'58"E
L16	210.07	N42°58'22"E
L17	83.01	N87°42'21"E
L18	28.36	S82°47'12"W
L19	218.93	S42°58'39"E
L20	390.59	N08°56'07"E
L21	73.08	N65°20'07"E
L22	111.85	N87°32'05"W
L23	210.85	S80°08'44"E
L24	148.52	N72°58'30"W
L25	23.48	S28°02'47"E
L26	189.98	S82°59'01"E
L27	170.00	N23°42'48"W
L28	30.84	S18°47'22"E
L29	73.85	N50°12'38"W
L30	6.59	N01°14'05"E
L31	494.07	N14°51'00"E
L32	33.00	N50°02'28"E
L33	196.14	N47°46'48"E
L34	116.00	N81°25'30"E
L35	178.00	S27°34'10"E
L36	352.32	S45°24'10"E
L37	381.55	N89°18'50"E
L38	484.08	S88°01'50"E
L39	116.39	S24°59'06"W
L40	350.94	N43°27'38"E
L41	405.17	N02°43'18"E
L42	150.54	N48°02'54"E
L43	10.53	S89°45'21"E



PROPOSED CFD BOUNDARY
COMPOSED OF THE FOLLOWING
ASSESSOR'S PARCELS:

389-020-014	389-121-001
389-080-002	389-121-002
389-090-001	389-121-003
389-090-002	389-122-001
389-090-003	389-122-002
389-090-004	389-122-003
389-090-005	389-122-004
389-090-015	389-122-005
389-090-016	389-122-006
389-090-017	389-122-007
389-090-018	389-122-008
389-090-019	389-122-009

FILED IN THE OFFICE OF THE CITY CLERK OF THE CITY OF LAKE ELSINORE THIS _____ DAY OF _____ 2005

CITY CLERK OF THE CITY OF LAKE ELSINORE

I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING THE PROPOSED BOUNDARIES OF THE CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2005-2 (ALBERHILL RANCH) CITY OF LAKE ELSINORE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA WAS APPROVED BY THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, AT A REGULARLY SCHEDULED MEETING THEREOF, HELD ON THE _____ DAY OF _____ 2005 BY ITS RESOLUTION NO. _____

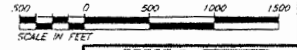
CITY CLERK OF THE CITY OF LAKE ELSINORE

FILED THIS _____ DAY OF _____ 2005, AT THE HOUR OF _____ O'CLOCK _____ M. IN BOOK _____ OF MAPS OF ASSESSMENT AND COMMUNITY FACILITIES DISTRICTS PAGE NOS. _____ AS INSTRUMENT NO. _____ IN THE OFFICE OF THE RECORDER IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA.

COUNTY RECORDER OF THE COUNTY OF RIVERSIDE FEE \$ _____

PROPOSED BOUNDARY MAP

Community Facilities District No. 2005-2
of the City of Lake Elsinore
(ALBERHILL RANCH)
COUNTY OF RIVERSIDE, CALIFORNIA
Sheet 1 of 1



REFERENCE THE RIVERSIDE COUNTY ASSESSOR'S MAPS FOR A DETAILED DESCRIPTION OF PARCEL LINES AND DIMENSIONS

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Property History

Castle & Cooke Alberhill Ranch, LLC through its predecessor companies has owned the subject for in excess of 15 years. Eighteen dwellings have closed escrow to individual homeowners.

Definitions

Market Value¹

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

- (a) Buyer and seller are typically motivated.
- (b) Both parties are well informed or well advised, and each acting in what he considers his own best interest.
- (c) A reasonable time is allowed for exposure in the open market.
- (d) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto.
- (e) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Fee Simple Estate²

Absolute ownership unencumbered by any other interest or estate subject only to the four powers of government.

Fee Simple Estate Subject to Special Tax and Special Assessment Liens Empirical evidence (and common sense) suggests that the selling prices of properties encumbered by such liens are discounted compared to properties free and clear of such liens. In new development projects, annual special tax and/or special assessment payments can be substantial, and prospective buyers take this added tax burden into account when

¹ Part 563, subsection 563.17-1a(b)(2), Subchapter D, Chapter V, Title 12, Code of Federal Regulations.

² *The Dictionary of Real Estate Appraisal*, Third Edition, published by The Appraisal Institute, 1993, Page 140

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formulating their bid prices. Taxes, including special taxes, are legally distinct from assessments.

The Market Value included herein, reflects the value potential buyers would consider given the special tax lien of Community Facilities District No. 2005-2, Improvement Area A.

Retail Value

Retail value should be estimated for all fully improved and sold properties. Retail value is an estimate of what an end user would pay for a finished property under the conditions requisite to a fair sale.

Blue-Top Graded Parcel

Blue-top graded parcel includes streets cut and padded lots to blue-top with utilities stubbed to the parcel and perimeter streets in.

Finished Site³

Land that is improved so that it is ready to be used for a specific purpose. (Improvements include padded lot, streets and utilities to the lot, and all fees required to issue a building permit paid.)

Mass-Graded Parcels

Mass-graded parcel with utilities stubbed to the site and perimeter streets in.

Assumptions and Limiting Conditions

The analyses and opinions set forth in this report are subject to the following assumptions and limiting conditions:

Standards Rule ("S.R.") 2-1(c) of the "Standards of Professional Appraisal Practice" of the Appraisal Institute requires the appraisers to "clearly and accurately disclose any extraordinary assumption or limiting condition that directly affects an appraisal analysis, opinion, or conclusion." In compliance with S.R. 2-1(c) and to assist the reader in interpreting the report, the following contingencies, assumptions and limiting conditions are set forth as follows:

³ Ibid, Page 334

Contingencies of the Appraisal

The appraisal is contingent upon the successful issuance and funding of bonds for Community Facilities District No. 2005-2, Improvement Area A, through the City of Lake Elsinore. The special tax formula was prepared on behalf of the City of Lake Elsinore by Harris & Associates, Special Tax Consultant.

The Market Value estimate reported in this report reflects a portion of the funding for the infrastructure improvements and fees from the proceeds of Community Facilities District No. 2005-2, Improvement Area A. The public improvements and fees subject to reimbursement include fire station, street improvements, water & sewer facilities and fees and City development impact fees. The total construction funds and fees with contingency subject to possible reimbursement are \$19,500,000. If the CFD is not funded and/or the amount or timing of the reimbursements should change, the value opinion stated herein could change. Please refer to the Valuation section for further detail of the reimbursements and timeline for reimbursement.

The appraisers have been provided with overall site costs and costs to complete from Castle & Cooke, prepared by KWC Engineers. It is assumed that all conditions for site development as indicated in the Conditions of Approval are included in the infrastructure costs. *A specific assumption of this appraisal report is that the costs are accurate.*

The individual parcel sizes have been calculated by KWC Engineers. Our value estimate is, in part, based on the accuracy of this information.

Assumptions and Limiting Conditions

No responsibility is assumed by your appraisers for matters that are legal in nature. No opinion of title is rendered, and the property is appraised as though free of all encumbrances and the title marketable. No survey of the boundaries of the property was undertaken by your appraisers. All areas and dimensions furnished to your appraisers are presumed to be correct.

The date of value for which the opinions of Market Value are expressed in this report is October 15, 2005. The dollar amount of this value opinion is based on the purchasing power of the United States dollar on that date.

Maps, plats, and exhibits included herein are for illustration only, as an aid for the reader in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from this report.

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Oil, gas, mineral rights and subsurface rights were not considered in making this appraisal unless otherwise stated and are not a part of the appraisal, if any exist.

A Summary Review of Geological Conditions and five Rough Grading Plan Reviews were provided for the appraiser's review. According to the reports, development as proposed is feasible assuming certain recommendations are followed as outlined in the reports. As of the date of value, the -1 and -2 tract maps are in a near finished lot condition, the -3 map is in a blue-top condition and the -5 map is in the early stages of site grading. Land to the south has been improved with numerous dwellings. For purposes of this appraisal, the soil is assumed to be of adequate load-bearing capacity to support all uses considered under our conclusion of Highest and Best Use.

The appraisers have been provided with three preliminary title reports for the -1, -2, and -3 tract maps within the District. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely affect the value of the subject properties. **A Notice of Special Tax Lien for CFD No. 2005-2 was not reported.**

Information contained in this report has been gathered from sources which are believed to be reliable, and, where feasible, has been verified. No responsibility is assumed for the accuracy of information supplied by others.

Since earthquakes are common in the area, no responsibility is assumed for their possible affect on individual properties, unless detailed geologic reports are made available.

The appraisers have inspected as far as possible by observation, the land; however, it was impossible to personally inspect conditions beneath the soil. Therefore, no representations are made as to these matters unless specifically considered in the report.

The appraisers assume no responsibility for economic or physical factors that may occur after the date of this appraisal. The appraisers, in rendering these opinions, assume no responsibility for subsequent changes in management, tax laws, environmental regulations, economic, or physical factors that may or may not affect said conclusions or opinions.

No engineering survey, legal, or engineering analysis has been made by us of this property. It is assumed that the legal description and area computations furnished are reasonably accurate. However, it is recommended that an analysis be made for exact verification through appropriate professionals before demising, hypothecating, purchasing or lending occurs.

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Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the appraisers become aware of such during the appraisers' inspection. The appraisers have no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraisers, however, are not qualified to test for such substances or conditions.

The presence of such substances such as asbestos, urea formaldehyde, foam insulation, or other hazardous substances or environmental conditions may affect the value of the property. The value estimated herein is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in the field of environmental impacts upon real estate if so desired.

The cost and availability of financing help determine the demand for and supply of real estate and therefore affect real estate values and prices. The transaction price of one property may differ from that of an identical property because financing arrangements vary.

The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.

The forecasts of future events that influence the valuation process are predicated on the continuation of historic and current trends in the market.

The property appraised is assumed to be in full compliance with all applicable federal, state, and local environmental regulations and laws, and the property is in conformance with all applicable zoning and use ordinances/restrictions, unless otherwise stated.

The *Americans with Disabilities Act* ("ADA") became effective January 26, 1992. We have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect on the value of the property. Since we have no direct evidence relating to this

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issue, we did not consider possible non-compliance with the requirements of the ADA in estimating the value of the property.

We shall not be required, by reason of this appraisal, to give testimony or to be in attendance in court or any governmental or other hearing with reference to the property without prior arrangements having first been made with the appraisers relative to such additional employment.

In the event the appraisers are subpoenaed for a deposition, judicial, or administrative proceeding, and are ordered to produce their appraisal report and files, the appraisers will immediately notify the client.

The appraisers will appear at the deposition, judicial, or administrative hearing with their appraisal report and files and will answer all questions unless the client provides the appraisers with legal counsel who then instructs them not to appear, instructs them not to produce certain documents, or instructs them not to answer certain questions. These instructions will be overridden by a court order which the appraisers will follow if legally required to do so. It shall be the responsibility of the client to obtain a protective order.

The appraisers have personally inspected the subject property; however, no opinion as to structural soundness of existing improvements or conformity to any applicable building code is made. The appraisers assume no responsibility for undisclosed structural deficiencies/conditions. No consideration has been given in this appraisal to personal property located on the premises; only the real estate has been considered unless otherwise specified.

James B. Harris is a Member, and Berri J. Cannon Harris is an Associate Member, of the Appraisal Institute. The Bylaws and Regulations of the Institute require each Member and Associates to control the uses and distribution of each appraisal report signed by such Member or Associates. Except as hereinafter provided, possession of this report, or a copy of it, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraisers and in any event only with properly written qualification and only in its entirety. **The City of Lake Elsinore, its Underwriter and Legal Counsel may publish this report in the Official Statement for this Community Facilities District.**

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or the MAI designation) shall be disseminated to the public through advertising media,

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public relations, news media or any other public means of communication without the prior consent and approval of the undersigned.

The acceptance of and/or use of this appraisal report by the client or any third party constitutes acceptance of the following conditions:

The liability of Harris Realty Appraisal and the appraisers responsible for this report is limited to the client only and to the fee actually received by the appraisers. Further, there is no accountability, obligation or liability to any third party. If the appraisal report is placed in the hands of anyone other than the client for whom this report was prepared, the client shall make such party and/or parties aware of all limiting conditions and assumptions of this assignment and related discussions. Any party who uses or relies upon any information in this report, without the preparer's written consent, does so at his own risk.

If the client or any third party brings legal action against Harris Realty Appraisal or the signer of this report and the appraisers prevail, the party initiating such legal action shall reimburse Harris Realty Appraisal and/or the appraisers for any and all costs of any nature, including attorneys' fees, incurred in their defense.

AREA DESCRIPTION

The following section of this report will summarize the major demographic and economic characteristics such as population, employment, income and other pertinent characteristics for the Southern California region, Riverside County, City of Lake Elsinore and the subject market areas.

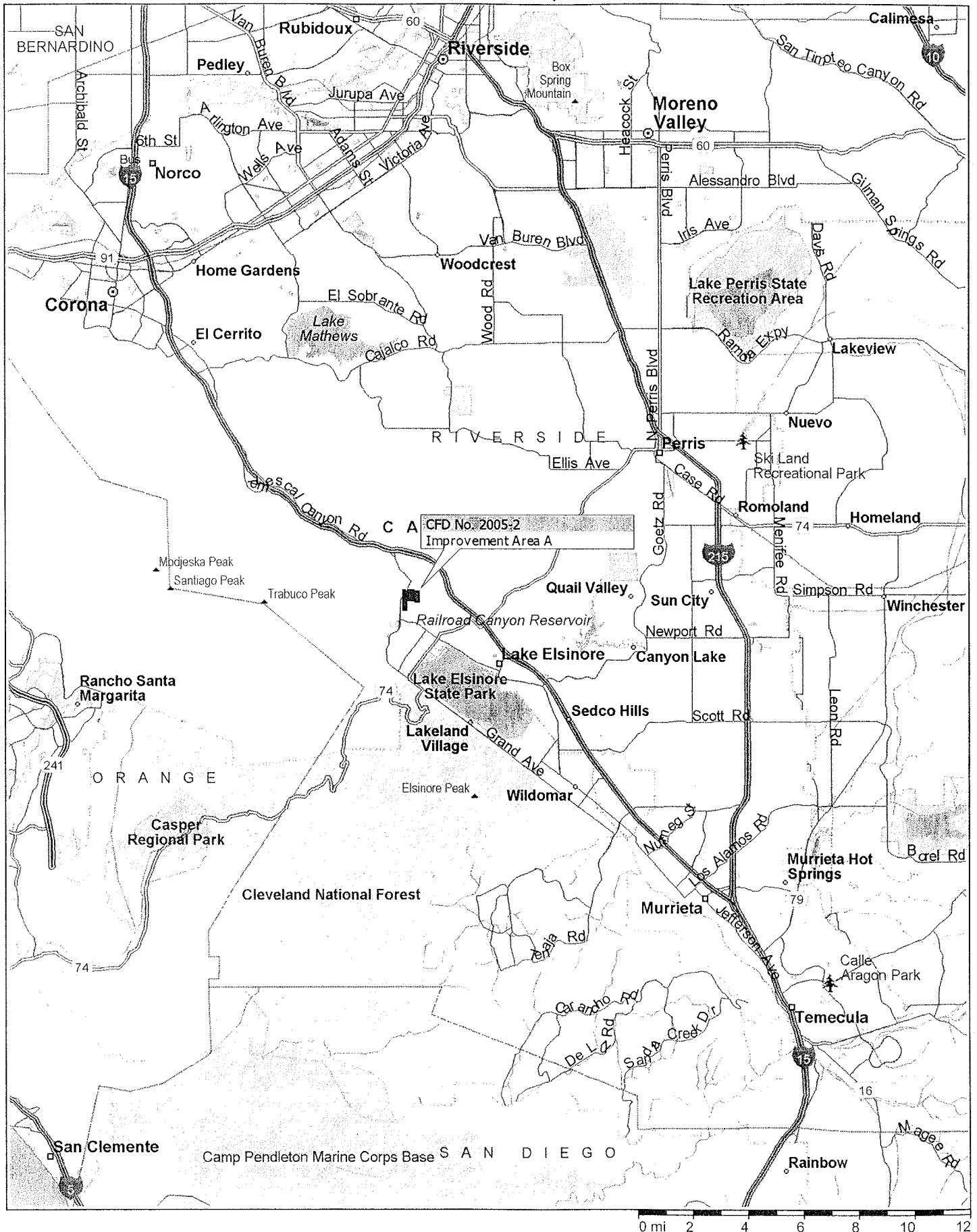
Southern California Regional Overview

The Southern California region, as defined in this report, encompasses six individual counties including Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura Counties. The Southern California region extends from the California-Mexico border on the south to the Tehachapi mountain range on the north and from the Pacific Ocean on the west to the California-Arizona border on the east. The region covers an estimated 38,242 square miles and embodies a diverse spectrum of climates, topography, and level of urban development. Please refer to the following page for a location map.

Population

The Southern California region has added about 7.6 million new residents since 1980 as indicated in the table shown on page 14. According to the California Department of Finance, the most recent data available indicate that as of January 2005, the regional population stood at over 20.9 million. If the region were an individual state, it would rank as one of the most populous in the nation.

Since 1981, annual population gains from natural increase and immigration have ranged from a low of 131,400 persons in 2002 up to 568,645 persons in 1989. These figures represent annual gains of 0.7% to 3.5%. During the past five years, the population of the six-county Southern California region grew by 0.7% to 1.8% per annum.



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As of January 2005 the population of the six-county area stood at 20,970,900 persons. Looking toward the future it is estimated that the region's population will continue to climb as new residents seek out the southern California area. During the economic downturn from 1992 through 1996, and continuing through 2005, the population growth rate declined compared to the growth experienced in the late 1980s.

Population Trends 1980-2005

Year	Population	Average Annual Change	
		Number	Percent
1980 ¹	13,359,673	--	--
1981	13,571,785	212,112	1.6%
1982	13,868,390	296,605	2.2%
1983	14,179,920	311,530	2.2%
1984	14,483,010	303,090	2.1%
1985	14,795,200	312,190	2.2%
1986	15,189,600	394,400	2.7%
1987	15,613,100	423,500	2.8%
1988	16,027,400	414,300	2.7%
1989	16,460,900	433,500	2.7%
1990	17,029,545	568,645	3.5%
1991	17,334,500	304,955	1.8%
1992	17,648,800	314,300	1.8%
1993	17,892,100	243,300	1.4%
1994	18,081,400	189,300	1.1%
1995	18,220,500	139,100	0.8%
1996	18,371,600	151,100	0.8%
1997	18,556,100	184,500	1.0%
1998	18,914,300	358,200	1.9%
1999	19,255,700	341,400	1.8%
2000	19,592,700	337,000	1.8%
2001	19,759,300	166,600	0.9%
2002	19,890,700	131,400	0.7%
2003	20,249,800	359,100	1.8%
2004	20,602,700	352,500	1.7%
2005	20,970,900	368,200	1.8%

¹ April 1, 1980, 1990, and 2000, all other years January 1
Source: California Department of Finance. 5/05

The future rate of growth will depend on a number of factors that may dramatically affect the region. Some of the major factors include availability of developable land, availability of water, national economic climate, and public policy toward growth and the assimilation of a large number of new foreign immigrants. The continued growth of the

population within the region, even during periods of economic slow down, provides a positive indicator as to the desirability of the Southern California region.

Employment

In conjunction with the population growth, a key indicator of the region's economic vitality is the trend in employment. The most common measure of employment growth is the change in non-agricultural wage and salary employment. The table below illustrates the non-agricultural wage and salary employment trends in Southern California.

**Southern California Region
Employment Trends
1983-2004¹**

Year	Employment	Average Annual Change	
		Number	Percent
1983	5,691,000	--	--
1984	5,960,100	269,100	4.7%
1985	6,198,400	238,300	4.0%
1986	6,384,500	186,100	3.0%
1987	6,664,000	279,500	4.4%
1988	6,903,800	239,800	3.6%
1989	7,096,000	192,200	2.8%
1990	7,215,200	119,200	1.7%
1991	7,038,200	(177,000)	(2.5%)
1992	6,834,400	(203,800)	(2.9%)
1993	6,731,100	(103,300)	(1.5%)
1994	6,768,600	37,300	0.6%
1995	6,901,000	132,400	2.0%
1996	7,020,400	119,400	1.7%
1997	7,236,600	216,200	3.1%
1998	7,585,400	348,800	4.8%
1999	7,789,100	203,700	2.7%
2000	7,918,200	129,100	1.7%
2001	8,015,300	97,100	1.2%
2002	8,003,100	(12,200)	(0.2%)
2003	8,028,800	25,700	0.3%
2004	8,145,500	116,700	1.5%

¹ 2004 benchmark

Source: Employment Development Department

4/05

In the Southern California region, average annual non-agricultural employment has grown from 5,691,000 jobs in 1983, to a peak employment of 8,015,300 in 2001. Employment declined to 8,003,100 in 2002. This decline was mostly caused by a 40,100

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job decrease in Los Angeles County. In 2004, employment climbed to a new record level, 8,145,500. This was in spite of Los Angeles County only adding an additional 10,000± jobs. This represents an increase of over 350,000 new jobs over the past five years.

As the economy entered into an economic recession during the latter part of 1990, employment growth slowed. The average annual gain in 1990 was approximately 119,200 jobs or 1.7%. In 1992 when the full weight of the recession was felt, area employment suffered the highest annual decline in jobs registered in the last decade, losing nearly 204,000 jobs or a percentage decrease of 2.9%. This was followed by further employment declines of 103,300 jobs in 1993. It appears that by the middle of 1994, the economic recovery finally began to take hold in the Southern California region. The employment data for 1994 indicated a slight increase of 37,300 jobs or 0.6% for 1994. The adverse employment issues experienced in the prior three years had abated. The annual average employment for 1995 exhibited a gain of 132,400 new jobs or a 2.0% increase, and for 1996 an estimated 119,400 new jobs were added. In 1997, total non-agricultural employment stood at 7.2 million, finally exceeding the prior high in 1990. As of year-end 2002, employment was over 8.0 million. Forecasts prior to September 11, 2001, indicate that job growth would continue to be positive in 2001 and increase moderately over the next one to two years. However, with the terrorist attack on the United States and the conflict with Iraq, most economists are saying we were in a flat to slightly declining economy, during 2002 and first half of 2003, but that we began recovery during the second half of 2003. 2003 showed a small increase over the previous high mark in 2001. 2004 had a moderate gain over 2003.

Employment among the individual industry categories reflects some fundamental regional changes in the economy during the past decade. The level of mining activity in Southern California continues to steadily decline as reflected in the consistent decrease in mining employment. Construction employment, as of 1989, was at a high level in response to the level of construction activity that had occurred in the region during the past five years. During the period from 1991 through 1994, construction employment declined in response to decreased residential and commercial construction activity. From

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1994 through 2004, as the economy rebounded, residential construction increased bringing back more than the construction jobs lost during the recession.

Total manufacturing employment in the region has exhibited little gain from the levels recorded in 1980. Due to the high labor, land, and capital costs in most of the Southern California region, some manufacturing firms have expanded or relocated their manufacturing operations outside of the area.

The Southern California economy, which historically depended heavily on aerospace and defense related employment, has been dealt a double blow. First from the reduction of the space program and reduced defense spending which affected manufacturers and suppliers, and second from the closure of several military bases which has had a ripple effect throughout the local economy. Areas heavily dependent on military spending will be impacted as the units are deployed abroad.

The finance, insurance, and real estate ("FIRE") employment category grew rapidly as the economy recovered from the 1981-1982 national recession. As the economy entered a new recessionary cycle, the FIRE employment sector exhibited little growth from 1991 through 1995. Some of the manufacturing and aerospace jobs permanently displaced from the economy were slowly being replaced with administrative, marketing and research employment. It is reasonable to assume that similar stagnant growth in this area will be experienced during the current economy.

The employment group that has contributed most to the employment growth in the region is the service sector. Since 1980, the majority of all new jobs have been created in the service category. The service sector was the leader in new job growth during the years that followed the economic recovery from the 1990 recession.

Government employment tends to mirror the growth of the population that it services. It is expected that government employment will grow at a rate similar to the area population. The future employment growth in the Southern California region is expected to continue but at a level moderately lower than recent years. Factors that will affect

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employment growth include the direction of the national economy, wage levels, housing prices, and population trends. Given the national disaster of September 11, 2001, government should not experience layoffs; on the contrary, growth particularly in the defense sector should occur. However, the California deficit has negatively impacted both state and local government employment.

Riverside County

Riverside County consists of 24 individual cities and numerous unincorporated communities. Riverside County is typically grouped with adjacent San Bernardino County to form the Riverside-San Bernardino Metropolitan Statistical Area ("MSA"). This area is commonly called the Inland Empire. Riverside County is bounded by Orange County to the west, San Bernardino to the north, the state of Arizona to the east, and San Diego County to the south.

The major urbanized areas are located in the western portion of the County. The major incorporated cities include the cities of Riverside, Corona, and Moreno Valley. These areas were the most active areas for new growth during the mid 1980's until the recession took hold during 1990. The area which encompasses Lake Elsinore, Murrieta, Menifee Valley and Temecula has also experienced rapid growth since the mid 1980's. The areas that have experienced the most active growth during the 1980s also suffered the most during the lengthy recession. However, since 1996, residential activity has increased due to downsizing of product with more affordable pricing, and the general improvement in the regional economy.

Population

Riverside County has more than doubled its population, adding approximately 882,488 new residents since 1980 as illustrated in the following table. As of the 2000 Census, the countywide population stood at 1,545,387 residents. The 2005 estimate by the State of California indicates that the County had 1,877,000 residents on January 1, 2005. Annual population gains, from natural increase and immigration, have ranged from 18,500 persons in 1997 up to 100,300 persons in 2005. From 1991 to 1997, the rate of

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growth in population declined moderately each year. Recent gains of 34,900 to 100,300 persons represent annual changes of 2.2% to 5.6%.

The future rate of growth within the County will depend on a number of factors. Some of the major factors include availability of developable land, availability of water, national and regional economic climate and public policy toward growth.

The areas within the County that will continue to experience the largest share of the new population growth will be the Corona-Riverside area and the area between Lake Elsinore, Sun City and Temecula, which includes the Meniffee Valley.

Riverside County Population Trends 1980-2005

Year	Population	Average Annual Change	
		Number	Percent
1980	663,199	--	--
1885	815,100	30,380	4.6%
1990	1,170,413	71,063	6.0%
1991	1,223,200	52,787	4.5%
1992	1,268,800	45,600	3.7%
1993	1,304,400	35,600	2.8%
1994	1,332,000	27,600	2.1%
1995	1,356,600	23,600	1.8%
1996	1,381,900	26,300	1.9%
1997	1,400,400	18,500	1.3%
1998	1,447,200	46,800	3.3%
1999	1,473,300	26,100	1.8%
2000	1,545,387	72,087	4.9%
2001	1,609,400	64,013	4.1%
2002	1,644,300	34,900	2.2%
2003	1,705,500	60,200	3.7%
2004	1,776,700	71,200	4.2%
2005	1,877,000	100,300	5.6%

April 1, 1980, 1990, 2000; all other years January 1.

Source: California Department of Finance, U.S. Census 5/05

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Employment

Employment data for Riverside County are compiled for the entire MSA, which includes San Bernardino and Riverside Counties. These counties have become a diverse economy, with manufacturing, construction and tourism the major industry groups. In conjunction with the rapid population growth experienced in the past two decades, the employment base has continued to grow and diversify. The Inland Empire's unemployment rate is moderately above the Southern California average and similar to the State. The higher unemployment rate is due to the seasonal nature of agricultural employment in the area. The following exhibit illustrates the area's unemployment compared to California as of August 2005. Unemployment rates have declined 58% from the recession high of 12.2% in 1993.

	<u>Labor Force</u>	<u>Unemployment</u>
California	18,008,300	5.1%
Inland Empire	1,693,000	5.4%

The most common measure of employment growth is the increase in nonagricultural employment. Nonagricultural employment is outlined in the following exhibit. During the 1980's the Inland Empire's employment base expanded rapidly as the area moved away from its military and government oriented employment base to a more fully diversified economy.

Nonagricultural employment has grown from an annual average of 443,100 jobs in 1983 to 1,149,700 jobs in 2004. This represents an increase of over 675,000 new jobs created in San Bernardino and Riverside Counties during the past 20 years. As the economy rebounded from the national recession in 1981-1982, annual employment gains jumped by approximately 30,500 new jobs in 1984. Job gains peaked in 1990 with 44,400 new jobs. During the economic recession of 1991 to 1996, increases ranged from 4,400 to 28,600 new jobs representing a 0.6% to 3.8% gain per annum. Since 1999, job increases have ranged from 28,700 new jobs to a record increase of 62,000 new jobs in 2004. The percentage increases have ranged from 2.8% to 6.4%. The table below illustrates the annual employment trends from 1983 through 2004. In August 2005, the

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non-agricultural employment had increased to 1,162,500, a 1.7% increase from August 2004.

Employment among the individual industry categories reflects changes in the Inland Empire economy during the past decade. Construction employment gains generally mirror the regional economy. In response to the high level of construction activity that occurred in the County during the period from 1984 to 1989, construction employment reached nearly three times the level recorded in 1982. From 1992 through 1995, construction employment declined in response to decreased building activity. The 2003 levels were more than double the 1993 low.

San Bernardino-Riverside MSA¹ Employment Trends 1983-2004

Year	Employment	Average Annual Change	
		Number	Percent
1983	443,100	--	
1984	473,600	30,500	6.9%
1985	514,100	40,500	8.6%
1986	551,400	37,300	7.3%
1987	588,700	37,300	6.8%
1988	625,100	36,400	6.2%
1989	668,200	43,100	6.9%
1990	712,600	44,400	6.6%
1991	718,800	6,200	0.9%
1992	729,600	10,800	1.5%
1993	734,000	4,400	0.6%
1994	751,300	17,300	2.4%
1995	779,900	28,600	3.8%
1996	803,500	23,600	3.0%
1997	841,400	37,900	4.7%
1998	882,200	40,800	4.8%
1999	938,900	56,700	6.4%
2000	991,500	52,600	5.6%
2001	1,029,100	37,600	3.8%
2002	1,057,800	28,700	2.8%
2003	1,087,700	28,900	2.8%
2004	1,149,700	62,000	5.7%

¹ Data revised due to changes in research methodology, 2004 Benchmark
Source: Employment Development Department 4/05

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The number of manufacturing jobs in the Inland Empire has increased over 45% from the levels recorded in 1991. However, manufacturing jobs declined 5.5% from the 2000 high of 120,000 jobs by 2003, but increased back to 120,000 in 2004. Due to the high labor and capital costs in Los Angeles and Orange Counties, manufacturing firms have expanded or relocated some of their manufacturing operations to Riverside and San Bernardino counties to take advantage of the labor force and lower land costs.

Transportation and public utilities employment tend to mirror population growth. In the Inland Empire the finance, insurance and real estate ("FIRE") category is still a small segment of the employment picture.

A significant number of the new jobs created in the last 15 years have been created in the service sector. The service sector will continue to play a major role in employment growth during the next few years. Government employment is a major employment sector in the Inland Empire due to the rapid growth.

The future employment growth in the Inland Empire is expected to continue as more firms relocate to the area to take advantage of lower land prices and the abundant labor pool. Factors that will affect employment growth include the direction of the state and national economy, and consumer confidence. Due to the terrorist attack on September 11, 2001 and the Iraq conflict, consumer confidence has been negatively impacted. Most economists report that we were in a flat economy in 2002 and the first half of 2003, but that we began recovery during the second half of 2003. The recovery continued into 2005.

Income

The average household income in Riverside County is estimated to be \$63,592. The median household income stands at \$48,384. These figures are moderately below the Southern California region average. The lower income level is due to the lower wages in agriculture, manufacturing, service and government employment. The household income distribution for Riverside County is illustrated in the following table.

**County of Riverside
Household Income Distribution
2005**

<u>Income Range</u>	<u>Households</u>	<u>Percent 1/</u>
Less than \$15,000	76,842	12.86%
\$15,000 - \$24,999	70,233	11.75%
\$25,000 - \$34,999	68,016	11.38%
\$35,000 - \$49,999	93,767	15.69%
\$50,000 - \$74,999	115,699	19.36%
\$75,000 - \$99,999	72,650	12.16%
\$100,000 - \$149,999	67,714	11.33%
\$150,000 or more	<u>32,598</u>	<u>5.46%</u>
Total	597,519	100.0%
Median Household Income		\$48,384
Average Household Income		\$63,592

1/ Percent of total distribution
Source: Claritas 5/05

Retail Sales

Retail demand continues to be fueled by the growth in population as outlined previously. For Riverside County, taxable retail sales have increased from \$3.9 billion in 1985 to over \$7.1 billion by 1994 and to over \$16.0 billion by 2003. During the past four years, annual changes have ranged from an increase of \$768 million in 1998 to an increase of \$1.7 billion in 2003, as shown on the next table. Data for 2004 are not available as of the date of this report, although on a statewide basis, retail sales were reportedly up over 10% in 2004.

The increases in retail sales are due to the exceptionally high County population growth rates experienced during the period from 1983 through 1990. During the period from 1991 through 1993, retail sales were stagnant due to the economic recession. From 1994, and continuing through 2003, there was a significant rebound in retail sales. Official state reports for 2004 will not be released until later this year. In the future, retail sales growth should mirror the population growth in the County.

**Riverside County
Retail Sales Trends 1/
1985-2003**

Year	Taxable	Average Annual Change	
	Retail Sales (000's)	Number (000's)	Percent
1985	\$3,974,400	\$319,632	8.7%
1986	\$4,338,628	\$364,228	9.2%
1987	\$4,868,644	\$530,016	12.2%
1988	\$5,486,787	\$618,143	12.7%
1989	\$6,257,222	\$770,435	14.0%
1990	\$6,596,974	\$339,752	5.4%
1991	\$6,389,890	(\$207,084)	(3.1%)
1992	\$6,684,107	\$294,217	4.6%
1993	\$6,716,783	\$32,596	0.5%
1994	\$7,131,216	\$414,513	6.2%
1995	\$7,435,414	\$304,196	4.3%
1996	\$8,003,061	\$567,647	7.6%
1997	\$8,508,010	\$504,949	6.3%
1998	\$9,276,448	\$768,438	9.0%
1999	\$10,685,724	\$1,409,278	15.2%
2000	\$12,190,474	\$1,504,750	14.0%
2001	\$13,173,281	\$982,807	8.1%
2002	\$14,250,753	\$1,077,472	8.2%
2003	\$16,030,952	\$1,780,199	12.5%

1/ Taxable Retail Sales Total (not adjusted for inflation)
Source: State Board of Equalization 2/05

Transportation

Riverside County is served by a major airport, Ontario International, located in adjoining San Bernardino County. Several major airlines have flights into Ontario, while international flights can be booked out of Los Angeles International Airport.

A network of freeways links most urbanized areas of the County. The major north-south arterials are the Corona (15) and Escondido (215) Freeways. The Pomona Freeway (60) provides east-west access to the Los Angeles area and the desert areas of Riverside County. The Riverside Freeway (91) provides access to Orange and Los Angeles Counties.

Environmental Concerns

The Endangered Species Act of 1973 precludes any activity that constitutes a taking of a federally listed endangered species except by permit. Numerous areas within

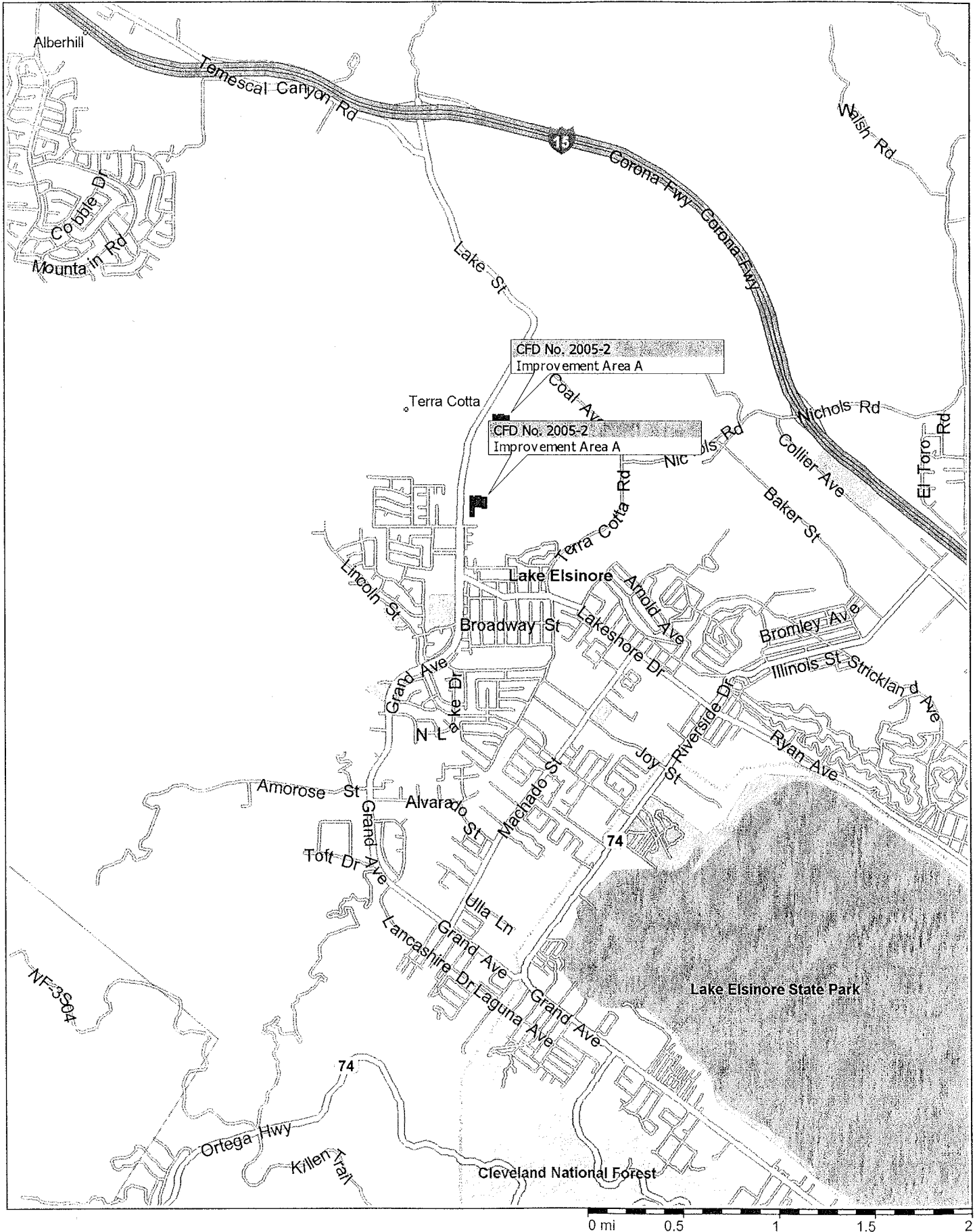
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Riverside County have been identified as containing potential habitat of the Stephen's Kangaroo Rat, a listed species. The evidence of habitation by this rat has resulted in delays or substantial revisions of proposed developments. The California Department of Fish and Game is currently reviewing the status of additional wildlife for possible inclusion on a list of endangered or threatened species. A Multiple Species Habitat Conservation Plan (MSHCP) was approved by the County Board of Supervisors on June 17, 2003. The MSHCP is a comprehensive, multi-jurisdictional effort that includes the County and 14 cities. This plan focuses on the conservation of 146 species. The MSHCP consists of a reserve system of approximately 500,000 acres of which 347,000 acres are within public ownership and approximately 153,000 acres are in private ownership. The purchase of the privately owned lands will be funded by an adopted fee. A MSHCP fee of \$1,651 per dwelling unit is imposed for housing built in the MSHCP area.

In summary, the region exhibited very strong population and employment growth during the 1980 to 1989 period. The recession of the early 1990s had significantly slowed population growth and resulted in overall job losses from 1990 to 1995. Over the past seven years, as the economy recovered, population and employment growth have been stronger than during the prior growth years of the 1980s. The long-term outlook for the region remains positive as the elements of abundant affordable land and labor still exist. Future growth will, however, continue to be affected by the trends in the overall economy. Riverside County's economic environment should follow a path similar to that of the other Southern California counties.

Lake Elsinore

The City of Lake Elsinore is located in the southwestern portion of Riverside County. The City of Lake Elsinore and the surrounding area to the southeast, most notably Murrieta and Temecula, experienced rapid development beginning in the early 1980's and late 1990's and was one of the fastest growing areas in Southern California. It has become a sprawling suburban bedroom community for Orange and Los Angeles counties. The area has attempted to retain the semi-rural, western atmosphere of the early residents. Please refer to the next page for a neighborhood map.



CONSULTING REAL ESTATE APPRAISERS

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During the past five to ten years, the City of Lake Elsinore has begun to add new residential and retail developments. Most of the newer retail commercial development has occurred adjacent to the Corona Freeway (I-15), which bisects the northern and eastern sections of the City of Lake Elsinore. The major community commercial retail development is concentrated near the intersection of the Corona Freeway (I-15) and Railroad Canyon Road, primarily along Mission Trails. A major retail development is under construction at the I-15 and State Highway 74.

There is older commercial development located along Riverside Drive between Lakeshore Drive and Grand Avenue.

The newest residential developments are located in the northeastern area of the City, in the vicinity of the Tuscan Hills, Rosetta Canyon and Canyon Hills developments. In addition, there is some residential development on the northwest side of Lake Elsinore, along Lake Avenue. Most of the new home construction is single-family detached product in master planned communities. The homes offered range from entry-level homes in moderate price ranges to larger move-up homes. As the market changed during the past recession, the residential sector moved to the smaller homes with affordable prices. But recent development has shown an increase in dwelling size and sales prices.

Population

Although the City of Lake Elsinore, incorporated in 1888, is old by southern California standards, it was not until the 1980's that the City experienced significant population growth. The City of Lake Elsinore has experienced moderate population increases during recent years as illustrated on the following exhibit. Since 1980, annual population gains of 400 persons to a peak of 2,700 persons have been recorded. The current population of the City of Lake Elsinore, as of January 2005, is estimated to be 38,050 persons. This is a 490% increase over the population recorded in 1980. Over the last three years, the City has averaged a 6.9% annual growth in population.

**City of Lake Elsinore, CA
Population Trends
1980-2005**

<u>Year</u>	<u>Population</u>	<u>Annual Change</u>	
		<u>Number</u>	<u>Percent</u>
1980	5,982	--	--
1990	18,316	1,233	20.6%
1991	19,050	734	4.0%
1992	21,600	2,550	13.4%
1993	22,000	400	1.9%
1994	23,100	1,100	5.0%
1995	23,850	750	3.2%
1996	24,700	850	3.6%
1997	25,750	1,050	4.2%
1998	26,450	700	2.7%
1999	27,950	1,500	5.7%
2000	28,700	750	2.7%
2001	30,000	1,300	4.5%
2002	31,150	1,150	3.8%
2003	33,300	2,150	6.9%
2004	35,350	2,050	6.2%
2005	38,050	2,700	7.6%

Source: California Department of Finance,
U.S. Census 5/05

Although the City of Lake Elsinore is predominantly residential in nature, there are 1,200 acres zoned for industrial use. The improved industrial development is limited with most of the industrial land remaining vacant.

Employment in the immediate Lake Elsinore area is limited. The major employers in the area are as follows:

<u>Manufacturing</u>	<u>Employment</u>	<u>Product</u>
Labeda Wheels	150	Racing Skates
Pacific Clay	130	Building Products
Wieland Precision, Inc.	112	Tool & Dye

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<u>Non-manufacturing</u>	<u>Employment</u>	<u>Product</u>
Lake Elsinore USD	1,681	School
Lake Elsinore Outlet Center	1,169	Outlet Mall
Wal-Mart	400	Retail
Lake Elsinore Storm	250	Baseball
Lake Elsinore Casino	200	Resort/Casino
Albertsons	150	Supermarket
Vons	145	Supermarket
Stater Bros.	131	Supermarket

Most of the residents in Lake Elsinore work in areas outside of the City. Many residents drive considerable distances to work in San Diego, Los Angeles and Orange counties.

The housing market in Lake Elsinore is typically single-family residences. New homes range from relatively entry-level homes of 2,000 square feet on 5,000 square foot lots up to larger move-up homes on 7,200 square foot lots. The majority of the homes range in size from 2,000 to 3,000 square feet and are located in larger subdivision tracts or master planned communities on typical lot sizes of 5,000 to 7,200 square feet.

In view of Lake Elsinore's growing economy and population, only shortages of public services or a prolonged national building slump are likely to keep the City from reaching full development over time.

Based on the past and expected future economic and population growth of the Lake Elsinore area, the Lake Elsinore area is considered to have average to good future growth potential.

Immediate Neighborhood

The subject property is located in the northwest portion of the City of Lake Elsinore. The District is in the Alberhill Ranch Specific Plan Community approximately 1½ miles south of the I-15 Freeway along Lake Street. The newer homes in this area are part of the existing Alberhill Ranch master planned community. The community has been

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under construction for approximately one year. The homes are a mix of one and two story construction, of average quality in average to good condition.

The entire subject CFD and adjacent areas have been subject to historic surface mining activities which are currently active. Clay and coal were discovered in the project vicinity in the mid-1800's and have been extensively mined since that time. The majority of properties north of the subject site are undeveloped or were used for past mining activities. Also to the north, there is vacant land and a commercial Outlet Mall adjacent to Interstate 15. To the east and south, low-density residential development currently exists, which is predominately single-family detached housing. To the west, on 1,374 acres near the Lake Street and the I-15 freeway, Pacific Clay Products conducts mining and operates a brick and ceramic factory. The majority of recent development in the City has occurred south and west of the subject site. Remaining land uses immediately south of the project site in the Terra Cotta area of City consist of low-density residences. In the vicinity of Highway 74, commercial and industrial uses are developing near the I-15 Freeway.

Conclusion

Lake Elsinore and the surrounding area has been experiencing rapid population growth during the past few years. New residents are being attracted to the area because of the affordable housing in comparison to the coastal regions of Los Angeles, San Diego and Orange counties. The subject's neighborhood is experiencing new construction of single-family developments that conform to the existing neighborhoods. The demand for continued development supports the build-out of the subject property.

SITE ANALYSIS

General

The subject property of this appraisal is identified as CFD No. 2005-2, Improvement Area A. The subject is proposed for 442 residential units. Eight model homes are complete and 95 production units are in various stages of unit construction. The remaining lots within Tract 28214 are from rough to blue-top lots. CFD No. 2005-2 is a portion of the Murdock Alberhill Ranch Specific Plan. Please refer to page 4 for a map of the District.

Location

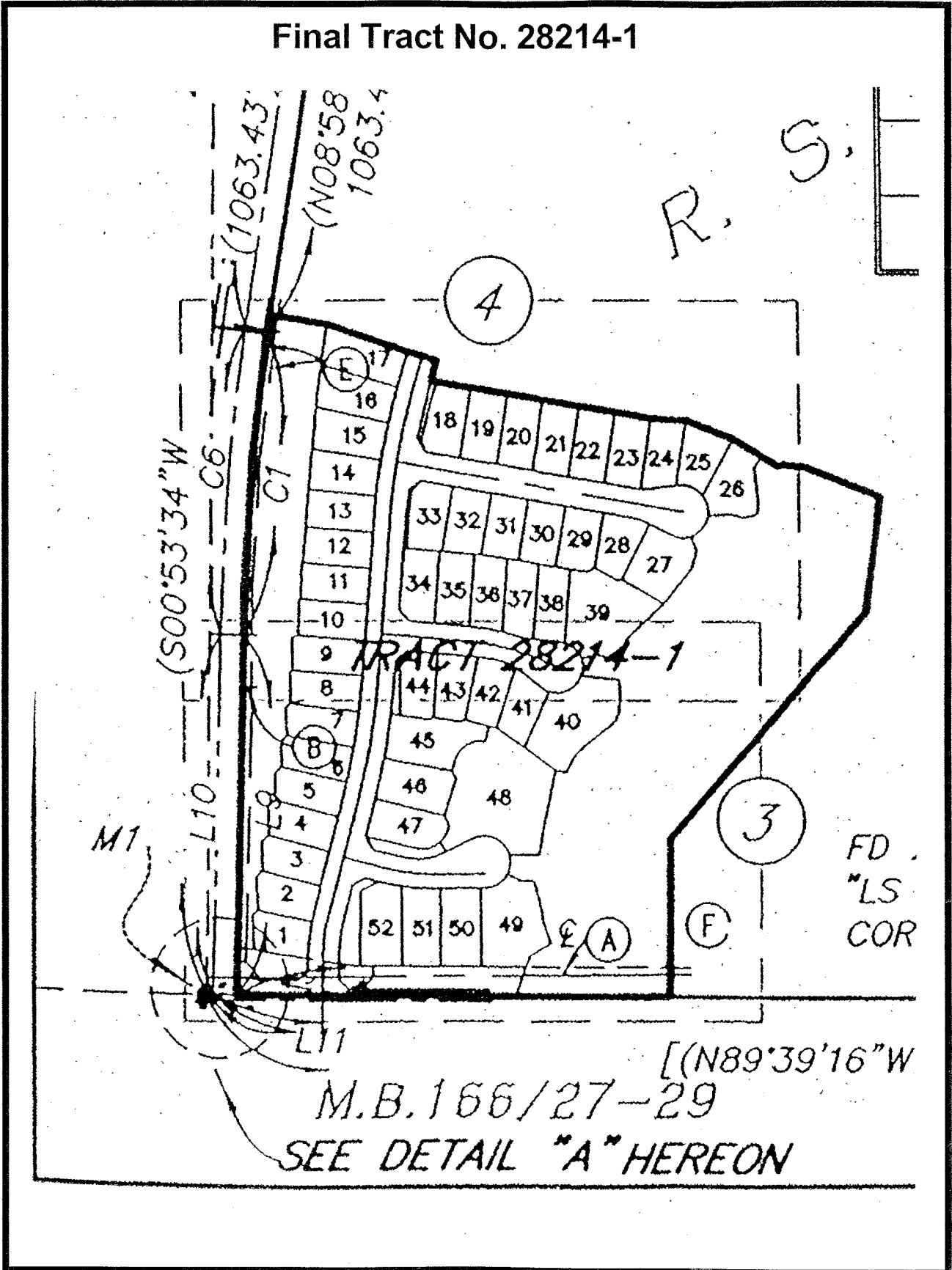
The subject property is located in the City of Lake Elsinore in the southwestern portion of the County of Riverside. The District is within the Murdock Alberhill Ranch Specific Plan and is located approximately 1½ miles south of the Interstate 15 Freeway along Lake Street. The Alberhill Ranch development consists of two tracts – 28214 and 30836.

The tract maps are located within the Murdock Alberhill Ranch Specific Plan area; Section 26, Township 5 South, Range 5 West of the Lake Elsinore Quadrangle and, Sections 27, 34 & 35, Township 5 South, Range 5 West of the Alberhill USGS Quadrangle. The geographic area of Tract No. 28214 is located south of Nichols Street and Interstate 15 (approximately 7,000 feet south of the I-15/Lake Street interchange). Lake Street is the western boundary and Terra Cotta Road is within the site to the east. The southeast corner of Tract No. 30836 is approximately 2,000 feet from the future I-15/Nichols proposed interchange.

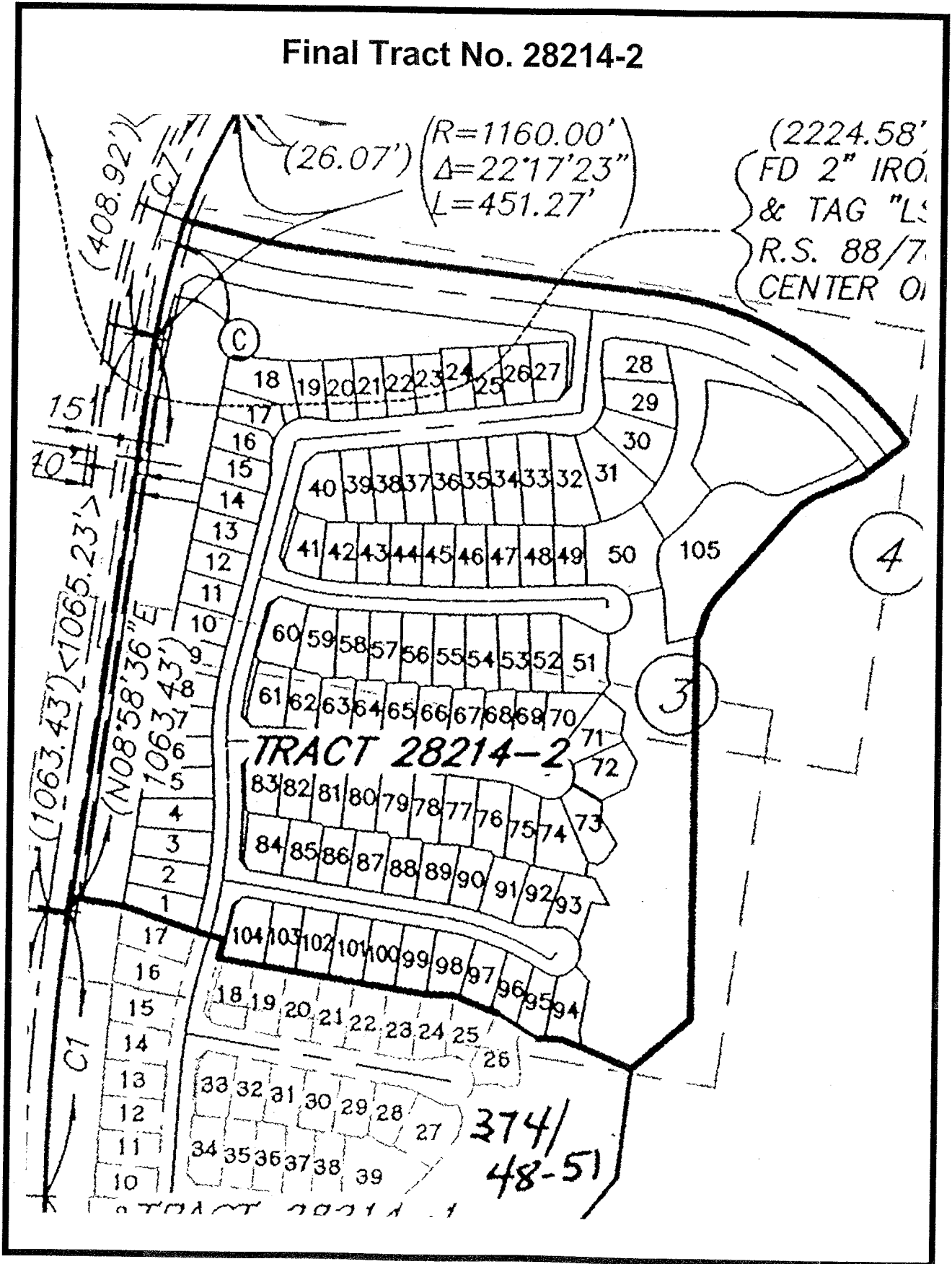
Current Site Condition

The District is well under site construction with portions of Tract Nos. 28214-1 and 28214-2 improved to finished lot condition. Tract No. 28214-3 is graded to a blue-top lot condition and Tract No. 28214-5 is currently beginning rough grading. Eight model homes are completed in Tract Nos. 28214-1 and 28214-2. Ninety-five dwellings are under construction in these two tracts.

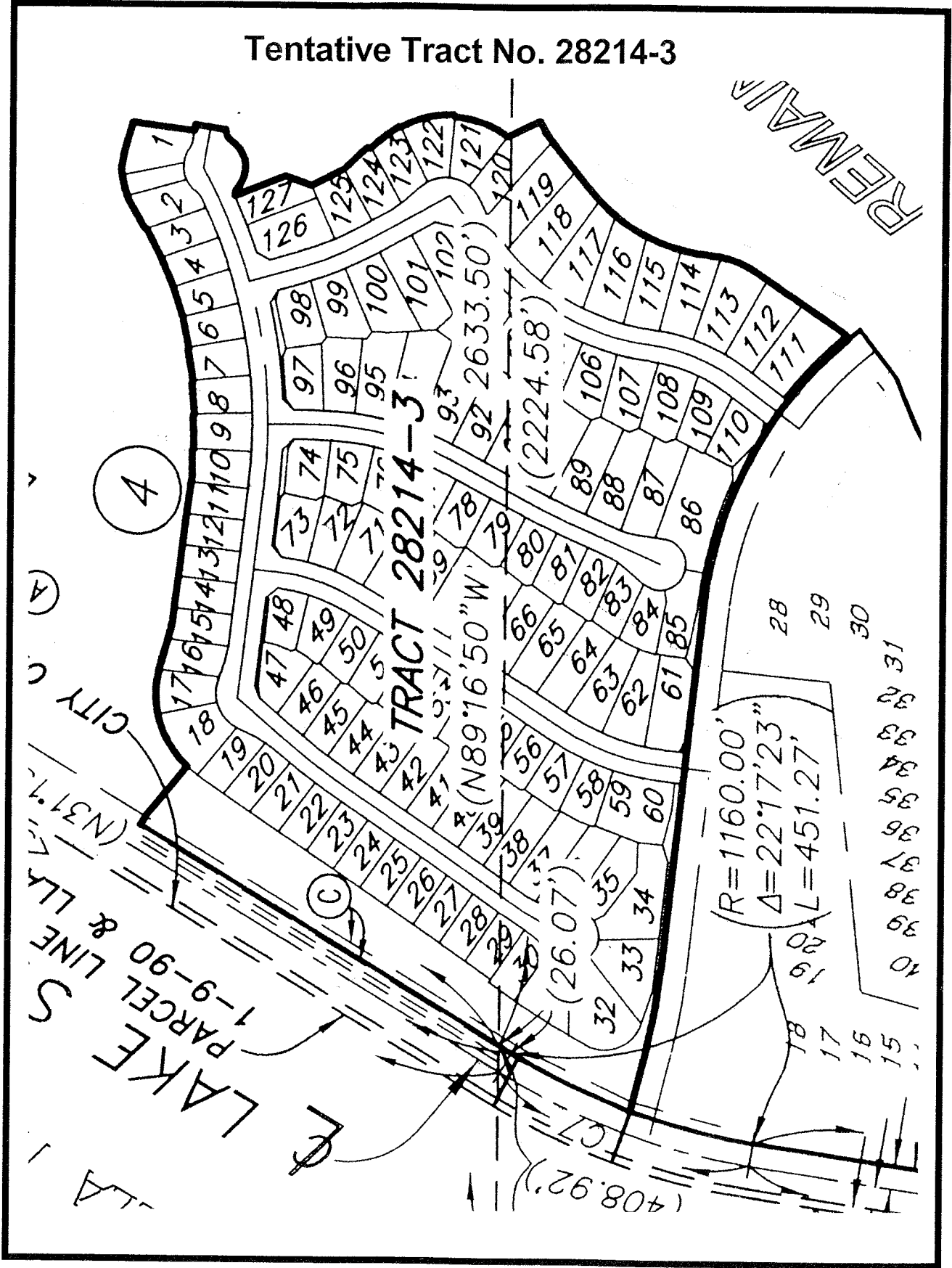
Final Tract No. 28214-1



Final Tract No. 28214-2



Tentative Tract No. 28214-3



Tentative Tract No. 28214-5



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Size and Shape

The overall shape of CFD No. 2005-2, Improvement Area A is irregular and contains 134.7± gross acres, according to the Districts CFD Report prepared by Harris and Associates. CFD No. 2005-2, Improvement Area A has been subdivided into four tract maps. Please refer to the following table, which summarizes the tracts. The preceding four pages show a copy of the tract maps.

CFD No. 2005-2, I.A. A

<u>Tract No.</u>	<u>Lot Nos.</u>	<u>Size (Acres)</u>	<u>Number of Units</u>
FM 28214-1	1 to 52	21.7	52
FM 28214-2	1 to 104	35.8	104
TTM 28214-3	1 to 127	30.9	127
TTM 28214-5	1 to 159	46.3	159
Total		134.7	442

Soils and Geology

For CFD No. 2005-2 Improvement Area A, five geotechnical reports were provided for review. The reports were prepared by PETRA dated from October 15, 2004 to August 18, 2005 for Castle & Cooke. The reports cover Tract Nos. 28214-1, 28214-2 and 28214-3. The conclusion reached was that from a geotechnical point of view, the proposed site development was considered feasible provided recommendations presented in their reports were incorporated into the design and construction of the project. A portion of the subject was previously mined for clay. Tunnels, trenches and pits were previously on-site.

The appraisers assume that the soil conditions allow all of the proposed development as discussed in the Highest and Best Use section of this report and as proposed by the developer/builder.

Topography and Drainage

The topography within the subject property is generally hillside terrain with moderately to steeply inclined slopes descending from rugged ridgelines. Site grading has or will be completed for 442 level padded residential lots.

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Surface runoff is generally directed in all directions from the ridgelines and hilltops via sheet flow to drainage swales or narrow ravines. Overall, regional drainage across the site is directed to the north and northwest towards Temescal Creek.

Zoning

The District is zoned SP, Specific Plan, by the City of Lake Elsinore. This zone allows for a variety of compatible uses that comprise a master planned community. According to the Murdock Alberhill Ranch Specific Plan, the entire planned community allows up to 1,819 dwelling units. Tract No. 28214-5 is zoned R-M, for medium density residential development. Tract Nos. 28214-1, -2, and -3 are zoned R-SF for medium low density development. The minimum lot size is 5,000 square feet for Tentative Tract 28714-5 and 5,500 square feet for Final Tract Nos. 28214-1 and 28214-2 and Tentative Tract No. 28214-3. Final Tract Map 28214-1 recorded on February 23, 2005 and is proposed for 52 detached units. Final Tract Map 28214-2 was recorded on April 27, 2005, and is proposed for 104 detached units.

The Murdock Alberhill Ranch Specific Plan constitutes an amendment to a 511.4-acre portion of the previously approved Alberhill Ranch Specific Plan. Minor land use and circulation system changes from the approved Alberhill Ranch Specific Plan have been made in the Murdock Alberhill Ranch Specific Plan.

The Murdock Alberhill Ranch Specific Plan area consists of three non-adjacent parcels, including a 390-acre parcel (adjacent to Lake Street), a 105-acre parcel (near the existing Outlet Mall), and a 17-acre parcel (on the southwest corner of Lake Street and Temescal Canyon Road). The subject CFD is a portion of the 390-acre parcel.

The Murdock Alberhill Ranch Specific Plan proposed up to a maximum of 1,819 residential dwelling units, an elementary school, open space, recreational/park uses on the 390-acre and 105-acre parcels, and 1,071,576 square feet of commercial/industrial buildings on the 17-acre parcel.

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The following table summarizes the land use breakdown of the Murdock Alberhill Ranch Specific Plan.

Murdock Alberhill Ranch Specific Plan Land Use Summary

	Land Use	Acreage	Dwelling Units	Percentage
(R-SF)	Single-Family Residential	258.3	975	51%
(R-M)	Single-Family Residential	80.8	294	15%
(R-3)	Multi-Family Residential	9.4	0	2%
(C-1/R-3)	Neighborhood Commercial	15.4	180	3%
(C-SP)	Commercial Specific Plan	16.9	370 / 0.5 (FAR)	3%
(ES/P)	Elementary School/Park	22.5	2.0 (FAR)	4.5%
(P)	Public Park	34.0	0	7%
(OS)	Open Space	41.9	0	8.5%
	Roads	25.1	0	5%
	Private Parks	3.5	0	0.5%
	Tank Site	3.6	0	0.5%
Total		511.4	1,819 DU	100%

As proposed, the subject project appears to be a legally conforming use. The subject property is in conformance with all zoning requirements, and is assumed to be in conformance with all governmental regulations.

Access and Circulation

The City of Lake Elsinore is served by Interstate 15 which links the City with the major freeway network serving the region. I-15 travels from the Mexican border north through San Diego, Riverside and San Bernardino counties, Las Vegas and Salt Lake City, connecting with several east/west freeways. Full freeway interchange facilities are located approximately 1½ miles north of the subject property at Lake Street. Lake Street generally serves as the main access to the planned community of Alberhill Ranch and is adjacent to the west boundary of the District.

As the tracts are improved, the streets will be completed with full street improvements. Sidewalks will be installed as part of the subject improvements.

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Easements

The appraisers have been provided with three preliminary title reports for Tract Nos. 28214-1, 28214-2 and 28214-3. The reports were prepared by Chicago Title Company, dated January 5, 2005 for Tract Nos. 28214-1 and 28214-2 and July 15, 2005 for Tentative Tract No. 28214-3. Copies of the title reports are retained in the appraisers' work files.

There did not appear to be any easements, restrictions or conditions that would adversely impact the value of the subject property, except for a \$4,552 Mechanic's Lien and a \$200,000,000 trust deed, recorded July 1, 2005. It is a specific assumption of this appraisal that easements and encumbrances impacting the property are not detrimental to value. Lien for special taxes for Elsinore Valley Municipal Water District CFD No. 98-1 and City of Lake Elsinore CFD No. 2003-1 were noted. No special tax lien was reported for the City of Lake Elsinore CFD No. 2005-2.

Utilities

The subject property is served by the following companies/agencies:

Electricity	Southern California Edison
Water	Elsinore Valley Municipal Water District
Gas	Southern California Gas Company
Sewer	Elsinore Valley Municipal Water District
Telephone	Verizon

Earthquake, Flood Hazards, and Nuisances

The subject property is shown on the Riverside County National Flood Insurance Map Panel No. 060636-2054F, dated August 18, 2003. According to the flood insurance rate map for the City of Lake Elsinore, the subject property is not located in a HUD flood hazard area. The subject is within Zone X, outside the 500-year flood area.

According to the California Division of Mines and Geology, the subject property is not located in a seismic study zone; however, earthquakes impact all of Southern California. There are several faults in the vicinity of the subject. They consist of the Glen

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Ivy Fault, Elsinore Fault, Willard Fault and the Wildomar Fault. Other active faults are the San Jacinto (20 miles from the subject) and the San Andreas (30 miles from the subject).

Toxic Hazards

A toxic hazard report was not provided to the appraisers. There are no toxic hazards known to the appraisers on the parcels.

Environmental Issues

The subject site is not classified as property with historical, archaeological, or scientific value and to the best of our knowledge, is not considered wetlands.

The property owner has not provided a Phase 1 Environmental Site Assessment Report for the appraisers' review. It is a specific assumption of this appraisal that all environmental concerns have been addressed and mitigated. Based on the current site condition and map status it appears that the site is suitable for development of the proposed uses.

Assessed Values, Taxes and Special Assessments

The District's one assessor parcel has property taxes as shown on the following table. Pursuant to Proposition 13, passed in California in 1978, current Assessed Values may or may not have any direct relationship to current Market Value. Real estate tax increases are limited according to Proposition 13 to a maximum of 2% per year plus bonds, if any. If the property is sold, real estate taxes are normally subject to modification to the then current Market Value.

Currently, there are special taxes for several agencies. In addition, there will be special taxes for CFD No. 2005-2, Improvement Area A. The total tax rate is estimated not to exceed 2.0% of the base value of the dwelling. CFD No. 2005-2 will have special taxes ranging from \$2,753 to \$4,566 per unit depending on house size.

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The office of Harris & Associates estimates the Special Taxes on the undeveloped residential land within CFD No. 2005-2. The Special Taxes for the individual homes are also estimated. The estimated property values are based, in part, on the Special Taxes estimated for the ultimate homeowner.

**City of Lake Elsinore
Community Facilities District No. 2005-2
Assessed Values and Taxes 2004-05**

APN	A.V. Land	R.E. Taxes
389-020-034	\$195,198	\$63,877.82
Total	\$195,198	\$63,877.82

The subject property falls within the taxing jurisdiction of the Riverside County Assessor's office. The published annual tax rate in this area is 1.00520%. The overall effective tax rate for the proposed homes will be approximately 1.9% to 2.0% of our appraised base values. This tax burden is common for Riverside County where tax rates in new home communities typically range from 1.70% to 2.00%. A survey of the subject's market area revealed that special Assessment Districts or CFDs encumber most of the competing residential subdivisions. There does not appear to be a great deal of resistance to the special assessments that do not increase the overall tax rate significantly above 2.00% of Assessed Value.

According to the County's web site, both installments of property taxes due by December 10, 2005 and April 10, 2006 for fiscal year 2005-06 are unpaid.

Site Improvements

As of the date of value Tract No. 28214-1, is improved to near finished lot condition. Four model homes are complete and 43 production homes are under construction and improved from color stucco coat with roofs complete to complete. As of the date of value Tract No. 28214-2, is improved to near finished lot condition. Four model homes are complete and 52 production homes are under construction and

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improved from wrapped with roofs loaded to complete. Tract No. 28214-3, is graded to blue top lot condition. Tract No. 28214-5 is in the rough grading stage of construction.

The builder provided a summary site improvement budget which totals \$62,862,639. The costs are reported to include the fee credits and/or reimbursements eligible from this CFD. A summary of the costs is included in the Addenda of this report. The costs are reported to bring the land from a raw condition to a physical and legal finished lot condition. According to the builder/developer's cost information and input from the developer's consultant, approximately \$34,300,000 have been expended as of the date of value. Approximately \$23,443,000 remain in costs to bring the subject from its current "as is" condition to finished lot condition. Eligible reimbursement for infrastructure improvements and/or fee credits from Improvement Area A of CFD No. 2005-2 is \$19,500,000.

It is a specific assumption of this appraisal, that the site costs provided by the developer/builder are all the site costs required to bring the land within CFD No. 2005-2, I.A. A from its "as is" condition to a finished lot ready to issue building permit condition for the 442 lots within Tract Map Nos. 28214-1, -2, -3, and -5. This appraisal report and estimated value is based on the developer receiving reimbursements or fee credits of \$19,500,000. If there is any change in the reimbursements, the value estimate would likely change.

IMPROVEMENT DESCRIPTION

General

The proposed residential developments known as Satillo and Capella are located in the Alberhill Ranch portion of the City of Lake Elsinore. The subject CFD is proposed to include 442 detached residential units within 135± gross acres. The 442 units will be built on lots that generally have a minimum size from 5,000 to 5,500 square feet. The following table summarizes the proposed floor plans within Improvement Area A of CFD No. 2005-2 as of the appraisal date. The base sales prices are those actually being achieved, as of the date of value. Both the Capella and Satillo projects are offering \$3,500 in incentives.

Proposed Floor Plans				
Plan	Size	Base Sales Price	Br/Bath	Stories/ Garage
Capella				
1	2,505 SF	\$390,990	3/3	2 / 2
2	3,005 SF	\$396,990	4/2½	2 / 3
3	3,505 SF	\$414,990	4/4	2 / 4
4	3,878 SF	\$424,990	5/3½	2 / 4
Satillo				
1	1,943 SF	\$411,990	3/2	1 / 2
2	2,412 SF	\$418,990	3+/2½	2 / 2
3	2,791 SF	\$430,990	4/2½	2 / 3
4	3,122 SF	\$439,990	5/4	3 / 3

Specifications have not been provided. We have been provided with brochures of the actively selling project and they have been reviewed. The following is a list of some of the assumed general construction specifications for the detached single-family homes.

Construction

Units are of Class "D" construction; wood frame and stucco siding with several elevation choices.

Foundations

Foundations are poured concrete. Particle board over wood floor joists for the second floor.

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Structural Frame

Consists of 2" x 4" and 2" x 6" wood framing.

Roofs

Roofs are of concrete tile.

Windows

White framed vinyl windows with low-e glass.

Floor Covering

Floor coverings are wall-to-wall carpet in all living areas. Entries are of ceramic tile and kitchen, bathrooms and laundry room are of vinyl.

Interior Finish

Custom trowelled ceiling and wall treatments.

Heating/HVAC

Energy efficient central air conditioning and gas forced air heating.

Kitchens

Kitchens will be equipped with oak cabinets and ceramic tile counter tops. Each kitchen will include a built-in range, freestanding oven, 27" microwave, and dishwasher.

Bathrooms

Master bathrooms will have double sinks with cultured marble countertops and oak cabinets, separate fiberglass shower/tub. Secondary bathrooms will have cultured marble countertops, fiberglass combination tub/shower, and oak cabinets.

Doors

Solid core 8 foot entry door. Garage doors are sectional steel roll-up.

Site Improvements

The production homes include concrete driveways and walkways to the front entry. Side and rear yard fencing are included. Front landscaping and irrigation system are included.

Options

Numerous options and upgrades will be available including flooring, cabinet, and countertop upgrades. Most options and upgrades, provided at competing similar quality developments, will be offered.

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Conclusion of the Improvements

Based on the review of the product information and physical inspection of current models and similar products, we are of the opinion that the quality of the projects are average and will generally meet buyer expectations for the subject's marketplace.

Functional Utility

It is an assumption of this appraisal that all of the floor plans are functional, and competitive with current design standards.

Remaining Economic Life

The total/remaining economic life, according to the Marshall Valuation Service, is considered to be 50 years from date of completion.

Homeowners Association

The currently selling projects have a Homeowner's Association. The monthly association dues are reported to be approximately \$140.00 per month.

The appraisers have not been provided with information on the other two projects. For purposes of this appraisal it is assumed that the two future developments will have similar Homeowners Associations and monthly dues.

HIGHEST AND BEST USE

The term *highest and best use* is an appraisal concept that has been defined as follows:

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity⁴

The determination of highest and best use, therefore, requires a separate analysis for the land as legally permitted, as if vacant. Next, the highest and best use of the property with its improvements must be analyzed to consider any deviation of the existing improvements from the ideal. "The highest and best use of both land as though vacant and property as improved must meet four criteria. The highest and best use must be: legally permissible, physically possible, financially feasible, and maximally productive. These criteria are often considered sequentially."⁵ The four criteria interact and, therefore, may also be considered in concert. A use may be financially feasible, but it is irrelevant if it is physically impossible or legally prohibited.

Legally Permissible Use

The legal factors affecting the site and its potential uses are often the most restrictive. These would typically be government regulations such as zoning and building codes.

CFD No. 2005-2 is located in the City of Lake Elsinore. The subject is zoned for residential development within the Specific Plan. This zone designation allows for detached single-family residential use with a minimum 5,000 square foot lot size and 5,500 square foot lot size. CFD No. 2005-2 has two recorded final tract maps proposed for 52 and 104 dwelling units. There are two additional tentative tract maps proposed for

⁴ *The Dictionary of Real Estate Appraisal*, 4th Edition, Pub. by the Appraisal Institute, Chicago, IL., p. 135.

⁵ *The Appraisal of Real Estate*, 10th Edition, Pub. by the Appraisal Institute, Chicago, IL., p. 280.

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127 and 159 dwelling units. All proposed developments are considered legal and conforming uses.

Physically Possible Use

Improvement Area A of CFD No. 2005-2 is irregular in shape and contains approximately 135± gross acres according to their tract maps. The sites have a rolling topography. The proposed residential developments are a natural extension of existing nearby residential developments, outside the Alberhill Ranch planned community.

The property is generally bounded by residential development to the south and undeveloped land to the north, east and west. Access is considered to be good via Lake Street, and the I-15 Freeway. This appraisal considers the benefits and/or improvements that are to be funded by CFD No. 2005-2, I.A. A.

Based on the physical analysis, the subject property appears to be viable for numerous types of development based on its size and topography. However, the site's location and current site improvements would suggest the lands have a primary use of residential development.

Financial Feasibility and Market Conditions

The financial feasibility of the development of the subject property is based on its ability to generate sufficient income and value in excess of the costs to develop the property to its highest and best use. Please refer to the Valuation section of this report, which gives support to the financial feasibility of CFD No. 2005-2, I.A. A.

General Market Conditions – Riverside County

The Inland Empire housing market has continued to increase in demand and price over the past several years. As in the past, the increased housing prices in Orange, San Diego and Los Angeles counties have encouraged buyers to look at alternative locations for homes. The Riverside County housing prices as of June 2005 were up 11% over the same month last year. The median detached new home price in

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the region hit a record high of \$415,390 in June 2005, according to a survey by the Hanley Wood Market Intelligence. San Bernardino County's \$454,990 record high was also achieved, up 42% in one year. Sales volume is still at historic highs for the month, up 18% from June 2004. Only the Central submarket in Riverside County had a sales increase, up 82%. All other submarkets had slight to moderate declines. The subject property is located in the Central submarket.

The current projection for the housing market is that we are seeing a return to a more balanced and normal market. The past several years of record high sales volume and record high appreciation appears to have stabilized, causing property values to plateau or even decline in some areas. The Inland Empire is expected to stay stronger longer where homes are more affordable than on the coast. The Inland Empire is expected to continue to draw homebuyers from Orange, Los Angeles and San Diego counties where home prices are significantly higher.

Over the last 10 to 12 months, these three counties saw a decline in home sales from a year earlier, while the Inland Empire experienced its strongest or second strongest monthly sales rates. Most markets throughout Southern California plateaued during the last quarter of 2004 and the first six weeks of 2005. However, since February 2005, sales prices and sales rates have improved.

While overall inventory is up, the impact is to a more normal market especially when it comes to supply and demand. Job creation was moderate over the past 18 to 24 months of recovery from the previous recession and the economy is still growing at a reasonable pace overall. Given the supply of new residential product in the Riverside County market, the subject tracts should sell at a reasonable rate, but without the increases in price that have been experienced over the past several years. More and more news articles are suggesting that home prices are reaching a maximum level, and might even decline in 2006 or 2007.

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Riverside County builders sold 7,370 detached new homes during the second quarter of 2005, an 18.5% increase from one year ago. The bulk of the detached homes sold in Riverside County during the second quarter of 2005 are priced under \$550,000 and comprise 80%± of the total sales. Sales of homes priced between \$350,000 and \$550,000 continue to see the most activity, comprising 69%± of the detached market. The number of active detached projects in Riverside County increased by 79 projects during the second quarter of 2005. The majority of active projects located in Riverside County are located in the South and Central submarkets.

Standing (built, but unsold) detached inventory increased from the second quarter of 2005 compared to the second quarter of 2004 to 117 units in Riverside County. At the current sales rate, that is a two-day supply of detached homes. Detached total unsold inventory consisted of 25,259 units at the end of the second quarter of 2005, which is up from 22,381 units last year. At current sales rates, this level of inventory equates to a 13.3-month supply, which is up over two months compared to last year. This indicates that future competition could be very strong if the market declines or all of the proposed units are built.

Home prices continued to increase during the second quarter of 2005. However, in general, percentage increases have moderated since the first and second quarters of 2004. Interviews with builders in the Inland Empire anticipate significantly smaller price increases per phase. Some tracts have begun offering incentives and concessions to buyers. The higher prices have prompted more people to sell their homes which is bringing the supply and demand into better balance.

According to an interest rate survey published weekly in The Los Angeles Times, the typical 30-year, fixed rate conforming loan was between 5.25% and 5.75% as of the date of this report. Mortgage rates have been in the 5.00% to 6.00% range over the past year, following more than a year of rates in the 6% range. While a slight increase in rates may impact demand, we do not anticipate a significant drop in demand as long as rates remain near or below the 8% level.

Riverside - South Submarket

Improvement Area A is situated in the South submarket region, which accounted for 1,907 detached home sales during the second quarter of 2005, or about a 25.8% market share of the Riverside County market. The median price in the South submarket has increased minimally over the past year to \$473,482, a 5.7% increase. Although one of the more expensive submarkets in Riverside County with a price per square foot of \$172.00, the price per square foot in the subject's submarket increased by 6.2%, and the average size of a detached home declined by 0.5%.

During the second quarter of 2005, the subject's submarket did not sell any new detached homes priced under \$349,999; 253 detached homes priced between \$350,000 and \$399,999 were sold, 328 detached homes priced between \$400,000 and \$449,999 were sold, 886 detached homes sold between \$450,000 and \$549,999; and 440 homes sold over \$550,000. There were 337 attached units that sold in the subject's submarket, all but two under \$350,000.

Within the South submarket there are 116 active projects, which was 3 more than the previous year. The subject's market area reports 9 units of unsold standing (built, but unsold) inventory and 390 unsold units are under construction. This is about a four-week absorption time for the units under construction. Total inventory, which includes units built, under construction and future construction, totals 4,620 units which equates to a 11.2 month supply at the current sales rate. One year ago total inventory was at 3,976 units, and the absorption time based on last year's sales rate was 7.3 months.

Feasibility

It is not in the scope of this appraisal assignment for the appraisers to conduct an extensive independent market study/absorption analysis, but it is the appraisers' responsibility to address the reasonableness of the conclusions of any market study which has been prepared by outside firms for the subject property. Unforeseen national

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and regional economic and/or social changes will affect the time-frame of real estate development.

In an attempt to arrive at reasonable and supportable absorption schedules for the various uses within Improvement Area A of CFD No. 2005-2, the appraisers reviewed an independently prepared absorption analysis that relates to the CFD. This independent study is titled Market Absorption Study, Community Facilities District No. 2005-2, Improvement Area A, (Alberhill Ranch), prepared by Empire Economics, Inc, dated August 19, 2005, for the City of Lake Elsinore. A copy of a portion of the absorption analysis summary is included in the Addenda of this report.

The study reports that the subject property will have a 3± year absorption time frame. The 142 homes at Satillo are estimated to absorb at 45 units in 2005, 65 units in 2006 and 32 units in 2007. The 127 proposed homes at Capella are estimated to absorb at 20 homes in 2005, 55 homes in 2006 and 52 homes in 2007. The 107 future homes at Ashbury are estimated to absorb at 45 homes in 2006 and 62 homes in 2007. The 66 units in "Product A" are estimated to absorb at 66 homes in 2007. The overall monthly absorption is 4 to 6 units per month for the two current and two future projects. It should be noted that this appraisal values merchant builder land, while the market absorption report refers to homebuyers purchasing completed homes.

It is our opinion, after surveying the competitive projects and analyzing the pricing, design, location differences and other pertinent factors, that the subject property should experience average to good absorption, similar to that reported by Empire Economics.

The table on the following page reports the prices and absorption of eight detached residential developments including the two existing subject projects at Alberhill Ranch. Detached absorption has ranged from 6.0 units per month to 12.3 units per month for projects that have been in an active sales program for 3 to 12 months.

**Lake Elsinore Market Area
Comparable Residential Project Summary
Detached Single Family Homes
October 15, 2005**

No.	Project Location	Units	Lot Size	Base Price	Unit Size	Price/Sq. Ft.	No. Sold Start Dt.	Overall Mo. Abs.
1	Satillo Castle & Cooke Lake Elsinore Subject	133	5,500	\$393,000	1,943	\$202.26	77 Apr-05	12.4
				\$440,000	2,412	\$182.42		
				\$470,000	2,791	\$168.40		
				\$495,000	3,122	\$158.55		
2	Capella Castle & Cooke Lake Elsinore Subject	137	5,500	\$450,000	2,507	\$179.50	24 Jun-05	6.5
				\$480,000	3,005	\$159.73		
				\$520,000	3,505	\$148.36		
				\$540,000	3,878	\$139.25		
3	Fox & Jacobs at Rosetta Cyn Fox & Jacobs Homes Lake Elsinore	254	5,000	\$422,000	1,979	\$213.24	150 Nov-04	13.9
				\$436,000	2,400	\$181.67		
				\$453,000	2,710	\$167.16		
				\$475,000	2,873	\$165.33		
				\$485,000	3,113	\$155.80		
4	Solana Centex Homes Lake Elsinore	87	5,000	\$422,000	2,180	\$193.58	33 Jun-05	8.4
				\$429,000	2,324	\$184.60		
				\$441,000	2,579	\$171.00		
				\$450,000	2,750	\$163.64		
5	Caraway Centex Homes Lake Elsinore	80	5,000	\$466,000	2,648	\$175.98	25 Jun-05	6.4
				\$480,000	2,916	\$164.61		
				\$497,000	3,258	\$152.55		
6	Augusta Centex Homes Lake Elsinore	88	5,000	\$501,000	3,242	\$154.53	28 Jun-05	7.2
				\$521,000	3,613	\$144.20		
				\$544,000	4,063	\$133.89		
7	Cross Creek Pardee Homes Lake Elsinore	147	4,700	\$363,000	1,671	\$217.24	35 Jul-05	12.7
				\$388,000	1,918	\$202.29		
				\$396,000	2,113	\$187.41		
				\$423,000	2,439	\$173.43		
8	Briarcliff Pardee Homes Lake Elsinore	109	5,000	\$438,000	2,485	\$176.26	24 Jul-05	8.7
				\$450,000	2,679	\$167.97		
				\$461,000	2,820	\$163.48		
				\$473,000	3,085	\$153.32		

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Maximally Productive

In considering what uses would be maximally productive for the subject property, we must consider the previously stated legal considerations. We are assuming the land uses allowed under the Specific Plan zone regulation with the City of Lake Elsinore are the most productive uses that will be allowed at the present time. Current zoning and approved uses indicate that other alternative uses are not feasible at this time.

Given the steady demand for residential product in Riverside County and the subject market area, it is our opinion that the development as proposed provides the highest land value and is, therefore, maximally productive.

Conclusion

Legal, physical, and market considerations have been analyzed to evaluate the highest and best use of the property. This analysis is presented to evaluate the type of uses that will generate the greatest level of future benefits possible from the land.

After reviewing the alternatives available and considering this and other information, it is the opinion of the appraisers that the highest and best use for the subject property, as vacant and as proposed, is for residential development similar to that proposed for the subject tracts. The projects appear to have the location, features, and pricing structure to obtain an average to good sales rate under normal financing and market conditions.

As Vacant and As Improved

After reviewing the alternatives available and considering this and other information, it is these appraisers' opinion that ultimate development of single-family detached and attached for-sale homes similar to the current proposed products are considered the highest and best use of the property.

VALUATION METHODOLOGY

Basis of Valuation

Valuation is based upon general and specific background experience, opinions of qualified informed persons, consideration of all data gathered during the investigative phase of the appraisal and analysis of all market data available to the appraiser.

Valuation Approaches

Three basic approaches to value are available to the appraiser:

Cost Approach

This approach entails the preparation of a replacement or reproduction cost estimate of the subject property improvements new (maintaining comparable quality and utility) and then deducting for losses in value sustained through age, wear and tear, functionally obsolescent features, and economic factors affecting the property. This is then added to the estimated land value to provide a value estimate.

Income Approach

This approach is based upon the theory that the value of the property tends to be set by the expected net income therefrom to the owner. It is, in effect, the capitalization of expected future income into present worth. This approach requires an estimate of net income, an analysis of all expense items, the selection of a capitalization rate, and the processing of the net income stream into a value estimate.

Direct Comparison Approach

This approach is based upon the principle that the value of a property tends to be set by the price at which comparable properties have recently been sold or for which they can be acquired. This approach requires a detailed comparison of sales of comparable properties with the subject property. One of the main requisites, therefore, is that sufficient transactions of comparable properties be available to provide an accurate indicator of value and that accurate information regarding price, terms, property description, and proposed use be obtained through interview and observation.

The Direct Comparison Approach is used for the valuation of land when sufficient comparable sales are available. The Income Approach is typically used when appraising

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income producing properties. This approach is not applicable in the valuation of land as land is not typically held to generate monthly income, but rather purchased to construct an end product that may or may not generate income. The Cost Approach is not an appropriate tool in the valuation of land. The land under site construction is valued by Direct Comparison.

The subject property is under site construction, model home construction and production home construction by the builder/developer. The products being built are considered the highest and best use of the property and are in demand by the Riverside County homebuyer. Therefore, the partially completed improvements are considered to add value. The units under construction are valued based on a conservative estimate of their completion. This percentage is applied to the estimated base sales price of the home for an indication of value. The completed model homes are valued using the current base sales price for the floor plan and adding approximately 5% of the value to account for the interior and exterior upgrade improvements.

VALUATION OF CFD No. 2005-2 IMPROVEMENT AREA A

General Information

The subject property is being built by the developer/merchant builder, Castle & Cooke. As previously described, all of the subject property is under construction from rough graded lots to finished lots. Of the 442 proposed lots, there are eight completed models and 95 units under construction. This section of the report will value the 339 lots that do not have unit construction, assuming a finished lot condition. The next section of the report will value the eight models and the 95 lots that are in various stages of unit construction. From the total of the finished lots and lots under construction a deduction for the costs to complete will be made. These costs are reported to include all of the costs to bring the land from its current "as is" condition as of the date of value to a finished lot ready to issue a building permit. The construction fund proceeds from the sale of bonds by this CFD will be given consideration in the final "as is" value for CFD No. 2005-2, Improvement Area No. A.

Direct Comparison Approach – 339 Finished Lots

The Direct Comparison Approach is based upon the premise that, when a property is replaceable in the market, its value tends to be set by the purchase price necessary to acquire an equally desirable substitute property, assuming no costly delay is encountered in making the decision and the market is reasonably informed. In appraisal practice, this is known as the Principle of Substitution.

This approach is a method of analyzing the subject property by comparison of actual sales of similar properties, when available. These sales are evaluated by weighing both overall comparability and the relative importance of such variables as time, terms of sale, location of sale property, and lot characteristics. The actual sales price of a particular parcel is always considered the best indication of value, assuming the transaction is arm's length, current and meets the definition of Market Value. In the case of the subject parcel, its Market Value will be best indicated by the merchant builder residential land sales that have occurred in the Lake Elsinore, Wildomar and

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Menifee areas. A discussion of the market data will precede the parcel valuation. For the purpose of this report, the unit of comparison utilized is the price per unit for the residential land. Please refer to the following page that summarizes the sales considered similar to the subject parcel.

We have surveyed residential sales in the subject market area. The seven sales are the comparables considered most helpful in valuing the subject property. We have reviewed and inspected all of the data items. The table on the next page includes the finished lot prices for merchant builder parcels.

The comparable land sales have sold in raw condition and blue-top condition. Costs to bring the land from the condition at the time of sale to finished lot condition were made available to analyze the data. Therefore, the analysis will conclude at an indication of finished lot value for the subject parcel.

Land Sales Summary Alberhill Ranch Market Area							
Data No. Location	Buyer/ Seller	Sales Date	Lot Size	No. of Lots	Price/ Lot	Finished Price/Lot	Remarks
No. 1 SE/S I-15, E/O int. 3rd St. & Old Rch. Rd. Lake Elsinore	Wasson Canyon Holdings, LLC Wasson Canyon Investments, L.P.	6/05	6,000	191	N/A	\$185,000	Sold in a raw condition 1.9%± tax rate, TTM Rosetta Canyon MPC
No. 2 E/O Railroad Cyn. Rd. N/O Canyon Hills Rd. Lake Elsinore	Pulte Home Pardee Home	7/05	4,900	131	\$136,000	\$192,000	Sold in a blue-top condition 1.9% tax rate Canyon Hills MPC
No. 3 N/S Newport Rd. @ Winter Hawk Rd. Menifee	U. S. Homes Creekside Villas	7/04	7,200	226	N/A	\$145,000	Sold in raw condition 1.8% tax rate, no views
No. 4 NWC Haun Rd. & Garbani Rd. Menifee	Capital Pacific Homes Anil Rastogi	2/05	7,200	128	\$90,000	\$155,000	Sold in a raw condition 1.9% tax rate, no views
No. 5 SWC Haun Rd. & Craig Ave. Menifee	Confidential Burns Ranch	Current Escrow	7,200	210	\$82,975	\$168,000	Sold in a raw condition 1.9% tax rate, no views
No. 6 NE/S Palomar St. SE/O Catt Road Wildomar	Rancho Vista II Ventures LLC Temecula Creek Estates	6/04	7,200	114	\$105,000	\$159,990	Sold in a raw condition 1.7% tax rate, TTM
No. 7 N/S Simpson Rd. E/O Leon Road Menifee	Winchester Ranch 202, LLC Stonegate Deelopment I, LLC	12/04	7,200	202	\$77,500	\$155,000	Sold in a raw condition 1.9%± tax rate, TTM

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Land Sale Data No. 1

Location: Southeast side of I-15, southeast of S-74 and east of the intersection of 3rd Street and Old Ranch Road, Lake Elsinore

Legal Description: 347-330-019, 045, 046, 050, 051, 052, 053 and 347-360-003

Buyer: Wasson Canyon Holdings, LLC

Seller: Wasson Canyon Investments, L.P.

Parcel Size: 59.4 acres

No. of Units: 191

Lot Size: 6,000 square feet

Zoning: R-1

Intended Use: To construct 191 detached residential dwellings

Date Recorded: June 28, 2005

Sale Price: N/A, based on a finished lot value of \$185,000

Price/Unit: N/A

Finished Lot Cost: \$185,000

Site Condition: Raw at sale date with approved tentative tract map

Financing: All cash to seller

Verification: Seller, broker and Grant Deed

Comments: The effective tax rate is estimated to be 1.9%.

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Land Sale Data No. 2

Location:	East of Railroad Canyon Road, north of Canyon Hills Road, Lake Elsinore
Legal Description:	Portion of TTM 30493
Buyer:	Pulte Home
Seller:	Pardee Home
Parcel Size:	20.0± gross acres
No. of Units:	131
Lot Size:	4,900 square foot minimum lot size
Zoning:	SP
Intended Use:	To construct 131 detached dwellings ranging in size from 1,949 to 2,458 square feet.
Date Recorded:	July 15, 2005
Sale Price:	\$17,816,000
Price/Unit:	\$136,000
Finished Lot Cost:	\$192,000
Site Condition:	Blue-top at sale
Financing:	All cash to seller
Verification:	Seller & Buyer
Comments:	This property is encumbered by a CFD. This site is level to rolling hillside. It is within the Canyon Hills master planned community.

Land Sale Data No. 3

Location:	North side Newport Road at Winter Hawk Road, Menifee
Legal Description:	Parcel Map No. 12764
Buyer:	U.S. Home (Lennar)
Seller:	Creekside Villa, LLC
Parcel Size:	60.0 gross acres
No. of Units:	226
Lot Size:	7,200 square foot minimum size
Zoning:	R-1
Intended Use:	To construct 226 detached dwellings in two projects, dwelling size to range from 2,600 to 3,400 square feet.
Date Recorded:	July 2, 2004
Sale Price:	N/A
Price/Unit:	N/A
Finished Lot Cost:	\$145,000
Site Condition:	Sold raw, site grading underway
Financing:	All cash to seller
Verification:	Listing broker
Comments:	This site will have two developments. Emerson Lane will have homes from 2,600 to 3,400 square feet. Arbor Lane will have homes from 2,621 to 3,322 square feet. This property will have a CFD, with a tax rate similar to the subject.

Land Sale Data No. 4

Location:	Northwest Corner of Haun Road and Garbani Road, Menifee
Legal Description:	TTM No. 31724
Buyer:	SCC—Canyon II, LLC
Seller:	Anil Rastogi, et al
Parcel Size:	36.13 acres
No. of Units:	128
Lot Size:	7,200 square feet
Zoning:	R-1
Intended Use:	To construct 128 detached single-family dwellings.
Date Recorded:	February 9, 2005
Sale Price:	\$11,520,000
Price/Unit:	\$90,000
Finished Lot Cost:	\$155,000
Site Condition:	Raw at sale
Financing:	All cash to seller
Verification:	Buyer
Comments:	The seller processed Tentative Tract Map No. 31724, and the sale closed with an approved tentative tract map. A CFD is being formed and the effective tax rate is approximately 1.9%. The CFD is approximately \$18,000 per lot. The finished lot price is \$155,000 per lot (net of the CFD) and \$173,000 per lot without the CFD.

Land Sale Data No. 5

Location:	Southwest corner Haun Road and Craig Avenue, Menifee
Legal Description:	Portion SE Quarter Section 10, T6S R3W
Buyer:	Confidential
Seller:	Burns Ranch, Inc.
Parcel Size:	64.55 acres
No. of Units:	210±
Lot Size:	7,200 square feet
Zoning:	R-1
Intended Use:	To construct approximately 210 detached residential dwellings.
Date Recorded:	Current escrow
Sale Price:	\$17,425,000
Price/Unit:	\$82,975
Finished Lot Cost:	\$168,000
Site Condition:	Raw at sale date
Financing:	All cash to seller
Verification:	Listing Broker
Comments:	The property is scheduled to close in October 2005. The long escrow period allows the buyer to process the approvals and the site will close with the approval of the tentative tract map. The effective tax rate is 1.9%. The APNs are 360-240-034 and 360-260-005.

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Land Sale Data No. 6

Location: Northeast side of Palomar Street, southeast of Catt Road, Wildomar

Legal Description: N/A (Rancho Vista II)

Buyer: Rancho Vista II Ventures, LLC

Seller: Temecula Creek Estates, LLC

Parcel Size: N/A

No. of Units: 114

Lot Size: 7,200 square feet

Zoning: R-1

Intended Use: To construct 114 detached residential dwellings ranging from 2,447 to 3,434 square feet. Base sales prices are estimated between \$350,000 and \$465,000.

Date Recorded: June 2004

Sale Price: \$11,970,000

Price/Unit: \$105,000

Finished Lot Cost: \$159,990

Site Condition: Raw at sale date with approved tentative tract map

Financing: All cash to seller

Verification: Seller

Comments: The effective tax rate is estimated to be 1.7%.

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Land Sale Data No. 7

Location: North of Simpson Road, east of Leon Road, Menifee Valley

Legal Description: 462-020-040, 041, 046 and 047; Parcel 1 and 2 of Parcel Map 5986 and Parcels 1, 3 and 4 of Parcel Map 6517

Buyer: Winchester Ranch 202, LLC

Seller: Stonegate Development I, LLC

Parcel Size: 58.3 acres

No. of Units: 202

Lot Size: 7,200 square feet

Zoning: R-1

Intended Use: To construct 202 detached residential dwellings

Date Recorded: December 20, 2004

Sale Price: \$15,655,000

Price/Unit: \$77,500

Finished Lot Cost: \$155,000

Site Condition: Raw at sale date with approved tentative tract map

Financing: All cash to seller

Verification: Broker and Grant Deed

Comments: The effective tax rate is estimated to be 1.9%.

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We have surveyed residential sales in the Lake Elsinore, Menifee and Wildomar market areas. The subject property has been under the same ownership for over 15 years

The 7 sales used in the analysis are the comparables considered most helpful in valuing the subject property. We have reviewed and inspected all of the data items. The previous table includes the finished lot prices for merchant builder parcels.

The comparable land sales have sold in raw condition and blue-top condition. Costs to bring the land from the condition at the time of sale to finished lot condition were made available to analyze the data. Therefore, the analysis will conclude at an indication of finished lot value for the subject parcel, and then a deduction to bring the subject from a finished lot condition to the "As Is" lot condition is made. An analysis of the finished land purchase price for all the Data Items was helpful to arrive at the "As Is" value of the subject tracts.

Analysis

Financing

All of the comparable sales were all cash transactions or financing considered to be cash, therefore, no adjustments for financing were warranted.

Property Rights Conveyed

All of the comparables involved the transfer of the fee simple interest. The subject's fee simple interest is appraised in this report, and therefore, no adjustment is warranted.

Time of Sale

During the past 8 years, Southern California has sharply rebounded from its lengthy recession. Demand for land sales has dramatically exceeded supply. Prices paid for residential land increased annually by 15% to 20% and more from 1997 to 2000. However, 2001 saw a leveling of land prices, only to increase again during 2002, 2003,

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and the first six months of 2004. Home prices have increased from the lows of 1996. The average new home price in Riverside County has increased from \$156,907 in the first quarter of 1996 to \$415,390 in the second quarter of 2005. The median price increased 3.9% in the last 12 months. This is a record high, median price level for existing homes in Riverside County. However, while prices have continued up, the increase is significantly lower than in the past 5± years. Activity is reported to continue to be strong. Based on sales and resales of several of the land sales, we have used a 2% per month increase for time adjustments through September 2004. The market in general began to plateau during August and September 2004. The price stabilization continued through February 2005. As sales prices have resumed their increases, upward adjustment of 1% per month is required since February 2005. Because the escrow has not closed, we are estimating a 5% downward adjustment due to current market conditions.

Conditions of Sale

Typically, adjustments for conditions of sale reflect the motivations of the buyer and the seller in the transfer of real property. The conditions of sale adjustment reflects the difference between the actual sales price of the comparable and its probable sales price if it were sold in an arms-length transaction with typical motivations. Some circumstances of comparable sales that will need adjustment include sales made under duress, eminent domain transactions and sales that were not arm's length. All of the transactions were reported to be arm's length in nature. Accordingly, no adjustment is indicated.

Location

The location adjustment is based on proximity to existing infrastructure and employment. The four sales located in the Menifee area are generally considered similar to that of the subject. No adjustment is indicated. Data No. 6 located in Wildomar, is considered to be in a superior location. A downward adjustment of 10% is estimated. Data Nos. 1 and 2 are felt to be a superior location on the east side of the I-15. Downward adjustments of 10% are necessary.

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Entitlement/Map Status

All of the sales are entitled. No adjustment is required.

Tax Rate

The subject is expected to have an average overall tax rate around 1.90% to 2.00% of base sales price. The comparable sales that have similar CFDs or Assessment Districts do not require an adjustment. The merchant builders of the land are aware of the various taxes and have factored the impact of the higher tax rates into the prices paid for the land.

Lot Size

The comparables have minimum lot sizes that range from 4,900 square feet to 7,200 square feet. The minimum lot size for the subject is 5,000 square feet with typical sizes between 7,000 and 8,000 square feet. Interviews with sales persons indicated that lot size is an important feature to the Lake Elsinore homebuyer. Downward adjustments are required for all of the data items except Data Nos. 1 and 2 with a 4,900 and 6,000 square foot minimum lot.

Condition of Lots

All of the data had prices based on a finished condition. Deductions for costs to bring the subject parcel from finished lot condition to the current "As Is" condition is made at the Conclusion of Value in this analysis.

Please refer to the next page for the adjustment grid of the 7 comparable land sales. After all adjustments, and giving consideration to all of the data, the comparable data indicated a per lot value of \$150,000 to \$180,000 per finished lot.

Land Sale Adjustments
Alberhill Ranch Market Area
 Merchant Builder Parcels

<u>Data No.</u> <u>Project/</u> <u>Location</u>	<u>Sales</u> <u>Date</u>	<u>No.</u> <u>Lots</u>	<u>Lot</u> <u>Size (SF)</u>	<u>Entitlement</u>	<u>Finished</u> <u>Lot Cost</u>	<u>Time</u>	<u>Time Adj.</u> <u>Lot Cost</u>	<u>Location</u>	<u>Approved</u> <u>Map</u>	<u>Tax</u> <u>Rate</u>	<u>Lot</u> <u>Size</u>	<u>Condition</u> <u>of Lots</u>	<u>Adjusted</u> <u>Finished Lot</u>
No. 1 SE/S I-15, E/O int. 3rd St. & Old Rch. Rd. Lake Elsinore	6/05	191	6,000	Entitled	\$185,000	4.0%	\$192,400	-10%	0%	0%	0%	0%	\$173,160
No. 2 E/O Railroad Cyn. Rd. N/O Canyon Hills Rd. Lake Elsinore	7/05	131	4,900	Entitled	\$192,000	3.0%	\$197,760	-10%	0%	0%	0%	0%	\$177,984
No. 3 N/S Newport Rd. @ Winter Hawk Rd. Menifee	7/04	226	7,200	Entitled	\$145,000	12.0%	\$162,400	0%	0%	0%	-5%	0%	\$163,448
No. 4 NWC Haun Rd. & Garbani Rd. Menifee	2/05	128	7,200	Entitled	\$155,000	8.0%	\$167,400	0%	0%	0%	-5%	0%	\$159,030
No. 5 SWC Haun Rd. & Craig Ave. Menifee	Current Escrow	210	7,200	Entitled	\$168,000	-5.0%	\$159,600	0%	0%	0%	-5%	0%	\$151,620
No. 6 NE/S Palomar St. SE/O Catt Road Wildomar	6/04	114	7,200	Entitled	\$159,990	14.0%	\$182,389	-10%	0%	0%	-5%	0%	\$155,030
No. 7 N/S Simpson Rd. E/O Leon Road Menifee	12/04	202	7,200	Entitled	\$155,000	8.0%	\$167,400	0%	0%	0%	-5%	0%	\$159,030

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Conclusion of Finished Lot Values

After all adjustments, and giving the most emphasis to Data Nos. 1 and 2, the comparable data indicated a per lot value of \$170,000 per finished lot, for lots with minimum sizes between 5,000 and 5,500 square feet. The cost to finish for the subject lots were reported to be \$23,443,978 or \$69,000± per lot for the 339 remaining lots under construction.

Valuation Model Homes

As previously discussed, Tract Nos. 28214-1 and 28214-2 are improved with eight model homes. The models have been complete since August 2005. The Alberhill Ranch development has been in a sales program since April 2005 and has met with good response from the market. Since opening for sales, 101 homes have sold which indicates an absorption rate of between 6 and 12 units per month for Satillo and Capella. The model homes are valued based on the currently achieved average base sales price for each project. Due to the exterior and interior upgrades to the model homes, an increase of \$25,000 is added. The recapture rate is considered reasonable for the projects based on their interior and exterior upgrades. The Satillo tract has an average base price of \$450,000 and Capella has an average base price of \$497,000.

Project	Base Sales Price	Model Upgrades		Estimated Value
Satillo	\$450,000	\$25,000	=	\$475,000
4 X	\$475,000			\$1,900,000
Capella	\$497,000	\$25,000	=	\$522,000
4 X	\$522,000			<u>\$2,088,000</u>
Total Value				\$3,988,000

Value of the 95 Dwelling Units Under Construction

There are 95 dwelling units under construction at the two subject developments as of the date of value. As of the date of value, the units range in completion from wrapped with roofs loaded to completed homes. The units under construction were valued based on our inspection of the property. An estimate of completion (stated as a percent) of each unit as of the date of value is used to value the units. The estimate of completion has been arrived at with input from merchant builders and review of

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numerous cost estimates. That percent is then applied to the estimated average base sales price for each project as of the date of value. The 43 dwelling units in Satillo are color coated to complete and are estimated to be 80% and 100% complete. The 12 dwelling units in Capella improved to color stucco coat with roofs complete are estimated to be 80% complete. The 10 dwelling units in Capella are in the brown coat stage and are estimated to be 70% complete and the 30 lots within Capella in the wrapped stage are estimated to be 60% complete. Please refer to the following table that summarizes the 95 units under construction and estimated value. Based on an equal distribution of floor plans for the four plans available at each project, the average base sales price is \$450,000, at Satillo and \$497,000 at Capella. This should render a conservative value as builders typically build more of the larger floor plans.

<u>Project</u>	<u>Base Sales Price</u>	<u>No. Units/ % Complete</u>	<u>Estimated Value</u>
Satillo	\$450,000	18 DU @ 100%	\$8,100,000
Satillo	\$450,000	25 DU @ 80%	\$9,000,000
Capella	\$497,000	12 DU @ 80%	\$4,771,200
Capella	\$497,000	10 DU @ 70%	\$3,479,000
Capella	\$497,000	30 DU @ 60%	\$8,946,000
Total Value 95 Production Homes Under Construction:			\$34,296,200

Value Conclusion CFD No. 2005-2 Improvement Area A

The estimated "As Is" value for the land under site and unit construction, and considering the costs to complete the site construction at \$23,443,978 and the proceeds of \$19,500,000 from this CFD, is \$91,970,222, rounded to \$91,900,000. Please refer to the following table which summarizes the values of the land and units in various stages of construction, costs to complete and estimated bond proceeds from CFD No. 2005-2.

339 lots X \$170,000 per finished lot =	\$57,630,000
8 Completed Model Homes =	\$ 3,988,000
95 Production Homes Under Construction =	<u>\$34,296,200</u>
Total assumes completed site construction =	\$95,914,200
Less Costs to Bring to Finished Lot =	(\$23,443,978)
Plus Proceeds from CFD No. 2004-3, I. A. 1 =	<u>\$19,500,000</u>
Estimated "as is" Value for CFD No. 2005-2	\$91,970,222
Say	\$91,900,000

VALUATION CONCLUSION

Based on the investigation and analyses undertaken, our experience as real estate appraisers, and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value is formed as of October 15, 2005.

NINETY-ONE MILLION NINE HUNDRED THOUSAND DOLLARS

\$91,900,000

The estimated value assumes bond proceeds of \$19,500,000 for eligible facilities and/or fees, as described in the Community Facilities Report, are available at the time of sale.

CERTIFICATION

We hereby certify that during the completion of this assignment, we personally inspected the property that is the subject of this appraisal and that, except as specifically noted:

We have no present or contemplated future interest in the real estate or personal interest or bias with respect to the subject matter or the parties involved in this appraisal.

To the best of our knowledge and belief, the statements of fact contained in this appraisal report, upon which the analyses, opinions, and conclusions expressed herein are based, are true and correct.

Our engagement in this assignment was not contingent upon developing or reporting predetermined results. The compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.

As of the date of this report, James B. Harris has completed the requirements of the continuing education program of the Appraisal Institute.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.

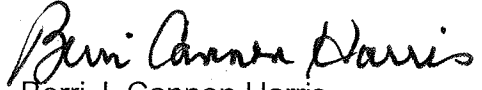
No one provided professional assistance to the persons signing this report.

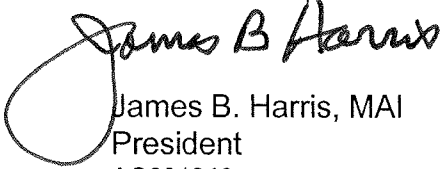
The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. In furtherance of the aims of the Appraisal Institute to develop higher standards of professional performance by its

HRA

Members, we may be required to submit to authorized committees of the Appraisal Institute copies of this appraisal and any subsequent changes or modifications thereof.

Respectfully submitted,


Berri J. Cannon Harris
Vice President
AG009147


James B. Harris, MAI
President
AG001846

ADDENDA

QUALIFICATIONS

HARRIS REALTY APPRAISAL

5100 Birch Street, Suite 200

Newport Beach, CA 92660

(949) 851-1227

**QUALIFICATIONS
OF
JAMES B. HARRIS, MAI**

PROFESSIONAL BACKGROUND

Actively engaged as a real estate analyst and consulting appraiser since 1971. President and Principal of **Harris Realty Appraisal**, with offices at:

5100 Birch Street, Suite 200
Newport Beach, California 92660

Before forming Harris Realty Appraisal, in 1982, was employed with Real Estate Analysts of Newport, Inc. (REAN) as a Principal and Vice President. Prior to employment with REAN was employed with the Bank of America as the Assistant Urban Appraisal Supervisor. Previously, was employed by the Verne Cox Company as a real estate appraiser.

PROFESSIONAL ORGANIZATIONS

Member of the Appraisal Institute, with MAI designation No. 6508
Director, Southern California Chapter – 1998, 1999
Chair, Orange County Branch, Southern California Chapter -1997
Vice-Chair, Orange County Branch, Southern California Chapter - 1996
Member, Region VII Regional Governing Committee - 1991 to 1995, 1997, 1998
Member, Southern California Chapter Executive Committee - 1990, 1997 to 1999
Chairman, Southern California Chapter Seminar Committee - 1991
Chairman, Southern California Chapter Workshop Committee - 1990
Member, Southern California Chapter Admissions Committee - 1983 to 1989
Member, Regional Standards of Professional Practice Committee -1985 - 1997

Member of the International Right-of-Way Association, Orange County Chapter 67.

California State Certified Appraiser, Number AG001846

EDUCATIONAL ACTIVITIES

B.S., California State Polytechnic University, Pomona, 1972.

Successfully completed the following courses sponsored by the Appraisal Institute and the Right-of-Way Association:

Course I-A	Principles of Real Estate Appraisal
Course I-B	Capitalization Theory
Course II	Urban Properties
Course IV	Litigation Valuation
Course VI	Investment Analysis
Course VIII	Single-Family Residential Appraisal
Course SPP	Standards of Professional Practice
Course 401	Appraisal of Partial Acquisitions

Has attended numerous seminars sponsored by the Appraisal Institute and the International Right-of-Way Association.

TEACHING AND LECTURING ACTIVITIES

Seminars and lectures presented to the Appraisal Institute, the University of California-Irvine, UCLA, California Debt and Investment Advisory Commission, Stone & Youngberg and the National Federation of Municipal Analysts.

MISCELLANEOUS

Member of the Advisory Panel to the California Debt and Investment Advisory Commission, regarding Appraisal Standards for Land Secured Financing (March 2003 through June 2004)

LEGAL EXPERIENCE

Testified as an expert witness in the Superior Court of the County of Los Angeles and the County of San Bernardino and in the Federal Bankruptcy Courts five times concerning the issues of Eminent Domain, Bankruptcy, and Specific Performance. He has been deposed numerous times concerning these and other issues. This legal experience has been for both Plaintiff and Respondent clients. He has prepared numerous appraisals for submission to the IRS, without having values overturned. He has worked closely with numerous Bond Counsel in the completion of 100 Land Secured Municipal Bond Financing appraisals over the last five years.

SCOPE OF EXPERIENCE

Feasibility and Consultive Studies

Feasibility and market analyses, including the use of computer-based economic models for both land developments and investment properties such as shopping centers, industrial parks, mobile home parks, condominium projects, hotels, and residential projects.

Appraisal Projects

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona, Florida, Georgia, Hawaii, Nevada, New Jersey, Oklahoma, Oregon, and Washington.

Residential

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

Commercial

Office buildings, hotels, motels, retail store buildings, restaurants, power shopping centers, neighborhood shopping centers, and convenience shopping centers.

Industrial

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

Vacant Land

Community Facilities Districts, Assessment Districts, master planned communities, residential, commercial and industrial sites; full and partial takings for public acquisitions.

**QUALIFICATIONS
OF
BERRI J. CANNON HARRIS**

PROFESSIONAL BACKGROUND

Actively engaged as a real estate appraiser since 1982. Vice President of ***Harris Realty Appraisal***, with offices at:

5100 Birch Street, Suite 200
Newport Beach, California 92660

Before joining Harris Realty Appraisal was employed with Interstate Appraisal Corporation as Assistant Vice President. Prior to employment with Interstate Appraisal was employed with Real Estate Analysts of Newport Beach as a Research Assistant.

PROFESSIONAL ORGANIZATIONS

Candidate of the Appraisal Institute for the MAI designation.

Co-Chair, Southern California Chapter Hospitality Committee - 1994 - 1998

Chair, Southern California Chapter Research Committee - 1992, 1993

Women in Commercial Real Estate, Member Orange County Chapter.

Chair, Special Events – 1998, 1999, 2000, 2001, 2002, 2003

Second Vice-President - 1996, 1997

Treasurer - 1993, 1994, 1995

Chair, Network Luncheon Committee - 1991, 1992

California State Certified Appraiser, Number AG009147

EDUCATIONAL ACTIVITIES

B.S.B.A., University of Redlands, Redlands, California

Successfully completed the following courses sponsored by the Appraisal Institute:

Principles of Real Estate Appraisal

Basic Valuation Procedures

Capitalization Theory and Techniques - A

Capitalization Theory and Techniques - B

Report Writing and Valuation Analyses

Standards of Professional Practice

Case Studies in Real Estate Valuation

Has attended numerous seminars sponsored by the Appraisal Institute. Has also attended real estate related courses through University of California-Irvine.

LECTURING ACTIVITIES

Seminars and lectures presented to UCLA, California Debt and Investment Advisory Commission, and Stone & Youngberg.

MISCELLANEOUS

Member of the Advisory Panel to the California Debt and Investment Advisory Commission, regarding Appraisal Standards for Land Secured Financing (March 2003 through June 2004)

SCOPE OF EXPERIENCE

Appraisal Projects

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona and Hawaii.

Residential

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

Commercial

Office buildings, retail store buildings, restaurants, neighborhood-shopping centers, strip retail centers.

Industrial

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

Vacant Land

Residential sites, commercial sites, industrial sites, large multi-unit housing, master planned unit developments, and agricultural acreage. Specializing in Community Facilities District and Assessment District appraisal assignments.

PARTIAL LIST OF CLIENTS

Lending Institutions

Bank of America	NationsBank
Bank One	Preferred Bank
Commerce Bank	Santa Monica Bank
Downey S&L Assoc.	Tokai Bank
Fremont Investment and Loan	Union Bank
First Los Angeles Bank	Universal S&L Assoc.
Institutional Housing Partners	Wells Fargo Bank

Public Agencies

Army Corps of Engineers	City of Palm Springs
California State University	City of Perris
Caltrans	City of Riverside
City of Aliso Viejo	City of San Marcos
City of Beaumont	City of Tustin
City of Corona	City of Victorville
City of Costa Mesa	County of Orange
City of Encinitas	County of Riverside
City of Fontana	County of San Bernardino
City of Fullerton	Eastern Municipal Water District
City of Hemet	Orange County Sheriff's Department
City of Hesperia	Ramona Municipal Water District
City of Honolulu	Rancho Santa Fe Comm. Services District
City of Huntington Beach	Capistrano Unified School District
City of Indian Wells	Hemet Unified School District
City of Irvine	Hesperia Unified School District
City of Lake Elsinore	Romoland School District
City of Loma Linda	Saddleback Valley Unified School District
City of Los Angeles	Santa Ana Unified School District
City of Moreno Valley	Val Verde Unified School District
City of Newport Beach	Yucaipa-Calimesa Unified School District
City of Oceanside	

Developers and Landowners

DMB - Ladera	Lennar Homes
Foothill Ranch Company	Rancho Mission Viejo
Hon Development Co.	Santa Margarita Company
Irvine Apartment Communities	Shapell Industries
The Irvine Company.	Sterling Development

Law Firms

Arter & Hadden	McClintock, Weston, Benshoof,
Bronson, Bronson & McKinnon	Rochefort & MacCuish
Bryan, Cave, McPheeters & McRoberts	Palmiri, Tyler, Wiener, Wilhelm, & Waldron
Richard Clements	Sonnenschein Nath & Rosenthal
Cox, Castle, Nicholson	Strauss & Troy
Gibson, Dunn & Crutcher	Wyman, Bautzer, Rothman, Kuchel &
Hill, Farrer & Burrill	Silbert

MARKET ABSORPTION STUDY (A PORTION)

ESTIMATED ABSORPTION SCHEDULES
CITY OF LAKE ELSINORE CFD NO. 2005-2 IA-A (ALBERHILL RANCH)

AUGUST 19, 2005; Subject to Revision

CFD Projects	Satillo	Capella	Ashbury	Product A	Annually	Cumul.
Builders	Castle & Cooke	Castle & Cooke	Castle & Cooke	Castle & Cooke		
Product Type	Single-Family Detached	Single-Family Detached	Single-Family Detached	Single-Family Detached		
Lot-Size	5,200	7,000	7,000	4,000		
Total Units - Forthcoming	142	127	107	66	442	
Share	32.1%	28.7%	24.2%	14.9%	100.0%	
Housing Prices - Builder						
Plan # 1	\$382,000	\$450,000	\$465,000	\$360,000		
Plan # 2	\$395,000	\$480,000	\$490,000	\$378,000		
Plan # 3	\$440,000	\$520,000	\$520,000	\$398,000		
Plan # 4	\$465,000	\$540,000				
Average	\$420,500	\$497,500	\$491,667	\$378,667	\$453,606	
Living Areas - Builder						
Plan # 1	2,010	2,531	2,775	1,600		
Plan # 2	2,483	3,005	3,124	1,900		
Plan # 3	2,845	3,575	3,582	2,200		
Plan # 4	3,120	3,838				
Average	2,615	3,237	3,160	1,900	2,819	
Value Ratio (Price/Living Area)	\$161	\$154	\$156	\$199	\$161	
Commence Occupancies	4th-2005	4th-2005	3rd-2006	1st-2007		
Estimated Absorption:						
2005	45	20	0	0	65	65
2006	65	55	45	0	165	230
2007	32	52	62	66	212	442
Totals	142	127	107	66	442	

SITE DEVELOPMENT COST SUMMARY

Castle & Cooke - Alberhill Ranch
City of Lake Eisnore CFD No. 2005-2 Improvement Area A
Development Cost Summary
As of 10/23/2005

Phase	Tract No.	Total Units	Gross Acres	Total Offsite Costs (a)	Less: Total Offsite Costs Completed (2)	Total Onsite Costs (b)	Less: Total Onsite Costs Completed (4)	Total Intract Cost to Finish Lot Budget (c)	Less: Total Intract Cost of Finished Lot Completed (6)	Less: Projected Net Bond Proceeds (d)	Total Cost to Complete (1)+(2)+(3)+(4)+(5)+(6)+(7)	Per unit
1	28214-1	52	21.7	\$ 1,273,631	\$ (661,126)	\$ 2,383,382	\$ (2,314,159)	\$ 3,497,045	\$ (3,575,424)	\$ (603,349)	\$ -	\$ -
2	28214-2	104	35.8	\$ 4,337,650	\$ (1,006,153)	\$ 4,744,240	\$ (4,176,903)	\$ 5,820,544	\$ (5,977,301)	\$ (3,742,077)	\$ -	\$ -
3	28214-3	127	30.9	\$ 4,087,717	\$ (267,208)	\$ 5,021,831	\$ (3,855,002)	\$ 6,841,710	\$ (2,337,436)	\$ (1,520,271)	\$ 7,971,342	\$ 62,766
5	28214-5	159	46.3	\$ 4,815,376	\$ -	\$ 6,152,292	\$ (2,385,000)	\$ 8,793,299	\$ -	\$ (1,903,331)	\$ 15,472,635	\$ 97,312
Total		442	134.7	\$ 14,514,373	\$ (1,934,486)	\$ 18,301,746	\$ (12,731,064)	\$ 24,952,598	\$ (11,890,161)	\$ (7,769,028)	\$ 23,443,978	

Footnotes:

- (a) See Tab 1 for further cost detail.
- (b) See Tab 14 for further cost detail.
- (c) See Tab 19 for further cost detail.
- (d) See Exhibit A titled "Allocation of Net Bond Proceeds".

APPENDIX D
RATE AND METHOD OF APPORTIONMENT

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**RATE AND METHOD OF APPORTIONMENT FOR
COMMUNITY FACILITIES DISTRICT NO. 2005-2
OF THE CITY OF LAKE ELSINORE
(Alberhill Ranch)
(IMPROVEMENT AREA A)**

The following sets forth the Rate and Method of Apportionment for the levy and collection of Special Taxes in Improvement Area A of the City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) ("CFD No. 2005-2"). The Special Tax shall be levied on and collected in Improvement Area A of CFD No. 2005-2 each Fiscal Year, in an amount determined through the application of the Rate and Method of Apportionment described below. All of the real property within Improvement Area A, 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 A
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map or instrument. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

"Act" means the Mello-Roos Communities Facilities Act of 1982, as amended, being Chapter 2.5, Part 1 of Division 2 of Title 5 of the Government Code of the State of California.

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of Improvement Area A: the costs of computing the Special Taxes and preparing the Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the City or otherwise); the costs of remitting the Special Taxes for Facilities to the Trustee; the costs of the Trustee (including legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, Improvement Area A or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, Improvement Area A or any designee thereof of complying with disclosure requirements of the City, Improvement Area A or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, Improvement Area A or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the City's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the City or Improvement Area A for any other administrative purposes of Improvement Area A, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

“Apartment Property” means all Assessor’s Parcels of Residential Property on which one or more Apartment Units are constructed.

“Apartment Unit” means a dwelling unit within a building comprised of attached residential units available for rental by the general public, not for sale to an end user, and under common management.

“Approved Property” means all Assessor’s Parcels of Taxable Property: (i) that are included in a Final Map that was recorded prior to the January 1st preceding the Fiscal Year in which the Special Tax is being levied, and (ii) that have not been issued a building permit on or before May 1st preceding the Fiscal Year in which the Special Tax is being levied.

“Assessor’s Parcel” means a lot or parcel of land designated on an Assessor’s Parcel Map with an assigned Assessor’s Parcel Number.

“Assessor’s Parcel Map” means an official map of the Assessor of the County designating parcels by Assessor’s Parcel Number.

“Assessor’s Parcel Number” means that number assigned to an Assessor’s Parcel by the County for purposes of identification.

“Assigned Special Tax for Facilities” means the Special Tax of that name described in Section D below.

“Backup Special Tax for Facilities” means the Special Tax of that name described in Section E below.

“Bonds” means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to which Special Taxes for Facilities within Improvement Area A have been pledged.

“Building Square Footage” or “BSF” means the square footage of assessable internal living space, exclusive of garages or other structures not used as living space, as determined by reference to the building permit application for such Assessor’s Parcel.

“Calendar Year” means the period commencing January 1 of any year and ending the following December 31.

“CFD Administrator” means an official of the City, or designee thereof, responsible for (i) determining the Special Tax Requirement for Facilities, (ii) determining the Special Tax Requirement for Services, as defined in Section L, as applicable, and (iii) providing for the levy and collection of the Special Taxes.

"CFD No. 2005-2" means Community Facilities District No. 2005-2 (Alberhill Ranch) established by the City under the Act.

"City" means the City of Lake Elsinore.

"City Council" means the City Council of the City of Lake Elsinore, acting as the Legislative Body of CFD No. 2005-2, or its designee.

"County" means the County of Riverside.

"Developed Property" means all Assessor's Parcels of Taxable Property that: (i) are included in a Final Map that was recorded prior to the January 1st preceding the Fiscal Year in which the Special Tax is being levied, and (ii) a building permit for new construction was issued on or before May 1st preceding the Fiscal Year in which the Special Tax is being levied.

"Exempt Property" means all Assessor's Parcels designated as being exempt from Special Taxes as provided for in Section J.

"Final Map" means a subdivision of property by recordation of a final map, parcel map, or lot line adjustment, pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.) or recordation of a condominium plan pursuant to California Civil Code 1352 that creates individual lots for which building permits may be issued without further subdivision.

"Fiscal Year" means the period commencing on July 1 of any year and ending the following June 30.

"Improvement Area A" means Improvement Area A of CFD No. 2005-2, as identified on the most recent boundary map for CFD No. 2005-2 on file with the County of Riverside Recorder's office.

"Indenture" means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

"Land Use Type" means any of the types listed in Table 1 of Section D.

"Maximum Special Tax for Facilities" means the maximum Special Tax for Facilities, determined in accordance with Section C, that can be levied by CFD No. 2005-2 within Improvement Area A in any Fiscal Year on any Assessor's Parcel.

"Non-Residential Property" means all Assessor's Parcels of Developed Property for which a building permit was issued for any type of non-residential use.

"Partial Prepayment Amount" means the amount required to prepay a portion of the Special Tax for Facilities obligation for an Assessor's Parcel, as described in Section H.

"Prepayment Amount" means the amount required to prepay the Special Tax for Facilities obligation in full for an Assessor's Parcel, as described in Section G.

"Proportionately" means that the ratio of the actual Special Tax for Facilities levy to the applicable Assigned Special Tax for Facilities is equal for all applicable Assessor's Parcels. In case of Developed Property subject to the apportionment of the Special Tax for Facilities under step four of Section F, "Proportionately" in step four means that the quotient of (a) actual Special Tax for Facilities less the Assigned Special Tax for Facilities divided by (b) the Backup Special Tax for Facilities less the Assigned Special Tax for Facilities, is equal for all applicable Assessor's Parcels.

"Provisional Undeveloped Property" means all Assessor's Parcels of Taxable Property that would otherwise be classified as Exempt Property pursuant to the provisions of Section J, but cannot be classified as Exempt Property because to do so would reduce the Acreage of all Taxable Property below the required minimum Acreage set forth in Section J.

"Residential Property" means all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

"Single Family Property" means all Assessor's Parcels of Residential Property other than Apartment Property.

"Single Family Unit" means a residential dwelling unit other than an Apartment Unit.

"Special Tax" means any of the special taxes authorized to be levied within Improvement Area A by CFD No. 2005-2 pursuant to the Act.

"Special Tax for Facilities" means any of the special taxes authorized to be levied within Improvement Area A by CFD No. 2005-2 pursuant to the Act to fund the Special Tax Requirement for Facilities.

"Special Tax Requirement for Facilities" means the amount required in any Fiscal Year to pay: (i) the debt service or the periodic costs on all outstanding Bonds due in the Calendar Year that commences in such Fiscal Year, (ii) Administrative Expenses, (iii) the costs associated with the release of funds from an escrow account, (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds, (v) an amount equal to any anticipated shortfall due to Special Tax for Facilities delinquencies in the prior Fiscal Year, and (vi) the collection or accumulation of funds for the acquisition or construction of facilities authorized by CFD No. 2005-2 provided that the inclusion of such amount does not cause an increase in the levy of Special Tax for Facilities on Undeveloped Property as set forth in Step Three of Section F., less (vii) any amounts available to pay debt service or other periodic costs on the Bonds pursuant to the Indenture.

"Taxable Property" means all Assessor's Parcels within Improvement Area A, which are not Exempt Property.

"Trustee" means the trustee, fiscal agent, or paying agent under the Indenture.

"Undeveloped Property" means all Assessor's Parcels of Taxable Property which are not Developed Property, Approved Property or Provisional Undeveloped Property.

SECTION B
CLASSIFICATION OF ASSESSOR'S PARCELS

Each Fiscal Year, beginning with Fiscal Year 2006-07, each Assessor's Parcel within Improvement Area A shall be classified as Taxable Property or Exempt Property. In addition, each Assessor's Parcel of Taxable Property shall be further classified as Developed Property, Approved Property, Undeveloped Property or Provisional Undeveloped Property. In addition, each Assessor's Parcel of Developed Property shall further be classified as Residential Property or Non-Residential Property. Lastly, each Assessor's Parcel of Residential Property shall further be classified as a Single Family Property or Apartment Property, and each Assessor's Parcel of Single Family Property shall be assigned to its appropriate Assigned Special Tax for Facilities rate based on its Building Square Footage.

SECTION C
MAXIMUM SPECIAL TAX FOR FACILITIES

1. Developed Property

The Maximum Special Tax for Facilities for each Assessor's Parcel of Single Family Property in any Fiscal Year shall be the greater of (i) the Assigned Special Tax for Facilities or (ii) the Backup Special Tax for Facilities.

The Maximum Special Tax for Facilities for each Assessor's Parcel of Apartment Property or Non-Residential Property shall be the applicable Assigned Special Tax for Facilities described in Table 1 of Section D.

Prior to the issuance of Bonds, the Assigned Special Tax for Facilities on Developed Property set forth in Table 1 may be reduced in accordance with, and subject to the conditions set forth in this paragraph. If it is reasonably determined by the CFD Administrator that the overlapping debt burden (as defined in the Statement of Goals and Policies for the Use of the Mello-Roos Community Facilities Act of 1982 adopted by the City Council, the "Goals and Policies") calculated pursuant to the Goals and Policies exceeds the City's maximum level objective set forth in such document, the Maximum Special Tax for Facilities on Developed Property may be reduced (by modifying Table 1) to the amount necessary to satisfy the City's objective with respect to the maximum overlapping debt burden level with the written consent of the CFD Administrator. In order to reduce the Maximum Special Tax for Facilities on Developed Property it may be necessary to reduce the Maximum Special Tax for Facilities for Undeveloped Property. The reductions permitted pursuant to this paragraph shall be reflected in an amended Notice of Special Tax Lien which the City shall cause to be recorded by executing a certificate in substantially the form attached hereto as Exhibit "A".

2. Multiple Land Use Type

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Type. The Maximum Special Tax for Facilities levied on an Assessor's Parcel shall be the sum of the Maximum Special Tax for Facilities for all Land Use Types located on the Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

3. Approved Property, Undeveloped Property and Provisional Undeveloped Property

The Maximum Special Tax for Facilities for each Assessor's Parcel classified as Approved Property, Undeveloped Property, or Provisional Undeveloped Property in any Fiscal Year shall be the applicable Assigned Special Tax for Facilities.

**SECTION D
ASSIGNED SPECIAL TAX FOR FACILITIES**

1. Developed Property

Each Fiscal Year, each Assessor's Parcel of Single Family Property, Apartment Property, or Non-Residential Property shall be subject to an Assigned Special Tax for Facilities. The Assigned Special Tax for Facilities applicable to an Assessor's Parcel of Developed Property for Fiscal Year 2006-07 shall be determined pursuant to Table 1 below.

**TABLE 1
ASSIGNED SPECIAL TAX FOR FACILITIES RATES
FOR DEVELOPED PROPERTY FOR FISCAL YEAR 2006-07**

Land Use Type	Building Square Footage	Rate
Single Family Property	Greater than 3,650	\$4,566 per Single Family Unit
Single Family Property	3,151 – 3,650	\$4,280 per Single Family Unit
Single Family Property	2,551 – 3,150	\$3,373 per Single Family Unit
Single Family Property	2,051 – 2,550	\$3,220 per Single Family Unit
Single Family Property	1,851 – 2,050	\$2,896 per Single Family Unit
Single Family Property	Less than or equal to 1,850	\$2,753 per Single Family Unit
Apartment Property	N/A	\$21,330 per Acre
Non-Residential Property	N/A	\$21,330 per Acre

2. Approved Property, Undeveloped Property and Provisional Undeveloped Property

Each Fiscal Year, each Assessor's Parcel of Approved Property, Undeveloped Property and Provisional Undeveloped Property shall be subject to an Assigned Special Tax for Facilities.

The Assigned Special Tax for Facilities rate for an Assessor's Parcel classified as Approved Property, Undeveloped Property and Provisional Undeveloped Property for Fiscal Year 2006-07 shall be \$21,330 per Acre.

3. Increase in the Assigned Special Tax for Facilities

On each July 1, commencing July 1, 2007, the Assigned Special Tax for Facilities rate for Developed Property, Approved Property, Undeveloped Property and Provisional Undeveloped Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

**SECTION E
BACKUP SPECIAL TAX FOR FACILITIES**

At the time a Final Map is recorded, the Backup Special Tax for Facilities for all Assessor's Parcels of Developed Property classified or reasonably expected to be classified as a Single Family Property within such Final Map area shall be determined by (i) multiplying (a) the Maximum Special Tax for Facilities rate for Undeveloped Property by (b) the total Acreage of Taxable Property in such Final Map area, excluding Acreage classified as Provisional Undeveloped Property, Acreage classified or reasonably expected to be classified as Apartment Property or Non-Residential Property, and any Acreage reasonably expected to be classified as Exempt Property in such Final Map area, and (ii) dividing the results in (i) by the total number of Single Family Units reasonably expected to be constructed within such Final Map area. The resulting quotient shall be the Backup Special Tax for Facilities for each Assessor's Parcel of Single Family Property within such Final Map area.

The Backup Special Tax for Facilities shall not apply to Non-Residential Property or Apartment Property.

Notwithstanding the foregoing, if Assessor's Parcels of Developed Property which are classified or to be classified as Single Family Property are subsequently changed or modified by recordation of a lot line adjustment or similar instrument, then the Backup Special Tax for Facilities for the area that has been changed or modified shall be recalculated, based on the methodology above, to equal the amount of Backup Special Tax for Facilities that would have been generated if such change did not take place.

On each July 1, commencing July 1, 2007, the Backup Special Tax for Facilities rate shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

**SECTION F
METHOD OF APPORTIONMENT OF THE SPECIAL TAX FOR FACILITIES**

Commencing Fiscal Year 2006-07 and for each subsequent Fiscal Year, the City Council shall levy Special Taxes for Facilities on all Taxable Property in accordance with the following steps:

- Step One: The Special Tax for Facilities shall be levied Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax for Facilities rates in Table 1 to satisfy the Special Tax Requirement for Facilities.
- Step Two: If additional moneys are needed to satisfy the Special Tax Requirement for Facilities after the first step has been completed, the Special Tax for Facilities shall be levied Proportionately on each Assessor's Parcel of Approved Property at up to 100% of the Maximum Special Tax for Facilities applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement for Facilities.
- Step Three: If additional moneys are needed to satisfy the Special Tax Requirement for Facilities after the first two steps have been completed, the Special Tax for Facilities shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to 100% of the Maximum Special Tax for Facilities applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement for Facilities.
- Step Four: If additional moneys are needed to satisfy the Special Tax Requirement for Facilities after the first three steps have been completed, then the Special Tax for Facilities on each Assessor's Parcel of Developed Property whose Maximum Special Tax for Facilities is the Backup Special Tax for Facilities shall be increased Proportionately from the Assigned Special Tax for Facilities up to 100% of the Backup Special Tax for Facilities as needed to satisfy the Special Tax Requirement for Facilities.
- Step Five: If additional moneys are needed to satisfy the Special Tax Requirement for Facilities after the first four steps have been completed, the Special Tax for Facilities shall be levied Proportionately on each Assessor's Parcel of Provisional Undeveloped Property up to 100% of the Maximum Special Tax for Facilities applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement for Facilities.

Notwithstanding the above, under no circumstances will the Special Tax for Facilities levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by owner of any other Assessor's Parcel within Improvement Area A.

SECTION G PREPAYMENT OF SPECIAL TAX FOR FACILITIES

The following additional definitions apply to this Section G:

“CFD Public Facilities” means \$22,000,000 expressed in 2005 dollars, which shall increase by the Construction Inflation Index on July 1, 2006, and on each July 1 thereafter, or such lower amount (i) determined by the City Council as sufficient to provide the public facilities under the authorized bonding program for Improvement Area A, or (ii) determined by the City Council concurrently with

a covenant that it will not issue any more Bonds to be supported by Special Taxes for Facilities levied under this Rate and Method of Apportionment.

“Construction Fund” means an account specifically identified in the Indenture or functionally equivalent to hold funds, which are currently available for expenditure to acquire or construct public facilities eligible under CFD No. 2005-2.

“Construction Inflation Index” means the annual percentage change in the Engineering News-Record Building Cost Index for the city of Los Angeles, measured as of the Calendar Year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the City that is reasonably comparable to the Engineering News-Record Building Cost Index for the city of Los Angeles.

“Future Facilities Costs” means the CFD Public Facilities minus public facility costs available to be funded through existing construction or escrow accounts or funded by the Outstanding Bonds, and minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment.

“Outstanding Bonds” means all previously issued Bonds issued and secured by the levy of Special Taxes for Facilities which will remain outstanding after the first interest and/or principal payment date following the current Fiscal Year, excluding Bonds to be redeemed at a later date with the proceeds of prior prepayments of Special Taxes for Facilities.

The Special Tax for Facilities obligation of an Assessor's Parcel of Developed Property, or an Assessor's Parcel of Approved Property or Undeveloped Property for which a building permit has been issued or is expected to be issued, or an Assessor's Parcel of Provisional Undeveloped Property may be prepaid in full, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Special Tax for Facilities obligation would be prepaid. The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined as described below.

An owner of an Assessor's Parcel intending to prepay the Special Tax for Facilities obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such notice the CFD Administrator shall notify such owner of the Prepayment Amount of such Assessor's Parcel. The CFD Administrator may charge a reasonable fee for providing this service. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given by the Trustee pursuant to the Indenture.

The Prepayment Amount for each applicable Assessor's Parcel shall be calculated according to the following formula (capitalized terms defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance Cost

plus	Administrative Fee
less	Reserve Fund Credit
<u>less</u>	<u>Capitalized Interest Credit</u>
equals	Prepayment Amount

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

1. For an Assessor's Parcel of Developed Property, compute the Assigned Special Tax for Facilities and Backup Special Tax for Facilities, if any, applicable to the Assessor's Parcel. For an Assessor's Parcel of Approved Property or Undeveloped Property, compute the Assigned Special Tax for Facilities and the Backup Special Tax for Facilities as though it was already designated as Developed Property based upon the building permit issued or expected to be issued for that Assessor's Parcel. For an Assessor's Parcel of Provisional Undeveloped Property compute the Assigned Special Tax for Facilities for that Assessor's Parcel.
2. For each Assessor's Parcel of Developed Property, Approved Property, Undeveloped Property or Provisional Undeveloped Property to be prepaid, (a) divide the Assigned Special Tax for Facilities computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Assigned Special Tax for Facilities applicable to all Assessor's Parcels of Taxable Property at buildout, as reasonably determined by the City, and (b) divide the Backup Special Tax for Facilities computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Backup Special Tax for Facilities applicable to all Assessor's Parcels of Taxable Property at buildout, as reasonably determined by the City.
3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the Outstanding Bonds. The product shall be the "Bond Redemption Amount".
4. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."
5. Compute the Future Facilities Cost.
6. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the amount determined pursuant to paragraph 5 to determine the Future Facilities Cost to be prepaid (the "Future Facilities Amount").
7. Compute the amount needed to pay interest on the Bond Redemption Amount to be redeemed with the proceeds of the Prepayment Amount until the earliest redemption date for the Outstanding Bonds.

8. Determine the actual Special Tax for Facilities levied on the Assessor's Parcel in the current Fiscal Year which has not yet been paid.
9. Estimate the amount of interest earnings to be derived from the reinvestment of the Bond Redemption Amount plus the Redemption Premium until the earliest redemption date for the Outstanding Bonds.
10. Add the amounts computed pursuant to paragraph 7 and 8 and subtract the amount computed pursuant to paragraph 9. This difference is the "Defeasance Cost."
11. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."
12. Calculate the "Reserve Fund Credit" as the lesser of: (a) the expected reduction in the applicable reserve requirements, if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirements in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the applicable reserve funds on the prepayment date. Notwithstanding the foregoing, if the reserve fund requirement is satisfied by a surety bond or other instrument at the time of the prepayment, then no Reserve Fund Credit shall be given. Notwithstanding the foregoing, the Reserve Fund Credit shall in no event be less than 0.
13. If any capitalized interest for the Outstanding Bonds will not have been expended as of the date immediately following the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the expected balance in the capitalized interest fund or account under the Indenture after such first interest and/or principal payment. This amount is the "Capitalized Interest Credit."
14. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, the Future Facilities Amount, the Defeasance Cost, and the Administrative Fee, less the Reserve Fund Credit and the Capitalized Interest Credit.
15. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 10, 12, and 13 shall be deposited into the appropriate fund as established under the Indenture and used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 6 shall be

deposited into the Construction Fund. The amount computed pursuant to paragraph 11 shall be retained by Improvement Area A.

The Special Tax for Facilities prepayment amount may be insufficient to redeem a full \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of Bonds or to make debt service payments.

With respect to a Special Tax for Facilities obligation that is prepaid pursuant to this Section G, the City Council shall indicate in the records of Improvement Area A that there has been a prepayment of the Special Tax for Facilities obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such prepayment to indicate the prepayment of the Special Tax for Facilities obligation and the release of the Special Tax for Facilities lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Special Taxes for Facilities shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Special Tax for Facilities that may be levied on Taxable Property, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently Outstanding Bonds in each future Fiscal Year.

SECTION H PARTIAL PREPAYMENT OF SPECIAL TAX FOR FACILITIES

The Special Tax for Facilities obligation of an Assessor's Parcel of Developed Property, or an Assessor's Parcel of Approved Property or Undeveloped Property for which a building permit has been issued or is expected to be issued, or and Assessor's Parcel of Provisional Undeveloped Property, as calculated in this Section H below, may be partially prepaid, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Special Tax for Facilities obligation would be prepaid.

The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = (P_G - A) \times F + A$$

The terms above have the following meanings:

- PP = the Partial Prepayment Amount.
- P_G = the Prepayment Amount calculated according to Section G.
- F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Special Tax for Facilities obligation.
- A = the Administrative Fee calculated according to Section G.

The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator of such owner's intent to partially prepay the Special Tax for Facilities and the percentage by which the Special Tax for Facilities shall be prepaid. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for Facilities for an Assessor's Parcel within 30 days of the request and may charge a reasonable fee for providing this service. With respect to any Assessor's Parcel that is partially prepaid, the City Council shall (i) distribute the funds remitted to it according to Section G, and (ii) indicate in the records of CFD No. 2005-2 that there has been a partial prepayment of the Special Tax for Facilities obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such partial prepayment of the Special Tax for Facilities obligation to indicate the obligation of such Assessor's Parcel to pay such prepaid portion of the Special Tax for Facilities shall cease.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Special Tax for Facilities that may be levied on Taxable Property after such partial prepayment, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently Outstanding Bonds in each future Fiscal Year.

SECTION I TERMINATION OF SPECIAL TAX

For each Fiscal Year that any Bonds are outstanding the Special Tax for Facilities shall be levied on all Assessor's Parcels subject to the Special Tax for Facilities. The Special Tax for Facilities shall cease not later than the 2041-42 Fiscal Year, however, the Special Taxes for Facilities will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined (i) that all required interest and principal payments on the CFD No. 2005-2 Bonds have been paid; (ii) all authorized facilities for CFD No. 2005-2 have been acquired and all reimbursements to the developer have been paid, (iii) no delinquent Special Taxes for Facilities remain uncollected and (iv) all other obligations of Improvement Area A have been satisfied.

SECTION J EXEMPTIONS

The City shall classify as Exempt Property, in order of priority, (i) Assessor's Parcels which are owned by, irrevocably offered for dedication, encumbered by or restricted in use by the State of California, Federal or other local governments, including school districts, (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor's Parcels which are owned by, irrevocably offered for dedication, encumbered by or restricted in use by a homeowners' association, (iv) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement, (v) Assessor's Parcels which are privately owned and are encumbered by or restricted solely for public uses, or (vi) Assessor's Parcels restricted to other types

of public uses determined by the City Council, provided that no such classification would reduce the sum of all Taxable Property to less than 70.78 Acres.

Notwithstanding the above, the City Council shall not classify an Assessor's Parcel as Exempt Property if such classification would reduce the sum of all Taxable Property to less than 70.78 Acres. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 70.78 Acres will be classified as Provisional Undeveloped Property, and will be subject to Special Taxes pursuant to Step Five in Section F.

SECTION K MANNER OF COLLECTION OF SPECIAL TAX FOR FACILITIES

The Special Tax for Facilities shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that Improvement Area A may collect Special Taxes for Facilities 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 delinquent Assessor's Parcels as permitted by the Act.

SECTION L SPECIAL TAX FOR SERVICES

The following additional definitions apply to this Section L:

“Developed Multifamily Unit” means a residential dwelling unit within a building in which each of the individual dwelling units has or shall have at least one common wall with another dwelling unit and a building permit has been issued by the City for such dwelling unit on or prior to May 1 preceding the Fiscal Year in which the Special Tax for Services is being levied.

“Developed Single Family Unit” means a residential dwelling unit other than a Developed Multifamily Unit on an Assessor's Parcel for which a building permit has been issued by the City on or prior to May 1 preceding the Fiscal Year in which the Special Tax for Services is being levied.

“Maximum Special Tax for Services” means the maximum Special Tax for Services that can be levied by Improvement Area A in any Fiscal Year on any Assessor's Parcel.

“Operating Fund” means a fund that shall be maintained for Improvement Area A for any Fiscal Year to pay for the actual costs of maintenance related to the Service Area, and the applicable Administrative Expenses.

“Operating Fund Balance” means the amount of funds in the Operating Fund at the end of the preceding Fiscal Year.

“Service Area” means parks, open space, and storm drains.

“Special Tax for Services” means any of the special taxes authorized to be levied within CFD No. 2005-2 pursuant to the Act to fund the Special Tax Requirement for Services.

“Special Tax Requirement for Services” means the amount determined in any Fiscal Year for Improvement Area A equal to (i) the budgeted costs directly related to the Service Area, including maintenance, repair and replacement of certain components of the Service Area which have been accepted and maintained or are reasonably expected to be accepted and maintained during the current Fiscal Year, (ii) Administrative Expenses, and (iii) anticipated delinquent Special Taxes for Services based on the delinquency rate in CFD No. 2005-2 for the previous Fiscal Year, less (iv) the Operating Fund Balance, as determined by the CFD Administrator.

1. Rate and Method of Apportionment of the Special Tax for Services

Commencing Fiscal Year 2005-2006 and for each subsequent Fiscal Year, the City Council shall levy Special Taxes for Services on (i) all Assessor’s Parcels containing a Developed Single Family Unit or Developed Multifamily Unit and (ii) all Assessor’s Parcels of Non-Residential Property, up to the applicable Maximum Special Tax for Services to fund the Special Tax Requirement for Services.

The Maximum Special Tax for Services for Fiscal Year 2005-2006 shall be \$242 per Developed Single Family Unit, \$121 per Developed Multifamily Unit, and \$545 per Acre for each Assessor’s Parcel of Non-Residential Property.

On each July 1, commencing July 1, 2006, the Maximum Special Tax for Services shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

2. Duration of the Special Tax for Services

The Special Tax for Services shall be levied in perpetuity to fund the Special Tax Requirement for Services, unless no longer required as determined at the sole discretion of the City Council.

3. Collection of the Special Tax for Services

The Special Tax for Services shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that Improvement Area A may collect the Special Tax for Services at a different time or in a different manner if necessary to meet its funding requirements.

SECTION M APPEALS

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the CFD Administrator not later than twelve months after having paid the first installment of the Special Tax that is disputed. The CFD Administrator shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the CFD Administrator's decision requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

The City Council may interpret this Rate and Method of Apportionment for purposes of clarifying any ambiguity and make determinations relative to the annual administration of the Special Tax and any landowner or residents appeals. Any decision of the City Council shall be final and binding as to all persons.

EXHIBIT "A"

CITY OF LAKE ELSINORE AND CFD NO. 2005-X CERTIFICATE

1. Pursuant to Section ___ of the Rate and Method of Apportionment of Special Tax (the "RMA"), the City of Lake Elsinore (the "City") and Community Facilities District No. 2005-X of the City of Lake Elsinore ("CFD No. 2005-X") hereby agree to a reduction in the Maximum Special Tax for Facilities for Developed Property *[within such Improvement Area]*:
 - (a) The information in Table 1 relating to the Maximum Special Tax for Facilities for Developed Property and/or Undeveloped Property within *[Improvement Area X or CFD No. 2005-X]* shall be modified as follows:

[insert Table 1 showing effective change to special tax rates and/or insert change to special tax rates for Undeveloped Property]
2. Table 1 may only be modified prior to the issuance of Bonds.
3. Upon execution of the Certificate by the City and CFD No. 2005-X the City shall cause an amended Notice of Special Tax Lien *[for the Improvement Area]* to be recorded reflecting the modifications set forth herein.

By execution hereof, the undersigned acknowledges, on behalf of the City of Lake Elsinore and CFD No. 2005-X, receipt of this Certificate and modification of the RMA as set forth in this Certificate.

CITY OF LAKE ELSINORE

By: _____
CFD Administrator

Date: _____

COMMUNITY FACILITIES DISTRICT NO. 2005-X
OF THE CITY OF LAKE ELSINORE

By: _____

Date: _____

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APPENDIX E

FORMS OF CONTINUING DISCLOSURE AGREEMENTS

CONTINUING DISCLOSURE AGREEMENT

(City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch))

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of December 1, 2005, is executed and delivered by the City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) (the “CFD”) and Union Bank of California, N.A., as dissemination agent (the “Dissemination Agent”) hereunder, in connection with the issuance of the \$24,680,000 City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) Special Tax Bonds (Improvement Area A) 2005 Series A (the “Bonds”). The Bonds are being issued pursuant to provisions of a Fiscal Agent Agreement, dated as of December 1, 2005 (the “Fiscal Agent Agreement”), by and between the CFD and Union Bank of California, N.A., as fiscal agent (the “Fiscal Agent”). The CFD and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the CFD, the Dissemination Agent and the Fiscal Agent for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

“Annual Report” shall mean any Annual Report or any addendum thereto provided by the CFD pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“CFD” means City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch), a community facilities district organized and existing under the laws of the State of California, and such area of land comprising that community facilities district.

“City” means the City of Lake Elsinore, California.

“Disclosure Representative” shall mean the Mayor of the City of Lake Elsinore or his or her designee, or such other officer or employee as the City Council of the City of Lake Elsinore (the “Council”) shall designate in writing to the Fiscal Agent and Dissemination Agent from time to time.

“Dissemination Agent” shall mean the Fiscal Agent, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the CFD and which has filed with the Fiscal 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 purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov>.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

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

“State” shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) The CFD shall, or shall cause the Dissemination Agent to, not later than 225 days after the end of the City’s fiscal year, commencing with fiscal year ending June 30, 2005, 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 provided in electronic format to each Repository and may be provided through the services of a “Central Post Office” approved by the Securities and Exchange Commission. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f). Furthermore, upon receipt of a written request of any Beneficiary Owner, the Dissemination Agent shall provide a copy of the Annual Report to such Beneficial Owner.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the CFD shall provide the Annual Report to the Dissemination Agent and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the CFD and the Fiscal Agent of such failure to receive the Annual Report. The CFD shall provide a written certification with each

Annual Report furnished to the Dissemination Agent and the Fiscal Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Fiscal Agent may conclusively rely upon such certification of the CFD and shall have no duty or obligation to review such Annual Report.

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

(d) The Dissemination Agent shall:

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

(ii) to the extent information is known to it, file a report with the CFD and (if the Dissemination Agent is not the Fiscal Agent) the Fiscal Agent certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

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

(i) The audited financial statements of the City, prepared in accordance with generally accepted accounting principles in effect from time to time. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(ii) The balance in the Reserve Account held under the Fiscal Agent Agreement.

(iii) Total assessed valuation (per the Riverside County Assessor records) of all parcels currently subject to the Special Tax within Improvement Area A of the CFD, showing the total assessed valuation for all land and the total assessed valuation for all improvements within Improvement Area A of the CFD and distinguishing between the assessed value of developed property and undeveloped property.

(iv) Identification of each parcel within Improvement Area A of the CFD for which any Special Tax payment is delinquent, together with the following information respecting each such parcel: (A) the amount delinquent; (B) the date of each delinquency; (C) in the event a foreclosure complaint has been filed respecting such delinquent parcel and such complaint has not yet been dismissed, the date on which the complaint was filed; and (D) in the event a foreclosure sale has occurred respecting such delinquent parcel, a summary of the results of such foreclosure sale.

(v) The number of certificates of occupancy issued by the City within Improvement Area A of the CFD and the principal amount of prepayments of the Special Tax with respect to Improvement Area A of the CFD for the prior Fiscal Year.

(vi) A land ownership summary listing property owners responsible for more than five percent (5%) of the annual Special Tax levy, as shown on the Riverside County Assessor's last equalized tax roll prior to the September next preceding the Annual Report date.

(vii) A description of the status of the facilities being constructed with proceeds of the Bonds as of the date of the Annual Report (but only so long as such facilities are not completed).

(viii) The number of building permits issued in Improvement Area A of the CFD during the prior Fiscal Year.

(ix) The amount of Special Taxes generated by the developed parcels and undeveloped parcels within Improvement Area A of the CFD.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The CFD 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 CFD shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;

9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds.

(b) The Dissemination Agent shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter, contact the Disclosure Representative, inform such person of the event, and request that the CFD promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Fiscal Agent whether or not to report such event to the Bondholders. In the absence of such direction the Dissemination Agent shall not report such event unless otherwise required to be reported by the Fiscal Agent to the Bondholders under the Fiscal Agent Agreement. The Dissemination Agent may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Fiscal Agent or the Dissemination Agent with regular responsibility for the administration of matters related to the Fiscal Agent Agreement. Neither the Fiscal Agent nor the Dissemination Agent shall have any responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the CFD obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the CFD shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

(e) If in response to a request under subsection (b), the CFD determines that the Listed Event would not be material under applicable federal securities laws, the CFD shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the CFD to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Fiscal Agent Agreement.

SECTION 6. Termination of Reporting Obligation. The CFD’s obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the

CFD shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The CFD may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the CFD pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be Union Bank of California, N.A. The Dissemination Agent may resign by providing thirty days written notice to the CFD and the Fiscal Agent. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the CFD in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the CFD, Dissemination Agent and the Fiscal Agent may amend this Disclosure Agreement (and the Fiscal Agent and Dissemination Agent shall agree to any amendment so requested by the CFD) provided, neither the Fiscal Agent nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the CFD shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the CFD.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the CFD 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 CFD 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 CFD 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 CFD or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent (at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall but only to the extent funds in an amount satisfactory to the Fiscal Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Fiscal Agent whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the CFD or Fiscal Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the CFD or the Fiscal Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Article VII of the Fiscal Agent Agreement pertaining to the Fiscal Agent is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Fiscal Agent Agreement and the Fiscal Agent and Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Fiscal Agent thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the CFD agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the CFD for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the CFD, the Bondholders, or any other party. The Dissemination Agent shall have no liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Agreement. The obligations of the CFD under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City: City of Lake Elsinore
 130 South Main Street
 Lake Elsinore, California 92530
 Attn: City Manager
 Fax: (909) 674-3124

To the Fiscal Agent: Union Bank of California, N.A.
 120 South San Pedro Street, Suite 400
 Los Angeles, California 90012
 Attn: Corporate Trust Department
 Fax: (213) 972-5676
 Fax: (213) 972-5694

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the CFD, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

CITY OF LAKE ELSINORE COMMUNITY
FACILITIES DISTRICT NO. 2005-2
(ALBERHILL RANCH)

By _____
City Manager of the City of Lake Elsinore

UNION BANK OF CALIFORNIA, N.A., as
Dissemination Agent and Fiscal Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: City of Lake Elsinore Community
Facilities District No. 2005-2 (Alberhill Ranch)

Name of Bond Issue: City of Lake Elsinore
Community Facilities District No. 2005-2 (Alberhill Ranch)
Special Tax Bonds (Improvement Area A) 2005 Series A

Date of Issuance: December 20, 2005

NOTICE IS HEREBY GIVEN that the CFD has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of December 1, 2005, with respect to the Bonds. The CFD anticipates that the Annual Report will be filed by _____.

Dated: _____

UNION BANK OF CALIFORNIA, N.A.,
on behalf of CFD

cc: Issuer

DEVELOPER CONTINUING DISCLOSURE AGREEMENT
(Castle & Cooke Alberhill Ranch, LLC)

This Developer Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of December 1, 2005, is executed and delivered by Castle & Cooke Alberhill Ranch, LLC, a California limited liability company (the “Property Owner”) and Union Bank of California, N.A., as fiscal agent (the “Fiscal Agent”) and acting in its capacity as Dissemination Agent hereunder, in connection with the issuance of the \$24,680,000 City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) Special Tax Bonds (Improvement Area A) 2005 Series A (the “Bonds”). The Bonds are being issued pursuant to provisions of a Fiscal Agent Agreement, dated as of December 1, 2005 (the “Fiscal Agent Agreement”), by and between the City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) (the “Issuer”) and the Fiscal Agent. The Property Owner, the Dissemination Agent and the Fiscal Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Property Owner, the Dissemination Agent and the Fiscal Agent for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

“Affiliate” of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, five percent (5%) or more of the outstanding voting securities of such other Person, (b) any Person whose outstanding voting securities of five percent (5%) or more are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

“Annual Report” shall mean any Annual Report or its addendum provided by the Property Owner pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Assumption Agreement” means an undertaking of a Major Owner, or an Affiliate thereof, for the benefit of the holders and beneficial owners of the Bonds containing terms substantially similar to this Disclosure Agreement (as modified for such Major Owner’s development and financing plans with respect to Improvement Area A of the District), whereby such Major Owner or Affiliate agrees to provide annual reports and notices of significant events, setting forth the information described in sections 4 and 5 hereof, respectively, with respect to the portion of the property in Improvement Area A of the District owned by such Major Owner and its Affiliates and, at the option of the Property Owner or such Major Owner, agrees to

indemnify the Dissemination Agent pursuant to a provision substantially in the form of Section 11 hereof.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the Controller of the Property Owner or his or her designee, or such other officer or employee as the Property Owner shall designate in writing to the Fiscal Agent and Dissemination Agent from time to time.

“Dissemination Agent” shall mean the Fiscal Agent, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Property Owner and which has filed with the Fiscal Agent a written acceptance of such designation.

“District” shall mean City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch).

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

“Major Owner” shall mean an owner (including all Affiliates of such owner that owns property within Improvement Area A of the District) of land in Improvement Area A of the District responsible in the aggregate for 20% or more of the annual special taxes levied in Improvement Area A of the District.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov>.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Person” means an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“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.

“Special Taxes” shall mean the special taxes to be levied on the property owned by the Property Owner within Improvement Area A of the District.

“State” shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) Property Owner shall, or, upon written direction, shall cause the Dissemination Agent to, not later than 120 days after the end of the Property Owner’s fiscal year (currently December 31 of each year), commencing with fiscal year ending December 31, 2005, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement with a copy to the Fiscal Agent and the Issuer. Not later than fifteen (15) Business Days prior to said date, Property Owner shall provide the Annual Report to the Dissemination Agent. Property Owner shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Fiscal Agent and the Issuer to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent, the Issuer and the Fiscal Agent may conclusively rely upon such certification of Property Owner and shall have no duty or obligation to review such Annual Report. The Annual Report may be provided in electronic format to each Repository and may be provided through the services of a “Central Post Office” approved by the Securities and Exchange Commission. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement. If Property Owner’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) If the Fiscal Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Fiscal Agent shall send a notice to each Repository or to the Municipal Securities Rulemaking Board and the State Repository, if any in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

- (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and
- (ii) to the extent information is known to it, file a report with the Issuer, the Property Owner and (if the Dissemination Agent is not the Fiscal Agent) the Fiscal Agent certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Property Owner’s Annual Report shall contain or include by reference the following:

- (i) Relating to all property owned by Property Owner within Improvement Area A of the District (the “Property”), a summary of the Property Owner’s development activity on the

Property during the Property Owner's last fiscal year: (A) number of acres/lots within the Property owned by the Property Owner or its Affiliates as of the end of the applicable fiscal year or a more recent date, (B) progress of construction activities on the Property as of the end of the applicable fiscal year or more recent date, and (C) number of acres/lots sold by Property Owner or its Affiliates within the Property to end users or builders as of the end of the applicable fiscal year or a more recent date.

(ii) Any material changes in the information relating to the Property Owner and/or the Property contained in the Official Statement under the caption "IMPROVEMENT AREA A" and "BONDOWNERS' RISKS - Endangered and Threatened Species" and " - - Other Possible Claims Upon the Values of An Assessed Parcel."

(iii) A description of the status of any land purchase contracts with regard to the Property (other than sales to individual homebuyers).

(iv) A description of any change in the legal structure of the Property Owner and/or the financial condition of the Property Owner that would materially interfere with its ability to complete the development plan described in the Official Statement under the caption "IMPROVEMENT AREA A - Description of Development" (the "Development Plan") or to pay its Special Taxes.

(v) A description of any material changes in the Development Plan.

(vi) A pro forma financing statement relating to the Development Plan detailing (A) amount spent to date, (B) the remaining costs to complete the Development Plan including timing of such disbursements and (C) the source of financing for such remaining development costs.

(vii) A description of any previously undisclosed material amendment to the land use entitlements for the Property.

(viii) An update of the status of any previously reported Listed Event described in Section 5 hereof.

(ix) A statement as to whether or not the Property Owner and all of its Affiliates that owned property within Improvement Area A of the District paid, prior to their becoming delinquent, all Special Taxes levied on the property owned by the Property Owner and such Affiliates within Improvement Area A and if such Property Owner or any of such Affiliates is delinquent in the payment of such Special Taxes, a statement identifying each entity that is so delinquent, specifying the amount of each such delinquency and describing any plans to resolve such delinquency.

(x) A description of any material changes in the financing plan of the Property Owner for the Development Plan described in the Official Statement under the caption "IMPROVEMENT AREA A - Financing Plan" (the "Financing Plan") and the causes or rationale for such changes.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Property Owner or related entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Property Owner shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Property Owner shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. bankruptcy or insolvency proceedings commenced by or against Property Owner or a partner or any Affiliate thereof that owns property within Improvement Area A of the District that would materially interfere with its ability to complete the Development Plan or to pay its Special Taxes;

2. failure to pay any taxes, special taxes or assessments due with respect to the Property;

3. filing of a lawsuit against Property Owner or, to the Property Owner's actual knowledge, a partner or Affiliate thereof that owns property within Improvement Area A of the District seeking damages, or a judgment in a lawsuit against Property Owner or, to the Property Owner's actual knowledge, a partner or Affiliate thereof that owns property within Improvement Area A of the District, which could reasonably be expected to have a material impact on the Property Owner's ability to pay Special Taxes or complete the Development Plan;

4. any conveyance by the Property Owner of property to an entity that is not an Affiliate of such Property Owner, the result of which conveyance is to cause the transferee to become a Major Owner;

5. any termination of credit, any termination of, or default under, any line of credit or loan or any other loss of a source of funds that could reasonably be expected to have a material adverse affect on the Property Owner's most recently disclosed Financing Plan or the ability of the Property Owner or any Affiliate to pay Special Taxes when due;

6. any material amendments to land use entitlement for the Property Owner's property within Improvement Area A of the District;

7. any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development of the Property;

8. any previously undisclosed legislative, administrative or judicial challenges to development of the Property;

9. any material change in the alignment, design or likelihood of completion of significant public improvement being constructed by the Property Owner affecting the Property, including major thoroughfares, sewers, water conveyance systems and similar facilities; and

10. The assumption of any obligation by a Major Owner pursuant to Section 6.

(b) The Fiscal Agent shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter, contact the Disclosure Representative, inform such person of the event, and request that the Property Owner promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Fiscal Agent whether or not to report such event to the Bondholders. In the absence of such direction the Fiscal Agent shall not report such event unless otherwise required to be reported by the Fiscal Agent to the Bondholders under the Fiscal Agent Agreement. The Fiscal Agent may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Fiscal Agent with regular responsibility for the administration of matters related to the Fiscal Agent Agreement. The Fiscal Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the Property Owner obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Fiscal Agent pursuant to subsection (b) or otherwise, the Property Owner shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

(e) If in response to a request under subsection (b), the Property Owner determines that the Listed Event would not be material under applicable federal securities laws, the Property Owner shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Property Owner to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories.

SECTION 6. Duration of Reporting Obligation. (a) All of the Property Owner’s obligations hereunder shall commence on such date as property owned by the Property Owner is responsible for payment of 20% or more of the Special Taxes in Improvement Area A and shall terminate (except as provided in Section 11) upon (i) the legal defeasance, prior redemption or payment in full of all the Bonds or (ii) so long as the Bonds are outstanding, at such time as

property owned by the Property Owner is no longer responsible for payment of 20% or more of the Special Taxes in Improvement Area A. Upon the occurrence of any such termination or suspension prior to the final maturity of the Bonds, the Property Owner shall give notice of such termination or suspension in the same manner as for a Listed Event under Section 5.

(b) If a portion of the property in Improvement Area A of the District owned by the Property Owner, or any Affiliate of Property Owner, is conveyed to a Person that, upon such conveyance, will be a Major Owner, the obligations of Property Owner hereunder with respect to such property owned by such Major Owner and its Affiliates shall be assumed by such Major Owner or by an Affiliate thereof and the Property Owner obligations hereunder will be terminated. In order to effect such an assumption, such Major Owner or Affiliate shall enter into an Assumption Agreement. The entering into an Assumption Agreement by such Major Owner or Affiliate shall be a condition precedent to the conveyance of such property and the Property Owner shall provide a copy of the executed Assumption Agreement to the Fiscal Agent and the Issuer prior to such conveyance.

SECTION 7. Dissemination Agent. The Property Owner may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Property Owner pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be Union Bank of California, N.A. The Dissemination Agent may resign by providing thirty days written notice to the Property Owner, the Issuer and the Fiscal Agent. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Property Owner in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Property Owner, Dissemination Agent and the Fiscal Agent may amend this Disclosure Agreement (and the Fiscal Agent and Dissemination Agent shall agree to any amendment so requested by the Property Owner) provided, neither the Fiscal Agent nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Property Owner shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Property Owner.

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

SECTION 10. Default. In the event of a failure of the Property Owner or the Fiscal Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent (at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall but only to the extent funds in an amount satisfactory to the Fiscal Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Fiscal Agent whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Property Owner or Fiscal Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Property Owner or the Fiscal Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Article VII of the Fiscal Agent Agreement pertaining to the Fiscal Agent is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Fiscal Agent Agreement and the Fiscal Agent and Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Fiscal Agent thereunder. The Dissemination Agent and the Fiscal Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Property Owner agrees to indemnify and save the Dissemination Agent and Fiscal Agent, their officers, directors, employees and agents (the "Indemnified Party"), harmless against any loss, expense and liabilities which they may incur arising out of or in the reasonable exercise or performance of its

powers and duties hereunder, including the reasonable costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding losses, expenses or liabilities due to any Indemnified Party's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Property Owner for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all reasonable expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Fiscal Agent shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the Property Owner, the Bondholders, or any other party. Neither the Fiscal Agent or the Dissemination Agent shall have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Agreement. The obligations of the Property Owner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Issuer:	City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) c/o City of Lake Elsinore 130 S. Main Street Lake Elsinore, California 92530 Attn: City Manager Telephone: (951) 674-3124 Facsimile: (951) 674-2392
To the Fiscal Agent:	Union Bank of California, N.A. 120 S. San Pedro Street, 4 th Floor Los Angeles, California 90012 Attn: Corporation Trust Department Telephone: (213) 972-5676 Facsimile: (213) 972-5694
To the Dissemination Agent:	Union Bank of California, N.A. 120 S. San Pedro Street, 4 th Floor Los Angeles, California 90012 Attn: Corporation Trust Department Telephone: (213) 972-5676 Facsimile: (213) 972-5694
To the Property Owner:	Castle & Cooke Alberhill Ranch, LLC 17600 Collier Avenue, Suite C120 Lake Elsinore, California 92530 Attn: M.J. "Tom" Tomlinson Telephone: (951) 245-0476 Facsimile: (951) 245-7801

With a copy to

Castle & Cooke Alberhill Ranch, LLC
2300 Norfield Court
Thousand Oaks, California 91361
Attn: Controller
Telephone: (805) 496-1833
Facsimile: (805) 495-4105

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Property Owner, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

CASTLE & COOKE ALBERHILL RANCH,
LLC, a California limited liability company

By _____
Name: _____
Title: _____

By _____
Name: _____
Title: _____

UNION BANK OF CALIFORNIA, N.A.,
as Dissemination Agent and Fiscal Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Castle & Cooke Alberhill Ranch, LLC
Name of Bond Issue: City of Lake Elsinore Community Facilities District
No. 2005-2 (Alberhill Ranch) Special Tax Bonds
(Improvement Area A) 2005 Series A
Date of Issuance: December 20, 2005

NOTICE IS HEREBY GIVEN that the Property Owner has not provided an Annual Report with respect to the above-named Bonds as required by the Developer Continuing Disclosure Agreement, dated as of December 1, 2005, with respect to the Bonds. [The Property Owner anticipates that the Annual Report will be filed by _____.]

Dated: _____

UNION BANK OF CALIFORNIA, N.A.,
on behalf of Property Owner

cc: Issuer
Property

APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

City of Lake Elsinore
130 S. Main Street
Lake Elsinore, California 92530

\$24,680,000
City of Lake Elsinore
Community Facilities District No. 2005-2 (Alberhill Ranch))
Special Tax Bonds (Improvement Area A) 2005 Series A

Members of the City Council:

We have acted as bond counsel to the City of Lake Elsinore (the “City”) in connection with the issuance of the \$24,680,000 aggregate principal amount of City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) Special Tax Bonds (Improvement Area A) 2005 Series A (the “Bonds”), pursuant to the provisions of Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, or the Government Code of the State of California (the “Act”) and pursuant to a Fiscal Agent Agreement, dated as of December 1, 2005 (the “Fiscal Agent Agreement”), by and between the City of Lake Elsinore Community Facilities District No. 2005-2 (Alberhill Ranch) (the “District”) and Union Bank of California, N.A., as fiscal agent (the “Fiscal Agent”). We have examined the Act and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the District contained in the Fiscal Agent Agreement and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing we are of the opinion, under existing law, as follows:

1. The Fiscal Agent Agreement has been duly and validly authorized, executed and delivered by the District and, assuming such Fiscal Agent Agreement constitutes the legally valid and binding obligation of the Fiscal Agent, constitutes the legally valid and binding obligation of the District enforceable against the District in accordance with its terms.
2. The Bonds constitute valid and binding limited obligations of the District as provided in the Fiscal Agent Agreement, and are entitled to the benefits of the Fiscal Agent Agreement.
3. The Bonds are secured by a valid pledge of the Special Taxes (as defined in the Fiscal Agent Agreement) and all moneys in the funds and accounts under the Fiscal Agent Agreement, including all amounts derived from the investment of such moneys, subject to the application thereof on the terms and conditions as set forth in the Fiscal Agent Agreement.
4. The Internal Revenue Code of 1986, as amended (the “Code”) sets forth certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof

for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issue of the Bonds. The District has covenanted in the Fiscal Agent Agreement to maintain the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxation of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Except as stated in the preceding two paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering materials relating to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Fiscal Agent Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,