

In the opinion of Rutan & Tucker, LLP, Costa Mesa, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

\$5,005,000
COMMUNITY FACILITIES DISTRICT NO. 99-1
OF THE CITY OF SAN CLEMENTE
2011 SPECIAL TAX REFUNDING BONDS

Dated: Date of Issuance

Due: September 1, as shown below

The Community Facilities District No. 99-1 of the City of San Clemente 2011 Special Tax Refunding Bonds are being issued for the principal purpose of refunding the District's outstanding 1999 Special Tax Bonds. The 1999 Special Tax Bonds were issued to acquire various public improvements needed to serve property located within the District. The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to a Fiscal Agent Agreement, dated as of August 1, 2011, by and between the District and The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent. The Bonds are special obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on the taxable land within the District and from certain other funds pledged under the Fiscal Agent Agreement, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the City Council of the City of San Clemente and the qualified electors within the District.

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases of Bonds may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. Interest on the Bonds will be payable on March 1, 2012 and semiannually thereafter on each September 1 and March 1. Principal of and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants who are expected to remit such payments to the beneficial owners of the Bonds. See "THE BONDS — General Provisions" and "— Book-Entry-Only System" herein.

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

The purchase of the Bonds involves certain risks. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

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

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Rutan & Tucker, LLP, Costa Mesa, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City and the District by Rutan & Tucker, LLP, in its capacity as City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Nossaman LLP, Irvine, California. It is anticipated that the Bonds will be available for delivery to DTC or its agent in book-entry form on or about August 25, 2011.

PiperJaffray

MATURITY SCHEDULE

\$3,550,000 Serial Bonds

| <i>Maturity Date (September 1)</i> | <i>Principal Amount</i> | <i>Interest Rate</i> | <i>Yield</i> | <i>CUSIP[†]</i> |
|--|-----------------------------|--------------------------|--------------|--------------------------|
| 2012 | \$155,000 | 2.000% | 1.250% | 797214 AU7 |
| 2013 | 170,000 | 2.000 | 1.750 | 797214 AV5 |
| 2014 | 180,000 | 3.000 | 2.250 | 797214 AW3 |
| 2015 | 195,000 | 3.000 | 2.700 | 797214 AX1 |
| 2016 | 210,000 | 3.000 | 3.150 | 797214 AY9 |
| 2017 | 220,000 | 3.375 | 3.600 | 797214 AZ6 |
| 2018 | 230,000 | 3.750 | 4.000 | 797214 BA0 |
| 2019 | 240,000 | 4.125 | 4.300 | 797214 BB8 |
| 2020 | 245,000 | 4.375 | 4.600 | 797214 BC6 |
| 2021 | 250,000 | 4.500 | 4.750 | 797214 BD4 |
| 2022 | 260,000 | 4.750 | 4.950 | 797214 BE2 |
| 2023 | 275,000 | 5.000 | 5.000 | 797214 BF9 |
| 2024 | 290,000 | 5.000 | 5.100 | 797214 BG7 |
| 2025 | 305,000 | 5.000 | 5.220 | 797214 BH5 |
| 2026 | 325,000 | 5.125 | 5.270 | 797214 BJ1 |

\$1,455,000 5.375% Term Bonds due September 1, 2030 Yield 5.550% CUSIP[†] 797214 BK8

[†] CUSIP® is a registered trademark of the American Bankers Association. Copyright© 2011 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the Community Facilities District nor the Underwriter takes any responsibility for the accuracy of such numbers.

CITY OF SAN CLEMENTE

CITY COUNCIL

Lori Donchak, Mayor
Jim Evert, Mayor Pro Tem
Robert "Bob" Baker
Tim Brown
Jim Dahl

STAFF

George Scarborough, City Manager
Pall Gudgeirsson, Treasurer/Assistant City Manager
Joanne Baade, City Clerk
William E. Cameron, Public Works Director/City Engineer
Jeffrey M. Oderman, City Attorney

BOND COUNSEL

Rutan & Tucker, LLP
Costa Mesa, California

FINANCIAL ADVISOR TO THE CITY

Fieldman, Rolapp & Associates
Irvine, California

FISCAL AGENT/ESCROW AGENT

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

SPECIAL TAX CONSULTANT

Koppel & Gruber Public Finance
San Marcos, California

DISCLOSURE COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation,
Newport Beach, California

All the information which the Community Facilities District No. 99-1 of the City of San Clemente and the City of San Clemente intend to present investors regarding the District, the City and the Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision, or to provide any continuing information, with respect to the Bonds or any other obligations of the City. Moreover, none of the information on the website is incorporated herein by reference. No dealer, broker, salesperson or other person has been authorized by the District, the City, or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the District, the City, or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Bond Insurer since the date hereof. All summaries of documents contained herein are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions.

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 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.

**CAUTIONARY INFORMATION REGARDING
FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute "Forward-Looking Statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" and other similar words and include, but are not limited to, statements that describe possible future revenues and expenses of the City.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the Authority has agreed to provide certain on-going financial and operating data (see "CONTINUING DISCLOSURE" and Appendix E hereto), it does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which statements are based change.

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

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



TALEGA
Surrounding Community

City Limits

RANCHO SAN CLEMENTE
Surrounding Community

3,900 feet

Plaza Pacifica
Community Facilities District

FORSTER RANCH
Surrounding Community

MARBLEHEAD INLAND
Surrounding Community

PACIFIC OCEAN

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\$5,005,000
COMMUNITY FACILITIES DISTRICT NO. 99-1
OF THE CITY OF SAN CLEMENTE
2011 SPECIAL TAX REFUNDING BONDS

INTRODUCTION

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

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices, is to provide certain information concerning the issuance of the Community Facilities District No. 99-1 of the City of San Clemente, California 2011 Special Tax Refunding Bonds, in the aggregate principal amount set forth on the front cover page (the “Bonds”). The proceeds of the Bonds will be used, along with certain other funds, to refund the Community Facilities District No. 99-1 of the City of San Clemente 1999 Special Tax Bonds (the “1999 Bonds”), to fund a reserve fund for the Bonds (the “Reserve Fund”) and to pay costs of issuance of the Bonds. See “PLAN OF REFUNDING.”

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and pursuant to a Fiscal Agent Agreement, dated as of August 1, 2011 (the “Fiscal Agent Agreement”), by and between Community Facilities District No. 99-1 of the City of San Clemente (the “District”), and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”). The Bonds are secured under the Fiscal Agent Agreement by a pledge of and lien upon Special Tax Revenues (as defined herein) and all moneys deposited in the Bond Fund and the Reserve Fund established pursuant to the Fiscal Agent Agreement.

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

The District

The District was formed, and the District’s 1999 Bonds were issued pursuant to the Act, for the purpose of financing the acquisition of various public improvements needed to serve property located within boundaries of District. The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a community facilities district to provide for and finance the cost of eligible public facilities and services. The legislative body of the local agency which forms a community facilities district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and

compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness.

The District is generally located along the northerly side of Avenida Pico, in the vicinity of Camino Vera Cruz and Avenida la Pata, within the corporate limits of the City a little more than two miles from the Pacific Ocean. Its boundaries encompass 18 parcels, 17 of which are subject to the levy of the special tax. One parcel that is within the exterior boundaries of the District (the Wal-Mart parcel) has prepaid its special tax entirely; and it is not included in the 17 parcels referred to above. All 17 parcels that are subject to the special tax have been improved with one or more structures, and all are devoted to either commercial or office uses. One of the 17 parcels (APN 686-141-01, the so-called "Metagenics Parcel") prepaid its special tax in part. See "THE COMMUNITY FACILITIES DISTRICT — Information Concerning Each Parcel."

Pursuant to the Act, the City Council adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of special taxes on taxable property within the boundaries of the District and to have the District incur bonded indebtedness. Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District and calling special elections to submit the levy of the special taxes and the incurring of bonded indebtedness to the qualified voters of the District. On October 20, 1999, at an election held pursuant to the Act, the landowners who comprised the qualified voters of the District authorized the District to incur bonded indebtedness in the aggregate principal amount of \$6,500,000 and approved the rate and method of apportionment of the special taxes for the District. The 1999 Special Tax Bonds were issued in an aggregate principal amount of \$5,755,000 in order to finance a portion of various public improvements needed to serve the property located within the boundaries of the District. The 1999 Special Tax Bonds in an aggregate principal amount of \$5,190,000 currently remain outstanding, and they are expected to be refunded with proceeds derived from the sale of Bonds and other funds available to the District.

Upon the issuance of the 1999 Special Tax Bonds, a principal amount of \$745,000 remained authorized but unissued. However, the City has covenanted not to issue additional indebtedness secured by the Special Taxes on a parity with the Bonds except to refund the Bonds in whole or in part, and only in circumstances where the issuance of such Parity Bonds results in a reduction in the amount of Annual Debt Service on the outstanding Bonds (including such Parity Bonds) in each Bond Year. Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes may be levied on the property within the District. See "SPECIAL RISK FACTORS — Parity Taxes and Special Assessments."

Sources of Payment for the Bonds

As used in this Official Statement, the term "Special Tax" is that tax which has been authorized pursuant to the Act to be levied against certain property within the District in accordance with the rate and method of apportionment of special taxes approved by the qualified electors of the District. See Appendix A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." Under the Fiscal Agent Agreement, the City has pledged to repay the Bonds from the Special Tax Revenues and amounts on deposit in the Bond Fund and the Reserve Fund. Special Tax Revenues are defined in the Fiscal Agent Agreement to include the proceeds of the Special Taxes received by the City, including scheduled payments and any prepayments thereof, interest thereon and the proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the

delinquent Special Taxes in the amount of said lien and interest thereon, net of costs incurred in collecting delinquent Special Taxes. Special Tax Revenues do not include any redemption penalties applicable to delinquent Special Taxes.

The Special Tax Revenues are the primary security for the repayment of the Bonds. In the event that the Special Tax Revenues are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent for such purpose, including amounts held in the Reserve Fund. However, the District has covenanted for the benefit of the owners of the Bonds that it will cause judicial foreclosure proceedings to be commenced under certain circumstances. See “SOURCES OF PAYMENT FOR THE BONDS — Proceeds of Foreclosure Sales” herein.

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY OF SAN CLEMENTE OR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM SPECIAL TAXES AND AMOUNTS PLEDGED UNDER THE FISCAL AGENT AGREEMENT AS MORE FULLY DESCRIBED HEREIN.

Description of the Bonds

The Bonds will be issued and delivered as fully registered Bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”). They will be available to actual purchasers of the Bonds (the “Beneficial Owners”) in the integral multiples of \$5,000 under the book-entry system maintained by DTC only through brokers and dealers who are or who act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds.

Principal of, premium, if any, and interest on the Bonds are payable by the Fiscal Agent to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Fiscal Agent, all as described herein. See “THE BONDS — Book-Entry-Only System” herein.

The Bonds are subject to redemption as described herein. For more complete descriptions of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE BONDS” and Appendix D — “SUMMARY OF THE FISCAL AGENT AGREEMENT.”

Tax Matters

In the opinion of Bond Counsel, under existing laws, regulations, rulings and court decisions, the interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with certain covenants described herein, is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Set forth in Appendix B is the opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain other tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see “TAX MATTERS” herein.

Professionals Involved in the Offering

The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, will act as Fiscal Agent under the Fiscal Agent Agreement, as the Escrow Agent under the Escrow Agreement and as the initial Dissemination Agent under the Continuing Disclosure Agreement. Piper Jaffray & Co. is the Underwriter of the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Rutan & Tucker, LLP, Costa Mesa, California, Bond Counsel. Fieldman, Rolapp & Associates, Irvine, California, is acting as Financial Advisor for the City in connection with the Bonds. Koppel & Gruber Public Finance, San Marcos, California serves as the District's Special Tax Consultant. Certain legal matters will be passed on for the City and the District by Rutan & Tucker, LLP in its capacity as City Attorney, and Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Nossaman LLP, Irvine, California.

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

Continuing Disclosure

The District has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission. See "CONTINUING DISCLOSURE" and Appendix E — "CONTINUING DISCLOSURE AGREEMENT" herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the continuing disclosure agreement pursuant to which such reports are to be made.

Bond Owners' Risks

Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds.

Other Information

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

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

Copies of the Fiscal Agent Agreement, the Escrow Agreement, the Continuing Disclosure Agreement and other documents and information referred to herein are available for inspection and (upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the City at 100 Avenida Presidio, San Clemente, California 91720, Attention: City Treasurer.

PLAN OF REFUNDING

The Bonds are being issued for the principal purpose of refunding the 1999 Bonds. Concurrently with the issuance of the Bonds, the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”), will enter into an Escrow Agreement, dated as of August 1, 2011, with respect to the 1999 Bonds (the “Escrow Agreement”). A portion of the proceeds derived from the sale of the Bonds, together with moneys held in certain funds and accounts relating to the 1999 Bonds, will be deposited in the Escrow Fund established for the 1999 Bonds pursuant to the Escrow Agreement. The aggregate amount of such deposits will be sufficient to redeem the 1999 Bonds on September 1, 2011 at a redemption price equal to 100% of the principal amount thereof and the interest accrued thereon to such redemption date. The cash held in the Escrow Fund will be held uninvested and will be pledged solely for the payment of the 1999 Bonds. Such cash will not be available for the payment of the Bonds, nor will any interest or other earnings thereon be available for such payment.

ESTIMATED SOURCES AND USES OF FUNDS

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

| | |
|-----------------------------------|------------------------|
| Sources: | |
| Principal Amount of the Bonds | \$ 5,005,000.00 |
| Funds Held For 1999 Bonds | 1,043,516.25 |
| Less: Net Original Issue Discount | (59,562.30) |
| Less: Underwriter’s Discount | <u>(45,045.00)</u> |
| Total | <u>\$ 5,943,908.95</u> |
| Uses: | |
| Escrow Fund | \$ 5,360,982.50 |
| Reserve Fund ⁽¹⁾ | 422,581.26 |
| Cost of Issuance Fund | <u>160,345.19</u> |
| Total | <u>\$ 5,943,908.95</u> |

⁽¹⁾ Equal to the Reserve Requirement.

THE BONDS

General Provisions

The Bonds are authorized to be issued by the District under and subject to the terms of the Fiscal Agent Agreement, the Act and other applicable laws of the State of California. The Bonds will be issued as fully registered bonds, without coupons, in book-entry form in denominations of \$5,000 or any integral multiple thereof.

The Bonds will bear interest at the rates per annum and will mature on the dates set forth on the cover page hereof. The Bonds will be dated their date of issuance and interest will be payable thereon on March 1 and September 1 of each year, commencing March 1, 2012 (each such date, an “Interest Payment Date”). Interest on the Bonds will be calculated on the basis of a 360-day year

consisting of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth day of the month preceding such Interest Payment Date (the “Record Date”), in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the date of issuance; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon or from its dated date, if no interest has previously been paid or made available for payment thereon.

Interest on the Bonds is payable by check of the Fiscal Agent mailed by first class mail, postage prepaid, on each Interest Payment Date, until the principal amount of a Bond has been paid or made available for payment, to the registered Owner thereof at such registered Owner’s address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date; provided, however, that at the written request of the Owner of at least \$1,000,000 in aggregate principal amount of Outstanding Bonds, interest on such Bonds shall be paid to such Owner by wire transfer of immediately available funds to an account in the United States. The principal of the Bonds and any premium on the Bonds are payable in lawful money of the United States by check of the Fiscal Agent upon surrender of such Bonds at the Principal Office of the Fiscal Agent.

The Bonds are issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in integral multiples of \$5,000. See “Book-Entry-Only System” herein.

Redemption

Mandatory Redemption from Special Tax Prepayments. The Bonds maturing on or after September 1, 2022 are subject to mandatory redemption prior to maturity, as a whole or in part, pro rata among maturities and by lot within a maturity, on September 1, 2021 or any Interest Payment Date thereafter from prepayments of the Special Tax deposited in the Special Tax Prepayments Subaccount of the Bond Fund established under the Fiscal Agent Agreement, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

Optional Redemption. The Bonds maturing on or after September 1, 2022 are subject to call and redemption prior to their stated maturity dates on September 1, 2021 or any Interest Payment Date thereafter, pro rata among maturities (and by lot within any one maturity), at the option of the District from moneys derived by the District from any source, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 2030 (the “2030 Term Bonds”) are subject to mandatory sinking fund redemption, in part, on September 1, 2027, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments as follows:

| <i>Redemption Date (September 1)</i> | <i>Sinking Fund Payment</i> |
|--|-----------------------------|
| 2027 | \$335,000 |
| 2028 | 355,000 |
| 2029 | 375,000 |
| 2030 (maturity) | 390,000 |

The amounts in the foregoing schedules shall be reduced as a result of any partial redemption of the 2030 Term Bonds (other than from sinking fund payments), as specified in writing by an Authorized Officer pro rata among the dates set forth therein.

In lieu of payment at redemption, moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding Bonds upon the filing with the Fiscal Agent of a written direction of an Authorized Officer requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such written direction may provide, but in no event may Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if such Bonds were to be redeemed in accordance with the Fiscal Agent Agreement.

Notice of Redemption

So long as the Bonds are held in book-entry form, *notice of redemption will be sent by the Fiscal Agent only to DTC, or its nominee, and not to the owners of any beneficial interest in the Bonds.* It is the responsibility of DTC and its participants and not the City, the District or the Fiscal Agent to deliver notices of redemption to the owners of beneficial interests in the Bonds. See “Book-Entry-Only System” below.

The Fiscal Agent shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least fifteen (15) days but not more than thirty (30) days prior to the date fixed for redemption, to the Underwriter and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books maintained by the Fiscal Agent at its Principal Office; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds.

Such notice (i) shall state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, shall designate the CUSIP numbers and Bond numbers of the Bonds to be redeemed by giving the individual CUSIP number and Bond number of each Bond to be redeemed or shall state that all Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption; (ii) shall state as to any Bond called for redemption in part the portion of the principal of the Bond to be redeemed; (iii) shall require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent (or at such other place for payment as may be designated in the

notice) for redemption at the said redemption price; and (iv) shall state that further interest on such Bonds will not accrue from and after the redemption date.

Effect of Redemption

From and after the date fixed for redemption, if funds available for the payment of the redemption prices of the Bonds called for redemption shall have been deposited in the Bond Fund, such Bonds shall cease to be entitled to any benefit under the Fiscal Agent Agreement other than the right to receive payment of the redemption price, and interest shall cease to accrue on the Bonds to be redeemed on the redemption date specified in the notice of redemption.

Registration of Exchange or Transfer

Upon cessation of the book-entry system, the registration of any Bond may, in accordance with its terms, be transferred upon the registration books maintained by the Fiscal Agent by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the principal office of the Fiscal Agent, accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Fiscal Agent. Bonds may be exchanged at said Principal Office only for a like aggregate principal amount of Bonds of authorized denominations of the same maturity. The Fiscal Agent will not charge for any new Bond issued upon any transfer or exchange but may require the Bondowner requesting the transfer or exchange to pay any tax or other governmental charge required to be paid with respect thereto. Whenever any Bond or Bonds shall be surrendered for registration of transfer or exchange, the Fiscal Agent shall authenticate and deliver a new Bond or Bonds of like aggregate principal amount; provided that the Fiscal Agent shall not be required to register transfers or make exchanges of (i) Bonds during the 15 days next preceding the date established by the Fiscal Agent for selection of Bonds for redemption or (ii) with respect to Bonds which have been selected for redemption.

Debt Service Schedule

| <i>Year Ending September 1</i> | <i>Principal</i> | <i>Interest</i> | <i>Total</i> |
|------------------------------------|------------------|------------------------------|-------------------|
| 2012 | \$ 155,000 | \$ 226,392.61 ⁽¹⁾ | \$ 381,392.61 |
| 2013 | 170,000 | 219,581.26 | 389,581.26 |
| 2014 | 180,000 | 216,181.26 | 396,181.26 |
| 2015 | 195,000 | 210,781.26 | 405,781.26 |
| 2016 | 210,000 | 204,931.26 | 414,931.26 |
| 2017 | 220,000 | 198,631.26 | 418,631.26 |
| 2018 | 230,000 | 191,206.26 | 421,206.26 |
| 2019 | 240,000 | 182,581.26 | 422,581.26 |
| 2020 | 245,000 | 172,681.26 | 417,681.26 |
| 2021 | 250,000 | 161,962.50 | 411,962.50 |
| 2022 | 260,000 | 150,712.50 | 410,712.50 |
| 2023 | 275,000 | 138,362.50 | 413,362.50 |
| 2024 | 290,000 | 124,612.50 | 414,612.50 |
| 2025 | 305,000 | 110,112.50 | 415,112.50 |
| 2026 | 325,000 | 94,862.50 | 419,862.50 |
| 2027 | 335,000 | 78,206.26 | 413,206.26 |
| 2028 | 355,000 | 60,200.00 | 415,200.00 |
| 2029 | 375,000 | 41,118.76 | 416,118.76 |
| 2030 | <u>390,000</u> | <u>20,962.50</u> | <u>410,962.50</u> |
| Totals | \$ 5,005,000 | \$2,804,080.21 | \$7,809,080.21 |

⁽¹⁾ Includes interest from the date of issuance of the Bonds.

Book-Entry-Only System

DTC will act as securities depository for the Bonds, and the Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate for each maturity will be issued for the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC. **So long as Cede & Co. is the registered owner of the Bonds, references herein to the Owners of the Bonds shall mean Cede & Co. and shall not mean the actual purchasers of the Bonds (the "Beneficial Owners"). The District does not give any assurance that DTC, its Participants or others will distribute payments with respect to the Bonds or notices concerning the Bonds to the Beneficial Owners thereof or that DTC will serve and act in the manner described in this Official Statement. See Appendix F for a description of DTC and its book-entry only system.**

SOURCES OF PAYMENT FOR THE BONDS

The Special Taxes are the primary security for the repayment of the Bonds. Under the Fiscal Agent Agreement, the City has pledged to repay the Bonds from the Special Tax Revenues and amounts held in the Bond Fund and the Reserve Fund. Special Tax Revenues are defined in the Fiscal Agent Agreement to include the proceeds of the Special Taxes received by the City, including scheduled payments and any prepayments thereof, interest thereon and the proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes in the amount of said lien and interest thereon, net of costs incurred in collecting delinquent Special

Taxes. Special Tax Revenues do not include any redemption penalties applicable to delinquent Special Taxes.

In the event that the Special Tax Revenues are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent for such purpose, including amounts held in the Reserve Fund.

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

Special Taxes

In accordance with the provisions of the Act, the City Council established the District on September 15, 1999 for the purpose of financing the acquisition of various public improvements to serve the District. At a special election held on October 20, 1999, the owners of the property within the District authorized the District to incur indebtedness in an amount not to exceed \$6,500,000 and approved the rate and method of apportionment of the Special Taxes to pay the principal of and interest on the bonds of the District. The rate and method of apportionment of the Special Tax approved by the City Council and the qualified electors on October 20, 1999 (the “Rate and Method of Apportionment”) is set forth in Appendix A hereto.

In the Fiscal Agent Agreement, the City Council, as the legislative body of the District, has covenanted that, by August 1 of each year (or such later date as may be authorized by the Act), an Authorized Officer will effect the levy of Special Taxes up to the maximum rates permitted under the Rate and Method of Apportionment in the amount required for the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Fund and an amount estimated to be sufficient to pay the Administrative Expenses during such year.

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method of Apportionment. See Appendix A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See “SPECIAL RISK FACTORS — Levy of the Special Tax” and “— Exempt Properties.”

The Special Tax applicable to one of the parcels within the District, the parcel on which a Wal-Mart store has been developed, was prepaid in full prior to the issuance of the 1999 Special Tax Bonds. The Special Tax applicable to the parcel within the District on which an office building has been developed (APN 688-141-01, the “Metagenics Parcel”) was partially prepaid prior to the issuance of the 1999 Special Tax Bonds. As a result of these prepayments, the aggregate amount of the Special Taxes that may be levied on the property with the District is less than the amount that would be calculated by a reference to the Rate and Method of Apportionment.

Method of Apportionment of Special Tax

Pursuant to the Rate and Method of Apportionment, the annual amount of Special Tax to be levied on each lot or parcel of land within the District, as shown on the Orange County Assessor's Maps, will be based in general on its proportionate share of the total taxable land within the District. A copy of the Rate and Method of Apportionment of Special Tax is included in Appendix A, and the following is a summary of certain provisions thereof.

With the exception of the Metagenics Parcel, the maximum Special Tax that may be levied on any parcel in the Fiscal Year ending June 30, 2012 is \$12,433.74 per acre of land area (the "Maximum Special Tax Rate"). As a result of a partial prepayment of the Special Taxes applicable to the Metagenics Parcel, its Maximum Special Tax Rate for the Fiscal Year ending June 30, 2012 is \$7,768.49 per acre of land area. The Maximum Special Tax Rate for all parcels increases by 2% each Fiscal Year.

The District Administrator is required to determine the estimated aggregate Special Tax Requirement for the Fiscal Year that begins on the July 1 as of which the above-described classification is being made. The Special Tax Requirement for a Fiscal Year is the sum of (i) an amount sufficient to pay the total annual principal and interest payable on the Bonds during the calendar year that commences in such Fiscal Year, (ii) an amount sufficient to pay Administrative Expenses (as defined in the Rate and Method of Apportionment) for such Fiscal Year, (iii) an amount determined by the District Administrator to offset past delinquencies and projected tax delinquencies to occur in such Fiscal Year and (iv) all amounts required to be paid in the Fiscal Year under the Fiscal Agent Agreement.

In order to determine the annual Special Tax for each parcel of Taxable Property, the District Administrator is required to first determine the land area of the parcel and the total land area for all parcels of Taxable Property. The District Administrator is then required to divide the estimated aggregate Special Tax Requirement by the total land area for all Taxable Property, and the resulting quotient is the Annual Special Tax Rate for Taxable Property. The Annual Special Tax for each parcel of Taxable Property is the product of its land area multiplied by the lesser of the Annual Special Tax Rate for Taxable Property or the Maximum Special Tax Rate.

If the Annual Special Tax for all Taxable Property is less than the Special Tax Requirement, the District Administrator is required to levy the Special Tax on Potentially Taxable Property. The Annual Special Tax Rate for Potentially Taxable Property is the quotient obtained by dividing (a) the difference between the Special Tax Requirement and the aggregate amount of Special Taxes for Taxable Property by (b) the total land area of the Potentially Taxable Property. The Special Tax for each parcel of Potentially Taxable Property is the product of its area times the lesser of the Annual Special Tax Rate for Potentially Taxable Property or the Maximum Special Tax Rate.

Prepayment of Special Taxes

The Rate and Method of Apportionment permits the Special Tax applicable to a parcel to be prepaid in whole or in part. See Appendix A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." Pursuant to the provisions thereof, the Special Tax applicable to one parcel within the District has been prepaid in its entirety. That parcel is the one occupied by a Wal-Mart store. It is no longer subject to the levy of Special Taxes. As noted above, the Special Tax applicable to the Metagenics Parcel was prepaid in part with the result that its Maximum Special Tax

Rate is less than the Maximum Special Tax Rate applicable to the other 16 parcels of Taxable Property.

Pursuant to the Fiscal Agent Agreement, any proceeds of Special Tax Prepayments received subsequent to the issuance of the Bonds are to be transferred to the Fiscal Agent for deposit in the Special Tax Prepayments Subaccount in the Bond Fund established by the Fiscal Agent Agreement. Money in the Special Tax Fund Prepayments Subaccount is to be used (together with any amounts transferred from the Reserve Fund, as described in Appendix D — “SUMMARY OF THE FISCAL AGENT AGREEMENT”) to redeem Bonds. See “THE BONDS — Redemption.”

Collection and Application of Special Taxes

The Special Taxes are to be collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes.

The District has covenanted that: (i) it will neither (a) exercise its rights under the Act to waive delinquencies and redemption penalties related to the Special Taxes nor (b) declare a special tax penalties amnesty program if to do so would materially and adversely affect the interests of the owners of the Bonds and (ii) it will not permit the tender of Bonds in full or partial payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds remaining Outstanding following such tender.

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

Under the terms of the Fiscal Agent Agreement, all Special Tax Revenues received by the District (other than proceeds of Special Tax Prepayments, which are to be deposited in the Special Tax Requirements Subaccount in the Bond Fund) are to be deposited in the Special Tax Fund.

From time to time as needed to pay the obligations of the District, but no later than the Business Day before each Interest Payment Date, the Fiscal Agent is to withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority: (i) to the Bond Fund, an amount (taking into account any amounts then on deposit therein and any expected transfers thereto from the Improvement Fund and the Special Tax Prepayments Subaccount) such that the amount in the Bond Fund equals the principal (including any sinking payment), premium, if any, and interest due on the Bonds on the next Interest Payment Date; (ii) to the Reserve Fund, an amount (taking into account amounts then on deposit therein) such that the amount in the Reserve Fund is equal to the Reserve Requirement; and (iii) the amount or portion thereof which an Authorized Officer directs the Fiscal Agent in writing to deposit in the Administrative Expense Fund for payment of Administrative Expenses (which amount cannot exceed, in any Fiscal Year, the amount included in the Special Tax Levy for Administrative Expenses for such Fiscal Year). At any time following the deposit of Special Taxes in an amount sufficient to make payment of all of the

foregoing deposits for the current Bond Year, any amounts in excess of such amounts still remaining in the Special Tax Fund, shall, upon the written direction of an Authorized Officer, be transferred by the Fiscal Agent to the District to be used for any lawful purpose; and, in the absence of such written direction, all amounts remaining in the Special Tax Fund on the first day of the succeeding Bond Year shall be transferred to the District.

Proceeds of Foreclosure Sales

The net proceeds (other than penalties) received following a judicial foreclosure sale of land within the District resulting from a landowner's failure to pay the Special Tax when due are included in the Special Tax Revenues pledged to the payment of principal of and interest on the Bonds.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the owners of the Bonds that it will order and cause to be commenced, on or before October 1 of the Fiscal Year immediately following the Fiscal Year in which a delinquency in the payment of a Special Tax occurs, and thereafter diligently prosecuted to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due, provided that the District need not commence or pursue such proceedings with respect to any property owned by a single property owner who is delinquent in the payment of Special Taxes in an amount less than \$5,000 if both (i) the aggregate amount of such delinquent Special Taxes does not exceed 5% of the total Special Taxes due and payable for the Fiscal Year in question and (ii) the balance on deposit in the Reserve Fund is not less than the Reserve Requirement. See Appendix D — "SUMMARY OF THE FISCAL AGENT AGREEMENT."

If foreclosure is necessary and other funds (including amounts in the Reserve Fund) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the District. See "SPECIAL RISK FACTORS — Bankruptcy and Legal Delays" herein.

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 City to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

Reserve Fund

In order to secure further the payment of principal of and interest on the Bonds, the City is required, upon delivery of the Bonds, to deposit in the Reserve Fund held by the Fiscal Agent and to

maintain the Reserve Fund at an amount equal to the Reserve Requirement. The Reserve Requirement is an amount equal to the lesser of (i) ten percent (10%) of the initial principal amount of the Bonds, (ii) the then Maximum Annual Debt Service on the Bonds, or (iii) 125 percent of average Annual Debt Service on the Bonds (subject to adjustments in the event of transfers from the Reserve Fund to the Bond Fund in connection with the prepayment of Special Taxes.

Amounts in the Reserve Fund are to be applied (i) to the payment of debt service on the Bonds, to the extent other moneys are not available therefor, (ii) to redeem a portion of the Bonds in connection with a Special Tax Prepayment, and (iii) to the payment of the principal and interest due in the final year of maturity of the Bonds. On the Business Day prior to any Interest Payment Date, or on any other date at the written request of an Authorized Officer, if the amount in the Reserve Fund exceeds the Reserve Requirement, the Fiscal Agent shall provide written notice of the amount of the excess to an Authorized Officer and shall transfer such amount to (a) prior to the completion of the Project (as evidenced by a written certificate of an Authorized Officer), to the Improvement Fund and (b) after the completion of the Project, to the Bond Fund. See Appendix D — “SUMMARY OF THE FISCAL AGENT AGREEMENT.” The Project is complete, so any amounts in excess of the Reserve Requirement are to be transferred to the Bond Fund under the circumstances described above.

Estimated Debt Service Coverage

Table No. 1 below illustrates the estimated coverage for the debt service for the Bonds that is available from the Special Tax Revenues. Estimated coverage is based on receipt by the City of maximum Special Taxes assuming that there are no further prepayments of the Special Tax and no further changes in the amount of the Taxable Property. The Special Tax will not generally be levied at the maximum rate except where prior delinquencies require that the levy be increased to replenish the Reserve Fund. Even if the Special Taxes were levied at the maximum rate in any year, actual collections will depend upon the willingness and ability of the owners of property to pay the Special Taxes when due. Numerous factors could affect the timely payment of Special Taxes. See “SPECIAL RISK FACTORS” herein.

Table No. 1
Debt Service Coverage Assuming No Changes in Taxable Property

| <i>Fiscal Year Ending June 30 and Bond Year Ending September 1</i> | <i>Debt Service ⁽¹⁾</i> | <i>Maximum Special Taxes ⁽²⁾</i> | <i>Coverage⁽³⁾</i> |
|--|------------------------------------|---|-------------------------------|
| 2012 | \$381,392.61 | \$526,891.06 ⁽⁴⁾ | 138.15% |
| 2013 | 389,581.26 | 537,428.88 | 137.95 |
| 2014 | 396,181.26 | 548,177.46 | 138.37 |
| 2015 | 405,781.26 | 559,141.01 | 137.79 |
| 2016 | 414,931.26 | 570,323.83 | 137.45 |
| 2017 | 418,631.26 | 581,730.30 | 138.96 |
| 2018 | 421,206.26 | 593,364.91 | 140.87 |
| 2019 | 422,581.26 | 605,232.21 | 143.22 |
| 2020 | 417,681.26 | 617,336.85 | 147.80 |
| 2021 | 411,962.50 | 629,683.59 | 152.85 |
| 2022 | 410,712.50 | 642,277.26 | 156.38 |
| 2023 | 413,362.50 | 655,122.81 | 158.49 |
| 2024 | 414,612.50 | 668,225.26 | 161.17 |
| 2025 | 415,112.50 | 681,589.77 | 164.19 |
| 2026 | 419,862.50 | 695,221.56 | 165.58 |
| 2027 | 413,206.26 | 709,126.00 | 171.62 |
| 2028 | 415,200.00 | 723,308.52 | 174.21 |
| 2029 | 416,118.76 | 737,774.69 | 177.30 |
| 2030 | 410,962.50 | 752,530.18 | 183.11 |

⁽¹⁾ Includes Sinking Fund Payments and assumes no further prepayments of Special Taxes.

⁽²⁾ Assumes no additional prepayments of Special Taxes.

⁽³⁾ Maximum Special Taxes divided by Debt Service expressed as a percentage.

⁽⁴⁾ Includes interest from the date of issuance of the Bonds.

Source: Piper Jaffray & Co. for Debt Service and Coverage and Koppel & Grubber Public Finance for Maximum Special Taxes.

THE COMMUNITY FACILITIES DISTRICT

General Description of the District

The District is generally located along the northerly side of Avenida Pico, in the vicinity of Camino Vera Cruz and Avenida la Pata. It is located slightly more than two miles from the Pacific Ocean and consists of 17 parcels that are subject to the levy of the Special Tax. All 17 of said parcels are improved with one or more structures.

A retail center known as Plaza Pacifica comprises the majority of the area within the District. Plaza Pacifica includes approximately 450,000 square feet of retail space all but 1,000 square feet of which is currently occupied. The largest store in Plaza Pacific is a 100,000 square foot Wal-Mart. However, the Special Tax applicable to the parcel on which the Wal-Mart is located has been prepaid in its entirety and will not, therefore, constitute security for the repayment of the Bonds. Also included in Plaza Pacifica are Lowe's, Michaels, Albertsons, Office Depot, Baja Fresh, Blockbuster,

Verizon, AT&T, Mobil Oil, IHOP, Carl's Jr., Taco Bell, El Pollo Loco, Bank of America, an animal hospital and a variety of local service providers.

There are three other parcels included within the District that are not a part of Plaza Pacifica. One parcel, consisting of approximately 0.413 acres, is located within the Rancho San Clemente Business Park and has been developed for commercial-office uses. A second parcel consists of approximately 1.941 acres and is also located within the Rancho San Clemente Business Park. It is known as The Courtyards at Talega and has been developed as a retail complex. The third parcel within the District which is not part of Plaza Pacifica is the Metagenics Parcel, an 8.96 acre parcel owned by Meta Ca QRS 14-6 Inc. It has been developed with a research and development building consisting of almost 88,000 square feet.

An aerial photograph of the area within which the District is located appears on page 17. General information about the City is set forth in Appendix C.



Plaza Pacifica Community Facilities District

Property Values

The District has not engaged an independent appraiser to provide an opinion concerning the values of the parcels within the District that comprise the Taxable Property. However, the assessed values of those parcels, as shown on the 2011-12 County Assessor's roll (based on a January 1, 2011 lien date), and their respective assessed values over a nine-year period are included and discussed herein under "— Information Concerning Each Parcel." The aggregate assessed value of the Taxable Property as shown on the 2011-12 County Assessor's roll is \$82,163,085, but the assessed values of four of the parcels have been appealed by their respective owners; and if all of those appeals are completely successful, the aggregate assessed value would be reduced by \$7,809,458. See "Information Concerning Each Parcel" below.

Moreover, assessed values do not necessarily represent market values. Article XIII A of the California Constitution (Proposition 13) defines "full cash value" to mean "the County assessor's valuation of real property as shown on the 1975/76 roll under 'full cash value', or, thereafter, the appraised value of real property when purchased or newly constructed or when a change in ownership has occurred after the 1975 assessment," subject to exemptions in certain circumstances of property transfer or reconstruction. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors. Because of the general limitation to 2% per year in increases in full cash value of properties which remain in the same ownership, the County tax roll does not reflect values uniformly proportional to actual market values. Moreover, as a result of declines in the market value of properties in recent years, assessed valuations of many properties in the County have declined in the recent years. As a result of the foregoing, there can be no assurance that the assessed valuations of the properties within the District accurately reflect their respective market values, and the future fair market values of those properties may be lower than their current assessed valuations.

No assurance can be given that, should a delinquent parcel be foreclosed and sold for the amount of the delinquency, any bid will be received for such parcel, or if a bid is received that such bid will be sufficient to pay such delinquent Special Taxes.

Information Concerning Each Parcel

Table No. 2 on page 19, sets forth with respect to each parcel of Taxable Property within the District, its assessor parcel number, the amount of the Special Tax levied on it for Fiscal Year 2010-11, its share of the principal amount of the 1999 Bonds (allocated to each parcel based upon its respective share of the total Special Tax levy for Fiscal Year 2010-11), the name of its owner, its land use, its taxable acreage, its Fiscal Year 2011-12 assessed value, and the ratio of the assessed value to its share of the principal amount of the 1999 Bonds.

**Table No. 2
Information With Respect to Each Parcel**

| Assessor Parcel Number | Special Tax Levy FY 2010-11 | Refunding Bond Share Based on Special Tax Levied | Owner | Existing Land Use | Taxable Acreage | 2011-12 | |
|------------------------------|-----------------------------------|--|--------------------------------------|-------------------------------|--------------------|-----------------------------|---------------|
| | | | | | | Assessed Value | Value to Lien |
| 688-021-14 | \$ 8,412.16 | \$ 96,980 | Wiles Restaurants Inc. | Restaurant - Carl's Jr. | 0.805 | \$ 1,554,826 ⁽²⁾ | 16.03 to 1 |
| 688-021-16 | 5,538.44 | 63,850 | Armstrong, Richard B. | Restaurant - Taco Bell | 0.530 | 1,246,773 | 19.53 to 1 |
| 688-021-17 | 5,914.64 | 68,187 | S R H Management Inc. | Restaurant - El Pollo Loco | 0.566 | 1,293,696 | 18.97 to 1 |
| 688-021-18 | 7,753.82 | 89,390 | Bank of America NA | Commercial - Bank | 0.742 | 2,184,000 | 24.43 to 1 |
| 688-021-28 | 120,978.62 | 1,394,702 | Lowe's HIW Inc. | Industrial - Home Improvement | 11.577 | 12,047,462 ⁽²⁾ | 8.64 to 1 |
| 688-021-30 | 23,804.88 | 274,435 | Tecolote San Clemente LLC | Commercial - Michael's | 2.278 | 4,836,178 | 17.62 to 1 |
| 688-021-31 | 22,446.40 | 258,773 | Mosich, Nick V. | Commercial - Strip Retail | 2.148 | 5,916,446 | 22.86 to 1 |
| 688-021-32 | 16,113.76 | 185,768 | Mobil Oil Corp. | Commercial - Gas Station | 1.542 | 1,896,184 | 10.21 to 1 |
| 688-021-33 | 9,707.96 | 111,918 | Chiuminatta, Edward R. | Commercial - Tire Center | 0.929 | 2,782,447 | 24.86 to 1 |
| 688-021-34 | 7,147.72 | 82,403 | Novogroder/San Clemente LLC | Restaurant - IHOP | 0.684 | 1,249,172 | 15.16 to 1 |
| 688-131-20 | 21,213.30 | 244,558 | Huang, Stephen C. | Commercial - Office Depot | 2.030 | 6,436,595 ⁽²⁾ | 26.32 to 1 |
| 688-131-21 | 65,834.42 | 758,972 | New Albertsons Inc. | Commercial - Grocery | 6.300 | 14,071,990 | 18.54 to 1 |
| 688-131-22 | 27,169.76 | 313,227 | 45 Plaza Assoc LLC | Commercial - Strip Retail | 2.600 | 8,912,000 ⁽²⁾ | 28.45 to 1 |
| 688-131-23 | 8,986.92 | 103,606 | Golden Lantern Management Co LLC | Commercial - Strip Retail | 0.860 | 2,246,791 | 21.69 to 1 |
| 688-132-02 | 4,315.80 | 49,755 | Sroka, Gary J. | Commercial - Office | 0.413 | 1,376,096 | 27.66 to 1 |
| 688-132-03 | 20,283.26 | 233,836 | Courtyards at Talega LLC | Commercial - Strip Retail | 1.941 | 6,550,000 | 28.01 to 1 |
| 688-141-01 | <u>58,519.50</u> | <u>674,642</u> | Meta Ca Qrs 14-6 Inc. ⁽¹⁾ | Commercial - Office | <u>8.963</u> | <u>7,562,429</u> | 11.21 to 1 |
| Totals | \$434,141.36 | \$5,005,000 | | | 44.908 | \$82,163,085 | 16.42 to 1 |

⁽¹⁾ A portion of the special tax lien was prepaid prior to the issuance of bonds. Therefore, the special tax rate per acre is less for this parcel than the other parcels within the CFD.

⁽²⁾ Appeal of assessed value currently pending.

Source: Koppel & Gruber Public Finance.

The following table shows the history of the assessed valuations of the 17 parcels that comprise the Taxable Property for Fiscal Years 2003-04 through 2011-12. There valuations generally rose each Fiscal Year prior to 2009-10 and declined in 2010-11 and 2010-12.

**Table No. 3
History of Assessed Valuations⁽¹⁾**

| Assessor Parcel Number | Owner | Fiscal Year 2003/04 | Fiscal Year 2004/05 | Fiscal Year 2005/06 | Fiscal Year 2006/07 | Fiscal Year 2007/08 | Fiscal Year 2008/09 | Fiscal Year 2009/10 | Fiscal Year 2010/11 | Fiscal Year 2011/12 |
|---------------------------|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------------|---------------------------|-----------------------------|---------------------|
| 688-021-14 | WILES RESTAURANTS INC | \$ 1,592,348 | \$ 1,401,052 | \$ 1,429,073 | \$ 1,457,654 | \$ 1,486,807 | \$ 1,516,543 | \$ 1,546,873 | \$ 1,543,206 ⁽⁷⁾ | \$ 1,554,826 |
| 688-021-16 | ARMSTRONG, RICHARD B | 1,102,877 | 1,123,467 | 1,145,936 | 1,168,854 | 1,192,231 | 1,216,075 | 1,240,396 | 1,237,455 | 1,246,773 |
| 688-021-17 | S R H MANAGEMENT INC | 1,144,385 | 1,165,750 | 1,189,065 | 1,212,846 | 1,237,102 | 1,261,844 | 1,287,080 | 1,284,028 | 1,293,696 |
| 688-021-18 | BANK OF AMERICA NA | 80,757 | 1,528,005 | 2,234,558 | 2,279,249 | 2,324,833 | 2,371,329 | 2,418,755 | 2,413,021 | 2,184,000 |
| 688-021-28 | LOWES HIW INC | 10,656,973 | 10,855,938 | 11,073,056 | 11,294,517 | 11,520,407 | 11,750,815 | 11,985,831 | 11,957,423 ⁽⁷⁾ | 12,047,462 |
| 688-021-30 | TECOLOTE SAN CLEMENTE LLC | 4,278,000 | 4,357,870 | 4,445,027 | 4,533,927 | 4,624,605 | 4,717,097 | 4,811,438 | 4,800,034 | 4,836,178 |
| 688-021-31 | MOSICH, NICK V | 5,192,000 | 5,288,934 | 5,407,768 | 5,515,923 | 5,626,241 | 5,738,765 | 5,886,180 | 5,872,229 | 5,916,446 |
| 688-021-32 | MOBIL OIL CORP | 1,677,335 | 1,708,650 | 1,742,823 | 1,777,679 | 1,813,232 | 1,849,496 | 1,886,485 | 1,882,013 | 1,896,184 |
| 688-021-33 | CHUMINAITA, EDWARD R | 453,803 | 1,050,000 | 2,550,000 | 2,601,000 | 2,660,721 | 2,713,935 | 2,768,213 | 2,761,652 | 2,782,447 |
| 688-021-34 | NOVOGRADER/SAN CLEMENTE LLC | 1,105,000 | 1,125,630 | 1,148,142 | 1,171,104 | 1,194,526 | 1,218,416 | 1,242,784 | 1,239,837 | 1,249,172 |
| 688-131-20 | HUANG, STEPHEN C | 197,212 | 5,800,000 | 5,916,000 | 6,034,320 | 6,155,006 | 6,278,106 | 6,403,668 | 6,388,490 ⁽⁷⁾ | 6,436,595 |
| 688-131-21 | NEW ALBERTSONS INC | 8,692,871 | 8,855,166 | 9,032,269 | 9,212,914 | 15,138,840 | 14,650,000 ⁽³⁾ | 14,000,000 ⁽⁴⁾ | 13,966,820 | 14,071,990 |
| 688-131-22 | 45 PLAZA ASSOC LLC | 10,460,000 | 10,672,157 | 10,885,600 | 11,103,312 | 11,325,378 | 11,551,885 | 11,250,000 ⁽⁵⁾ | 9,428,000 ⁽⁷⁾ | 8,912,000 |
| 688-131-23 | GOLDEN LANTERN MANAGEMENT CO LLC | 1,200,000 | 1,222,404 | 2,194,654 | 2,288,713 | 2,334,487 | 2,381,176 | 2,428,799 | 2,230,000 | 2,246,791 |
| 688-132-02 ⁽²⁾ | SROKA, GARY J | 215,982 | 1,240,000 | 1,264,800 | 1,290,096 | 1,315,897 | 1,342,214 | 1,369,058 | 1,365,812 | 1,376,096 |
| 688-132-03 ⁽²⁾ | COURTYARDS AT TALEGA LLC | 1,015,064 | 2,521,422 | 10,497,000 | 10,706,940 | 10,921,078 | 11,139,499 | 9,047,000 ⁽⁶⁾ | 7,000,000 | 6,550,000 |
| 688-141-01 | META CA QRS 14-6 INC ⁽¹⁾ | 6,633,015 | 6,756,853 | 6,950,778 | 7,089,793 | 7,231,588 | 7,376,219 | 7,523,743 | 7,505,910 | 7,562,429 |
| Totals | | \$55,697,622 | \$66,673,298 | \$79,106,549 | \$80,738,841 | \$88,102,979 | \$89,073,414 | \$87,096,303 | \$82,875,930 | \$82,163,085 |

⁽¹⁾ Total Assessed Value equals the sum of the Assessed Land Value and Assessed Structure Value only for each year reported.

⁽²⁾ APNs 688-132-02 & 03 originated from 688-132-01 and subdivided in Fiscal Year 2004/05. The Assessed Value for Fiscal Year 2003/04 was allocated to the subdivided parcels based on acreage.

⁽³⁾ The original assessed value for this property was \$15,441,616 which was appealed and lowered to \$14,650,000.

⁽⁴⁾ The original assessed value for this property was \$15,750,448 which was appealed and lowered to \$14,000,000.

⁽⁵⁾ The original assessed value for this property was \$11,782,992 which was appealed and lowered to \$11,250,000.

⁽⁶⁾ The original assessed value for this property was \$11,362,288 which was appealed and lowered to \$9,047,000.

⁽⁷⁾ Appeal of assessed value currently pending.

Source: Koppel & Gruber Public Finance.

The following table shows the history of the appeals of assessed valuations of the Taxable Property.

**Table No. 4
History of Assessment Appeals**

| Assessor's Parcel | Property Owner | Appeal | Fiscal Year 2010/11 ⁽¹⁾ | | | | Fiscal Year 2009/10 | | Fiscal Year 2008/09 | | Fiscal Year 2007/08 | |
|-------------------|--------------------------|--------|-------------------------------------|--|----------------------|----------------------------|---------------------|---|---------------------|---|---------------------|------------------|
| | | | Total Assessed Value ⁽²⁾ | Owner's Estimated Value ⁽³⁾ | Value Difference | Comment | Appeal | Outcome | Appeal | Outcome | Appeal | Outcome |
| 688-021-14 | Wiles Restaurants Inc. | Yes | \$1,543,206 | \$926,000 | (\$617,206) | Hearing Scheduled 8/4/11 | No | | No | | No | |
| 688-021-17 | S R H Management Inc. | No | n/a | n/a | n/a | | Yes | Didn't attend Hearing Value remained at \$1,287,080 | No | | No | |
| 688-021-28 | Lowes HIW Inc. | Yes | \$11,957,423 | \$9,924,661 | (\$2,032,762) | Hearing Scheduled 10/31/11 | No | | No | | No | |
| 688-131-20 | Huang Stephen C. | Yes | \$6,388,490 | \$5,000,000 | (\$1,388,490) | No Hearing Scheduled | Yes | Withdrawn by Agent Value remained at \$6,403,668 | No | | No | |
| 688-131-21 | New Albertsons Inc. | No | n/a | n/a | n/a | | Yes | Value lowered from \$15,750,448 to \$14,000,000 | Yes | Value lowered from \$15,441,616 to \$14,650,000 | No | |
| 688-131-22 | 45 Plaza Assoc LLC | Yes | \$9,428,000 | \$5,657,000 | (\$3,771,000) | Hearing Scheduled 8/3/11 | Yes | Value lowered from \$11,782,922 to \$11,250,000 | Yes | Appeal withdrawn | Yes | Appeal withdrawn |
| 688-132-03 | Courtyards at Telega LLC | No | n/a | n/a | n/a | | Yes | Value lowered from \$11,362,228 to \$9,047,000 | No | | No | |
| TOTAL | | | \$29,317,119 | \$21,507,661 | (\$7,809,458) | | | | | | | |

⁽¹⁾ The 2010/11 Appeals have not been resolved and are still pending.

⁽²⁾ Based on the sum of the assessed land and structure values.

⁽³⁾ As provided on the property assessment appeal application.

Source: County of Orange, Koppel & Gruber Public Finance.

Delinquency History

All of the installments of the Special Tax for Fiscal Year 2010-11 were paid in a timely manner. However, one parcel (APN 688-132-02) had previously failed to make timely payment of the second installment of Special Taxes due for Fiscal Year 2008-09 in the amount of \$2,263.81 (approximately one-half of one percent of the total amount levied for that period) and both installments of the Special Taxes due for Fiscal Year 2009-10 in the total amount of \$4,275.58 (approximately one percent of the total amount levied for that period). The owner of that parcel is making payments of all delinquent taxes (including the *ad valorem* taxes applicable to the parcel) to the County of Orange as part of a collection plan. The property owner paid 20% (\$6,787.16) of the total outstanding balance (\$33,935.83, which includes penalties and fees) on November 29, 2010 and is current in the payments due pursuant to the collection plan. None of the other parcels are delinquent in the payment of Special Taxes.

Direct and Overlapping Bonded Indebtedness

A number of overlapping local agencies provide governmental service to the land within the District. The direct and overlapping bonded indebtedness of property in the District (based on assessed valuations and tax levies for Fiscal Year 2010-11) is shown in Table No. 5 below. In addition to the bonded indebtedness indicated in said table, new community facilities districts or special assessment districts may be formed which encompass all or a portion of the property in the District; and, upon approval of registered voters or landowners within such districts, such districts or the agencies that formed them may issue more bonds and levy additional special taxes or assessments.

Table No. 5
Direct and Overlapping Bonded Indebtedness⁽¹⁾

| | | | | | | | |
|--|-------------|----------------------|--------------------|---------------------|----------------|--------------------|-----------------------|
| I. Assessed Value | | | | | | | |
| 2010-2011 Secured Roll Assessed Value | | | | | | | \$82,995,868 |
| II. Secured Property Taxes | | | | | | | |
| Description on Tax Bill | Type | Total Parcels | Total Levy | % Applicable | Parcels | Levy | |
| Basic Levy | PROP 13 | 830,951 | \$3,924,876,115.89 | 0.02115% | 17 | \$829,958.66 | |
| Capistrano Unified School District, SFID No.1, GOB 1999, Series A | GOB | 92,270 | 1,337,223.82 | 0.19675 | 17 | 2,630.94 | |
| Capistrano Unified School District, SFID No.1, GOB 1999, Series B | GOB | 92,270 | 2,138,286.55 | 0.19678 | 17 | 4,207.80 | |
| Capistrano Unified School District, SFID No.1, GOB 1999, Series C | GOB | 92,270 | 1,185,362.47 | 0.19675 | 17 | 2,332.19 | |
| City of San Clemente CFD No. 99-1 | CFD | 17 | 434,141.36 | 100.00000 | 17 | 434,141.36 | |
| City of San Clemente Street Improvement Program | 1982BA | 3,795 | 126,315.72 | 0.74299 | 4 | 938.51 | |
| Metropolitan Water District of Southern California Debt Service | GOB | 127,382 | 2,452,319.68 | 0.12522 | 17 | 3,070.85 | |
| Metropolitan Water District of Southern California Water Standby | STANDBY | 81,226 | 1,006,894.60 | 0.04007 | 17 | 403.50 | |
| Orange County Vector Control Assessment | VECTOR | 765,996 | 1,508,424.60 | 0.00560 | 17 | 84.48 | |
| Orange County Vector Control Mosquito & Fire Ant Assessment | VECTOR | 765,261 | 4,122,827.58 | 0.01309 | 17 | 539.56 | |
| 2010-2011 TOTAL PROPERTY TAX LIABILITY | | | | | | | \$1,278,307.85 |
| TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2010-2011 ASSESSED VALUATION | | | | | | | 1.54% |
| III. Land Secured Bond Indebtedness | | | | | | | |
| Outstanding Direct and Overlapping Bonded Debt | Type | Issued | Outstanding | % Applicable | Parcels | Amount | |
| City of San Clemente CFD No. 99-1 | CFD | \$ 5,755,000 | \$ 5,190,000 | 100.00000% | 17 | \$5,190,000 | |
| TOTAL LAND SECURED BOND INDEBTEDNESS⁽²⁾ | | | | | | 5,190,000 | |
| TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS⁽²⁾ | | | | | | 5,190,000 | |
| Authorized Direct and Overlapping Bonded Debt | Type | Authorized | Unissued | % Applicable | Parcels | Amount | |
| City of San Clemente CFD No. 99-1 | CFD | \$ 6,500,000 | \$ 745,000 | 100.00000% | 17 | \$ 745,000 | |
| TOTAL UNISSUED LAND SECURED BOND INDEBTEDNESS⁽²⁾ | | | | | | 745,000 | |
| TOTAL OUTSTANDING AND UNISSUED LAND SECURED BOND INDEBTEDNESS⁽¹⁾ | | | | | | \$5,935,000 | |
| IV. General Obligation Bond Indebtedness | | | | | | | |
| Outstanding Direct and Overlapping Bonded Debt | Type | Issued | Outstanding | % Applicable | Parcels | Amount | |
| Capistrano Unified School District, SFID No. 1, GOB 1999 | GOB | \$ 64,999,930 | \$ 48,449,930 | 0.19467% | 17 | \$ 94,320 | |
| Metropolitan Water District of Southern California Debt Service | GOB | \$850,000,000 | \$ 252,740,000 | 0.00405% | 17 | \$ 10,237 | |
| TOTAL GENERAL OBLIGATION BOND INDEBTEDNESS⁽²⁾ | | | | | | \$ 104,557 | |
| TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS⁽²⁾ | | | | | | \$ 104,557 | |
| Authorized Direct and Overlapping Bonded Debt | Type | Authorized | Unissued | % Applicable | Parcels | Amount | |
| Capistrano Unified School District, SFID No. 1, GOB 1999 | GOB | \$ 65,000,000 | \$ 70 | 0.19467% | 17 | \$ 0 | |
| Metropolitan Water District of Southern California Debt Service | GOB | 850,000,000 | 0 | 0.00405% | 17 | \$ 0 | |
| TOTAL UNISSUED GENERAL OBLIGATION BONDED DEBT⁽²⁾ | | | | | | \$ 0 | |
| TOTAL OUTSTANDING AND UNISSUED GENERAL OBLIGATION BOND INDEBTEDNESS⁽²⁾ | | | | | | \$ 104,557 | |
| TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT | | | | | | \$5,294,557 | |
| VALUE TO ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT | | | | | | 15.68:1 | |
| TOTAL OF ALL OUTSTANDING AND UNISSUED DIRECT AND OVERLAPPING BONDED DEBT | | | | | | \$6,039,557 | |
| VALUE TO ALL OUTSTANDING AND UNISSUED DIRECT AND OVERLAPPING BONDED DEBT | | | | | | 13.74:1 | |

⁽¹⁾ Based on assessed valuations and tax levies for Fiscal Year 2010-11.

⁽²⁾ 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.

SPECIAL RISK FACTORS

The principal source of payment of debt service on the Bonds will be payments of the Special Tax made with respect to the Taxable Property. As discussed under “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes,” the Special Tax is to be levied annually against all such Taxable Property either at the maximum rate authorized by the Rate and Method of Apportionment or at such lower rates as are determined by the District Administrator to raise sufficient funds to comply with the agreements, conditions, covenants and terms contained in the Fiscal Agent Agreement. The Special Tax is to be collected on the tax roll of the District at the same time and in the same manner as general *ad valorem* real property taxes are collected. The Special Tax cannot be levied at a tax rate higher than the maximum tax rate even if the maximum tax rate will not produce sufficient Special Tax Revenues to pay the principal and interest then payable with respect to the Bonds. See discussions below under “Levy of the Special Tax” and “Collection of the Special Tax.”

Payment of the Special Tax levied on a parcel is secured by a continuing lien against such parcel. In the event an installment of the Special Tax included in the tax bill for a taxable parcel is not paid when due, the District has covenanted to institute foreclosure proceedings in court to cause the parcel to be sold in order to attempt to recover the delinquent amount from the sale proceeds. Foreclosure and sale may not always result in the recovery of the full amount of delinquent installments of the Special Tax. See “Collection of the Special Tax.” The sufficiency of the foreclosure sale proceeds to cover the delinquent amount depends in part upon the market for and the value of the parcel at the time of the sale. Sufficiency of the foreclosure sale proceeds to cover a delinquency may also depend upon the value of prior or parity liens and similar claims. 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. See “Hazardous Substances.”

Timely foreclosure and sale proceedings with respect to a taxable parcel may be forestalled or delayed by a stay in the event the owner of the parcel becomes the subject of bankruptcy proceedings. Not only may foreclosure and sale proceedings be forestalled or delayed, but the sale of a parcel may also be similarly affected by a bankruptcy stay. Further, should the stay not be lifted, payment of the Special Tax may be subordinated to bankruptcy law priorities. See “Bankruptcy.”

Although bankruptcy proceedings may forestall or delay a foreclosure and sale or a tax sale of a delinquent taxable parcel, the Special Tax is secured by a lien which, assuming proper procedures are followed, may be enforced against the parcel. There may not be any recourse against a bankrupt property owner since the owner is not personally obligated to pay the Special Tax. Further, if proper disclosure of the authorization of the Special Tax is not made to the owner, the willingness or ability of an owner to pay the Special Tax may be adversely affected. See “Payment of the Special Tax is Not a Personal Obligation of the Owners.”

The District is not obligated to advance funds to pay such debt service except from moneys on deposit in the Reserve Fund. See “No Obligation to Pay Debt Service.”

Even if debt service is timely paid, interest on the Bonds may have to be included in the gross income of the owner of the Bonds by reason of some circumstance occurring subsequent to issuance of the Bonds, thereby reducing the after-tax yield. See “Loss of Tax Exemption.”

Risks of Real Estate Secured Investments Generally – Declines in Value

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

As indicated above under the caption “THE COMMUNITY FACILITIES DISTRICT — Property Values,” the total assessed valuation of the property within the District peaked in Fiscal Year 2009-10 and declined in Fiscal Year 2010-11. Because assessed values do not necessarily indicate fair market values, the declines in fair market values during this period may have been even greater than the declines in assessed valuations. Given the state of the national and local economies, it is entirely possible that the values of properties in the District will continue to decline.

Concentration of Property Ownership

Only 17 different persons or entities own Taxable Property within the District. Prepayments of Special Taxes could reduce that number. Moreover, as shown in Table No. 2 above, three of the parcels of Taxable Property are responsible for nearly 57% of the total annual Special Tax levied. Because of the relatively small number of owners, the inability or refusal of any of them to pay the Special Tax applicable to its property when due could result in the rapid depletion of the Reserve Fund prior to reimbursement thereof from sale or foreclosure proceedings. Under such circumstances, there would be insufficient money with which to pay the principal of and interest on the Bonds as the same became due.

Levy of the Special Tax

The principal source of payment of debt service on the Bonds is the proceeds of the annual levy and collection of the Special Tax against property in the District. The annual levy of the Special Tax is subject to the maximum tax rate authorized. The levies cannot be made at higher rates even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the Bonds. Other funds which might be available include funds derived from the payment of delinquent Special Tax and funds derived from the tax sale or foreclosure and sale of Taxable Property on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular parcels and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such Parcels and the proportionate share of debt service on the Bonds, and certainly not a direct relationship. See Table No. 2 above.

The Special Tax levied in any particular Fiscal Year on a taxable parcel is based upon the Special Tax Requirement and application of the Rate and Method of Apportionment. Application of the Rate and Method of Apportionment will, in turn, be dependent upon the area of Taxable Property and Potentially Taxable Property. Thus, in addition to annual variations of the Special Tax

Requirement, the following are some of the factors which might cause the levy of the Special Tax on any particular parcel to vary from the Special Tax that might otherwise be expected:

- Reduction in the number of taxable parcels, for such reasons as acquisition of such parcels by a government and failure of the government to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining taxable parcels.
- Failure of the owners of Taxable Property to pay the Special Tax and delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, thereby resulting in an increased tax burden on the remaining parcels.

Collection of the Special Tax

To enable the District to pay debt service on the Bonds, it is necessary that the Special Tax levied against the Taxable Property be paid in a timely manner. The Fiscal Agent Agreement provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described below and in the Act, is to be subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Pursuant to the Act, in the event of any delinquency in the payment of the Special Tax, the District may order the institution of a superior court action to foreclose the lien therefor within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at judicial foreclosure sale. Such judicial foreclosure action is not mandatory. However, the District has covenanted for the benefit of the owners of the Bonds that it will institute foreclosure proceedings as authorized by the Act in order to enforce the lien of the delinquent installments of the Special Tax under certain circumstances. See “SOURCES OF PAYMENT FOR THE BONDS — Proceeds of Foreclosure Sales.” In the event that foreclosure proceedings are commenced, such foreclosure proceedings could be stayed by the commencement of bankruptcy proceedings by or against the owner of the property being foreclosed. In the event that sales or foreclosures of property are necessary, there could be a delay in payments to Owners of the Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the District of the proceeds of sale if the Reserve Fund is depleted.

The District may be unable to make full or timely payment of debt service on the Bonds if property owners in the District fail to pay installments of the Special Tax when due, if the Reserve Fund is depleted, or if the District is unable to sell foreclosed parcels for amounts sufficient to cover the delinquent installments of the Special Tax.

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the Rate and Method of Apportionment. In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property in the District acquired by a public entity through a negotiated transaction 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. The constitutionality and operation of these provisions of the Act have not been tested.

In particular, insofar as the Act requires payment of the Special Tax by a federal entity acquiring property in the District, it may be unconstitutional. If for any reason property in the District becomes exempt from taxation by reason of ownership by a nontaxable entity such as the federal government or another public agency, subject to the limitation of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties in the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the timely payment of the Special Tax. Moreover, if a substantial portion of property in the District becomes exempt from the Special Tax because of public ownership, or otherwise, the Maximum Annual 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 would occur with respect to the payment of such principal and interest.

Proceedings to Reduce or Terminate the Special Tax

Pursuant to the Act, proceedings could be initiated to reduce or terminate the levy of the Special Tax. However, the Act prohibits the City Council from adopting resolutions to reduce the rate of the Special Tax or terminate the levy of the Special Tax unless the City Council determines that the reduction or termination of the Special Tax “would not interfere with the timely retirement” of any outstanding indebtedness secured by the Special Tax.

On November 5, 1996, the voters of the State approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Among other things, Proposition 218 added Article XIIC to the State Constitution. Section 3 of Article XIIC, which removes certain limitations on the initiative power, 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.” As noted above, the Act provides for a procedure to alter the rate and method of apportionment of an existing special tax. However, as also noted above, the Act prohibits the legislative body from adopting a resolution to reduce the rate of a special tax if the proceeds of that tax are being utilized to retire any debt incurred pursuant to the Act unless such legislative body determines that the reduction of that 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 of the initiative power referred to in Article XIIC to reduce the Special Tax is subject to the same restrictions as are applicable to the City Council pursuant to the Act. Accordingly, it is likely, but by no means certain, that the voters may not reduce the Special Tax through the initiative process if such reduction would interfere with the timely retirement of the Bonds.

It may be possible, however, for voters or the City Council, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels or which alters the amount of Special Taxes for which various types of properties are responsible. 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. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses.

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.

Maximum Special Tax

Within the limits of the Special Tax, the District may adjust the Special Tax levied on all property in the District to provide an amount required to pay interest on and principal of the Bonds, and the amount, if any, necessary to cure delinquencies and replenish the Reserve Fund to an amount equal to the Reserve Requirement for the respective Bonds and to pay Administrative Expenses. However, the amount of the Special Tax that may be levied against any property in the District is subject to the Maximum Special Tax applicable to it. There is no assurance that the Maximum Special Tax on the property in the District will be sufficient to pay the amounts required to be paid by the Fiscal Agent Agreement at all times. (See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes.”)

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

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation only against the taxable parcel. If the value of a parcel is not sufficient, taking into account other obligations also payable thereby, to fully secure the Special Tax, the District has no recourse against the owner.

Disclosures to Future Purchasers

The District has recorded a notice of the Special Tax Lien in the Office of the County Recorder of the County. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a parcel of land, a home or a commercial or industrial facility in the District or the lending of money thereon. The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello–Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Parity Taxes and Special Assessments

The ability or willingness of a property owner in the District to pay the Special Tax could be affected by the existence of other taxes and assessments imposed upon the property. The Special Tax and any penalties thereon will constitute a lien against the lots and parcels of land on which they will

be annually imposed until they are paid. Such lien is on a parity with all Special Tax and special assessments levied by other agencies and is co-equal to and independent of the lien for general property taxes, other special taxes, and certain special assessments regardless of when they are imposed upon the same property. The Special Tax has priority over all existing and future private liens imposed on the property. In addition, other public agencies whose boundaries overlap those of the District could, with or in some circumstances without the consent of the owners of the land in the District, impose additional taxes or assessment liens on the property in the District in order to finance public improvements to be located inside or outside of the District.

The District has no control over the ability of other entities and districts to issue indebtedness secured by Special Tax or assessments payable from all or a portion of the property in the District. In addition, the City is not prohibited itself from establishing assessment districts, community facilities districts or other districts which might impose assessments or taxes against property in the District. In the event any additional improvements are financed pursuant to the establishment of an assessment district, community facilities district or other district, any taxes or assessments levied to finance such improvements will have a lien on a parity with the lien of the Special Tax. The imposition of additional liens on a parity with the Special Tax could reduce the ability or willingness of the landowners to pay the Special Tax and increase the possibility that foreclosure proceeds will not be adequate to pay delinquent Special Tax or the principal of and interest on the Bonds when due.

Depletion of Reserve Fund

The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement. Money in said fund may be used to pay debt service on the Bonds in the event the proceeds of the levy and collection of the Special Tax against property in the District are insufficient. If funds in the Reserve Fund are used to pay debt service on the Bonds, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid pursuant to the Fiscal Agent Agreement. However, no replenishment from the proceeds of a levy of the Special Tax can occur as long as the proceeds that are collected from the levy of the Special Tax at the maximum tax rates, together with other available funds, remain insufficient to pay all such amounts. Thus it is possible that the Reserve Fund will be depleted by its use to pay such amounts and will not be replenished by the levy of the Special Tax. There is no assurance that the amount in the Reserve Fund will, at any particular time, be sufficient to pay all such amounts or that any amounts of the Reserve Requirement used for debt service on the Bonds will be fully replenished from the proceeds of the levy and collection of the Special Tax.

Bankruptcy and Legal Delays

The payment of the Special Tax and the ability of the District to foreclose the lien of a delinquent unpaid tax, as discussed in "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. In addition, the prosecution of a foreclosure action could be delayed due to crowded local court calendars or delays in the legal process. 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, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the obligation to pay the Special Tax to become extinguished, the bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings because federal bankruptcy laws may provide for an automatic stay of foreclosure and sale of tax sale proceedings. Any such delays could increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds and the possibility of delinquent tax installments not being paid in full. Moreover, if the value of the subject property is less than the lien of the Special Tax, such excess could be treated as an unsecured claim by the bankruptcy court. Further, should remedies be exercised under the federal bankruptcy laws against Taxable Property, payment of the Special Tax may be subordinated to bankruptcy law priorities. Thus, certain claims may have priority over the Special Tax in a bankruptcy proceeding even though they would not outside of a bankruptcy proceeding.

FDIC/Federal Government Interests In Properties

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

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

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

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to parcels in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale would prevent or delay the foreclosure sale.

In the case of Fannie Mae and Freddie Mac, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or in the event a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or

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

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

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

Geologic, Topographic and Climatic Conditions

The value of the property within the District can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements to property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes, topographic conditions such as earth movements, landslides and floods and climatic conditions such as droughts. One or more of such conditions could occur and could result in damage to improvements of varying seriousness. Such damage could entail significant repair or replacement costs and such repair or replacement might never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the Taxable Parcels may well be reduced.

Hazardous Substances

While governmental taxes, assessments, and charges are a common claim against the value of a taxable parcel, other less common claims may be relevant. One example is a claim with regard to a hazardous substance.

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

obligated to remedy the condition just as is the seller. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the financial and legal liability of a property owner to develop the affected parcel or other parcels, as well as the value of the property that is realizable upon a delinquency and foreclosure.

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

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

No Acceleration Provision

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

No Obligation to Pay Debt Service

The District has no obligation to pay debt service on the Bonds in the event collections of the Special Tax are delinquent, other than from amounts, if any, on deposit in the Reserve Fund or funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent, nor is the District obligated to advance funds to pay such debt service.

Loss of Tax Exemption

As discussed under “TAX MATTERS,” interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance, as a result of acts or omissions of the District subsequent to the issuance of the Bonds in violation of the District’s covenants with respect to the Bonds. Should interest become includable in gross income, the Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or unless earlier redeemed pursuant to optional or mandatory redemption or redemption upon prepayment of the Special Tax.

Absence of Secondary Market for the Bonds

No application has been made for a credit rating for the Bonds, and it is not known whether a credit rating could be secured either now or in the future for the Bonds. There can be no assurance

that there will ever be a secondary market for purchase or sale of the Bonds. From time to time there may be no market for them, depending upon factors such as prevailing market conditions, the financial condition or market position of firms who may make the secondary market, the financial condition and results of operations of the owners of property located within the boundaries of the District, and the extent of the proposed development of the parcels in the District. The Bonds should therefore be considered long-term investments in which funds are committed to maturity, subject to redemption prior to maturity as described herein.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement with the Fiscal Agent, as dissemination agent (the “Disclosure Agreement”), the District has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2 12(b)(5) of the Securities and Exchange Commission. The Annual Report to be filed by the District must include: (a) audited financial statements of the District, prepared in accordance with generally accepted accounting principles in effect from time to time; (b) any changes to the Rate and Method of Apportionment; and (c) information concerning fund balances under the Fiscal Agent Agreement, current assessed values and annual Special Tax delinquency rates and certain other information as set forth in Section 4 of the Disclosure Agreement. In addition, the Disclosure Agreement requires that the District provide notice of certain enumerated events (the “Listed Events”). The specific nature of the Listed Events and the requirements applicable to the Annual Report are set forth in the form of the Disclosure Agreement which is included in Appendix E. The Annual Report is to be filed not later than February 1 of each year.

Notwithstanding any provision of the Fiscal Agent Agreement, the failure of the District to comply with the Disclosure Agreement shall not be considered an event of default under the Fiscal Agent Agreement. However, any Owner of Bonds may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under the Disclosure Agreement.

The District has never failed to comply with the requirements of the Disclosure Agreement that it entered into in connection with the 1999 Bonds.

TAX MATTERS

In the opinion of Rutan & Tucker, LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that such interest is exempt from California personal income taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their 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 such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has covenanted to comply with certain restrictions designed to insure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective purchasers of Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Certain requirements and procedures contained or referred to in the Fiscal Agent Agreement, the Tax Certificate to be delivered by the District concurrently with the issuance of the Bonds, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to the effect on the exclusion of from gross income of interest on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Rutan & Tucker, LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner’s federal liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

ABSENCE OF LITIGATION

In connection with the issuance of the Bonds, the City Attorney of the City will deliver a certificate to the effect that, to his actual knowledge, after due inquiry and investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened, or any unfavorable decision, ruling or finding, against or affecting the City or the District, which would adversely impact the ability of the City or the District to complete the transactions described in, or contemplated by, the Fiscal Agent Agreement or this Official Statement, restrain or enjoin the collection of the Special Taxes, or in any way contest or affect the validity of the Bonds, the Fiscal Agent Agreement, the Special Taxes, or the transactions described herein.

ABSENCE OF RATINGS

The District has not made, and does not contemplate making, application to any rating organization for a rating on the Bonds.

CERTAIN LEGAL MATTERS

Rutan & Tucker, LLP, Bond Counsel, will render an opinion with respect to the validity and enforceability of the Fiscal Agent Agreement and as to the validity of the Bonds. A copy of the form of such approving opinion is attached hereto as Appendix B. Copies of such approving opinion will accompany each Bond. Bond Counsel has not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and expresses no opinion relating thereto. Certain legal matters will be passed upon for the City by the City Attorney and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Nossaman LLP, Irvine, California.

In addition to serving as Bond Counsel in connection with the issuance and sale of the Bonds, Rutan & Tucker, LLP, serves as City Attorney pursuant to an on-going contract with the City.

As Bond Counsel, Rutan & Tucker, LLP will render its legal opinion, as described below, which addresses, among other matters, the legality and validity of the Bonds and the exclusion of interest thereon from gross income for federal income tax purposes. Notwithstanding Rutan & Tucker, LLP's engagement by the City in any other capacity, such opinion of Rutan & Tucker, LLP as Bond Counsel is intended to be and is considered by Rutan & Tucker, LLP to be rendered objectively and without bias in favor of the City or any interests of the City. However, potential purchasers of the Bonds should be aware that the City will compensate Rutan & Tucker, LLP for its services as Bond Counsel contingent upon the successful issuance and sale of the Bonds and that the City has instructed and authorized Rutan & Tucker, LLP in its capacity as Bond Counsel and in its capacity as City Attorney to take all proper actions which Rutan & Tucker, LLP may take in such capacities to assist the City in completing the issuance and sale of the Bonds.

In no capacity has Rutan & Tucker, LLP advised the City or the District to proceed with the issuance or sale of the Bonds; however, in its capacity as City Attorney and at the direction of the City, Rutan & Tucker, LLP has participated in the negotiation, drafting and review of documents and other aspects of the transaction with the City's legal position of primary importance. In the ordinary course, neither Rutan & Tucker, LLP nor the City considers this role to entail any actual conflict with

the interests of purchasers of the Bonds or to compromise the objectivity of Rutan & Tucker, LLP's legal opinion as Bond Counsel as to any of the matters covered by its opinion. However, prospective purchasers of the Bonds and their advisors are encouraged to consider the possibility that in a default or other adverse situation involving the Bonds, the interests of the City and the interests of the owners of the Bonds are likely to be adverse, and that Rutan & Tucker, LLP, in its capacity as City Attorney, has negotiated, drafted and reviewed documents and other aspects of the transaction in light of such possibility.

UNDERWRITING

The Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$4,900,392.70 (being the \$5,005,000 aggregate principal amount thereof, less Underwriter's discount of \$45,045.00 and less net original discount of \$59,562.30). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

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

The Underwriter has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings allocated to the Underwriter at the original offering prices. Under the Distribution Agreement, if applicable to the Bonds, the Underwriter will share with AAM a portion of the fee or commission, exclusive of management fees, paid to the Underwriter.

FINANCIAL INTERESTS

The fees being paid to the Financial Advisor, Bond Counsel, Disclosure Counsel, Underwriter, and Underwriter's Counsel are contingent upon the issuance and delivery of the Bonds.

ADDITIONAL INFORMATION

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

The execution and delivery of this Official Statement by the Mayor of the City has been duly authorized by the City Council of the City of San Clemente acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 99-1
OF THE CITY OF SAN CLEMENTE

By: /s/ Lori Donchak
Mayor

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APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX COMMUNITY FACILITIES DISTRICT NO. 99-1 (PLAZA PACIFICA) OF THE CITY OF SAN CLEMENTE, COUNTY OF ORANGE

A Special Tax shall be levied on each Parcel of Taxable Property (and a Special Tax may be levied on each Parcel of Potentially Taxable Property) within Community Facilities District No. 99-1 (Plaza Pacifica) of the City of San Clemente, County of Orange (the "District"), and collected according to the special tax liability determined by the City of San Clemente (the "City") through the application of the following procedures. All of the property within the District, unless otherwise exempted by law or the express provisions of the Rate and Method of Apportionment expressed below, shall be taxed to the extent and in the manner provided below. Unless otherwise indicated, all capitalized terms shall have the meanings set forth in Section E of this Rate and Method of Apportionment entitled "Definitions".

It is intended that all special taxes applicable to Parcels be collected in the same manner and at the same time as ordinary ad valorem property taxes of the City and that special taxes so levied will be subject to the same penalties and procedures, sale and lien priority in case of delinquency as is provided for ad valorem taxes of the City, subject to any covenant for judicial foreclosure with respect thereto in any Fiscal Agent Agreement of the City relating to any Bonds issued by the District. Notwithstanding the foregoing, the City may elect to collect the special taxes at such other times or in such other manner as necessary or convenient to satisfy the obligations of the District.

A. Maximum Special Tax

The maximum Special Tax that may be levied in the Fiscal Year ending June 30, 2001 and each Fiscal Year thereafter on any Parcel shall not exceed the maximum special tax rate of \$10,000 per gross land acreage multiplied by the Land Area of the Parcel. Said maximum tax shall increase each Fiscal Year thereafter by 2%.

B. Calculation of Special Tax Levy

On or about July 1 of each year, commencing July 1, 2000, but in any event in sufficient time to include the levy of the special taxes on the County's secured tax roll, the District Administrator shall classify each Parcel within the District as Taxable Property, Potentially Taxable Property or Non-Taxable Property. No Parcel may be classified as Non-Taxable Property if the Land Area thereof, when added to the Land Area of all Parcels theretofore classified as Non-Taxable Property, would exceed 28.804 acres. Parcels subject to levy of the Special Tax shall be determined by the District Administrator based upon the records of the County Assessor as of the March 1 preceding such July 1. Unless the Special Tax is prepaid as provided herein, a Parcel shall be subject to the Maximum Special Tax until 2040.

The District Administrator shall then determine the estimated aggregate Special Tax Requirement required for each Fiscal Year commencing July 1, 2000, and levy on each Parcel, as follows:

- Step 1: Classify all Parcels in the District that are Taxable Property and Potentially Taxable Property.
- Step 2: Determine the Land Area for Taxable Property in the District on a Parcel-by-Parcel basis, and determine the cumulative total Taxable Property Land Area for all Parcels in the District.
- Step 3: Calculate the Annual Special Tax Rate for Taxable Property by dividing the estimated aggregate Special Tax Requirement by the total Taxable Property Land Area for all Parcels.
- Step 4: Multiply the total Taxable Property Land Area for each respective Parcel by the lesser of:
- (i) the Annual Special Tax Rate for Taxable Property;
 - or
 - (ii) the Maximum Special Tax Rate.
- The resultant is the annual Special Tax for the Taxable Property.
- Step 5: If additional monies are needed to satisfy the Special Tax Requirement after step four has been completed, then determine the Land Area for the Potentially Taxable Property.
- Step 6: Calculate the Annual Special Tax Rate for Potentially Taxable Property by dividing the needed additional monies by the total Potentially Taxable Property Land Area.
- Step 7: Multiply the Potentially Taxable Property Land Area for each respective Parcel by the lesser of:
- (i) the Annual Special Tax Rate for Potentially Taxable Property;
 - or
 - (ii) the Maximum Special Tax Rate.
- The resultant is the annual Special Tax for the Potentially Taxable Property.

C. Prepayments – Prior to Bond Issue

1. Prepayment in Full

Full prepayments of Special Taxes may be made for any Parcel(s) subject to the levy of the Special Taxes prior to the issuance of Bonds if the request to make a prepayment is received by the District Administrator no less than 30 days prior to the sale of bonds. A Parcel's entire Special Tax obligation may be prepaid prior to Bond issue at \$98,519 / acre (the cost of the anticipated total design and construction costs to be acquired by the District plus the incidental costs related to District establishment divided by 55.38 acres, which is the total Taxable Property Land Area at the time of District establishment).

With respect to any Parcel that is prepaid, the City Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Parcel, and the obligation of such Parcel to pay the Special Tax shall cease.

2. Prepayment in Part

Partial prepayments of special taxes may be made for any Parcel(s) subject to the levy of the special taxes prior to the issuance of Bonds if the request to make a prepayment is received by the District Administrator no less than 30 days prior to the sale of Bonds. The amount of the prepayment shall be calculated as indicated above in Section C.1, except that a partial prepayment shall be calculated according to the following formula:

$$\textit{Partial Payment} = \textit{the Full Payment} \times F$$

Where F is the percent by which the owner of the Parcel(s) is partially prepaying the Special Tax.

With respect to any Parcel that is partially prepaid, the City shall indicate in the records of the District that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to any Parcel, equal to the outstanding percentage (1.00 – F) of the remaining Maximum Special Tax, shall continue to be levied on such Parcel pursuant to Section B.

D. Prepayments – After Bond Issue

1. Prepayment in Full

Any Parcel may be prepaid. The Special Tax obligation applicable to such Parcel in the District may be fully prepaid and the obligation of the Parcel to pay the Special Tax permanently satisfied as described herein, provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Parcel (or any other Parcel owned by the same individual or entity) at the time of prepayment. An owner of a Parcel intending to prepay the Special Tax obligation shall provide the District Administrator with written notice of intent to prepay accompanied by a fee to cover the costs of calculating the prepayment amount. Within 30 days of receipt of such written notice, District Administrator shall notify such owner of the prepayment amount of such Parcel. Prepayment must be made no 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 to the fiscal agent or trustee pursuant to the indenture.

The District Administrator, according to the following formula, shall determine the amount necessary for full prepayment (P_E):

$$P_E = PVT + UPS + RP - RFC + AFE$$

These variables are described as follows and defined below:

PVT = Present Value of Special Taxes – calculated as the sum of the present values of the Maximum Special Tax applicable to the Parcel for each remaining tax period of Fiscal Year for which the Special Taxes have not been levied until the maturity of the Bonds, using the yield on the Bonds as the discount rate. For purposes of this calculation, yield means the remaining effective yield on the Bonds to be redeemed as determined by the District Administrator.

- UPS = Unpaid Special Taxes – all unpaid Special Taxes levied prior to the prepayment plus any applicable penalties.
- RP = Redemption Premium – the Present Value of Special Taxes times the applicable redemption premium on the Bonds to be redeemed as determined by the District Administrator.
- RFC = Reserve Fund Credit – the amount, if any, of the reduction of the reserve requirement resulting from the prepayment to the extent that such credit shall not cause the amount on deposit in the reserve fund to be less than the reserve requirement after the prepayment.
- AFE = Administrative Fees and Expenses – administrative fees and expenses of the District including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption of Bonds.

As a result of the payment of the current Fiscal Year’s Special Tax, the District Administrator shall remove the current fiscal Year’s Special Tax levy for such Parcel from the County tax rolls. With respect to any Parcel that is prepaid, the City Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Parcel, and the obligation of such Parcel to pay the Special Tax shall cease.

2. Prepayment in Part

The Special Tax on any Parcel may be partially prepaid. The amount of the prepayment shall be calculated as indicated above in Section D.1, except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F$$

These terms have the following meaning:

- PP = The partial prepayment
- P_E = The prepayment amount calculated in Section D.1
- F = The percent by which the owner of the Parcel(s) is partially prepaying the special Tax.

The owner of any Parcel who desires a partial prepayment shall notify the District Administrator at any time of (i) such owner’s intent to partially prepay the Special Tax and, (ii) the percentage by which the Special Tax shall be prepaid. The District Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for a Parcel within thirty (30) working days of the request and will charge a reasonable fee for providing this service.

With respect to any Parcel that is partially prepaid, the City shall (i) distribute the funds remitted to it according to the indenture, and (ii) indicate in the records of the District that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to any Parcel, equal to the outstanding percentage (1.00 – F) of the remaining Maximum Special Tax, shall continue to be levied on such Parcel pursuant to Section B.

E. Definitions

Act means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2 of Title 5 of the Government Code of the State of California.

Administrative Expenses means any or all of the following: the fees and expenses of the fiscal agent or trustee, as applicable (including any fees or expenses of its counsel), the expenses of the City in carrying out its duties with respect to the District (including, but not limited to, the levy and collection of the special taxes) including the fees and expenses of its counsel, any fees of the County related to the District or the collection of special taxes, an allocable share of the salaries of the City staff directly related thereto and a proportionate amount of City general administrative overhead related thereto, any amounts paid by the City from its general funds with respect to the District or the Bonds, and all other costs and expenses of the City or the fiscal agent incurred in connection with the discharge of their respective duties under the Fiscal Agent Agreement and, in the case of the City, in any way related to administration of the District.

Annual Special Tax Rate means the special tax rate required to generate the Special Tax Requirement in a given Fiscal Year.

Bonds means any bonds issued by the District pursuant to the Act.

City means the City of San Clemente.

County means the County of Orange.

County Assessor means the Assessor of the County of Orange.

Debt Service, for each Fiscal Year, is the total annual principal and interest payment on the Bonds during the calendar year that commences in such Fiscal Year.

District means Community Facilities District No. 99-1 (Plaza Pacifica) of the City of San Clemente, County of Orange.

District Administrator is any firm, entity, person or persons who the City may hire or appoint from time to time to compute and provide for the levy and collection of the special taxes within the District.

Fiscal Agent Agreement means the agreement by that name approved by the Resolution of Issuance, and as it may be amended and/or supplemented from time to time.

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

Land Area means the measure of Taxable Property for a Parcel, in gross acres of land, as shown on the County Assessor's Parcel Maps.

Maximum Special Tax means \$10,000 per acre, plus 2% compounded annually commencing in Fiscal Year 2001-02.

Non-Taxable Property means property within the District boundaries the Land Area of which, in the aggregate, does not exceed 28.804 acres and that is

- a. owned, conveyed or irrevocably offered for dedication to a public agency, or
- b. utilized for residential purposes.

Parcel means any County Assessor's parcel or portion thereof that is within the boundaries of the District based on the equalized tax rolls of the County.

Potentially Taxable Property means property within the District boundaries that is either

- a. a common area lettered lot dedicated exclusively for landscaping purposes, or
- b. property that would otherwise be classified as Non-Taxable Property except that to do so would cause the total Land Area of property so classified to exceed 28.804 acres.

Resolution of Issuance is any Resolution adopted by the City authorizing the issuance of Bonds on behalf of the District.

Special Tax means the total special tax levied on each Parcel with Taxable Property per Fiscal Year to fund the Special Tax Requirement.

Special Tax Requirement for each Fiscal Year is an amount sufficient to pay Debt Service for such Fiscal Year, Administrative Expenses for such Fiscal Year, an amount determined by the District Administrator to offset past delinquencies and projected tax delinquencies to occur in such Fiscal Year, and all payments required to be made in the applicable Fiscal Year under the Fiscal Agent Agreement for the Bonds and any supplements thereto.

Taxable Property is all real property within the boundaries of the District that is not exempt from the special tax pursuant to law at the time of District formation, except Potentially Taxable Property and Non-Taxable Property. Any church property is considered Taxable Property and is not exempt from the Special Tax.

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

_____, 2011

City Council
City of San Clemente
100 Avenida Presidio
San Clemente, CA 92672

Re: Community Facilities District No. 99-1 of the City of San Clemente,
Special Tax Refunding Bonds, 2011 Series (Final Opinion)

Dear Council Members:

We have acted as bond counsel for Community Facilities District No. 99-1 of the City of San Clemente (the “District”) in connection with proceedings for the issuance and sale of \$5,005,000 aggregate principal amount of Special Tax Refunding Bonds (the “Bonds”) of the District. The Bonds are designated Special Tax Refunding Bonds, are in the denomination of \$5,000, or any integral multiple thereof, are dated August 25, 2011, bear interest payable semiannually at the following rates and mature on September 1 in the years and in the amounts as follows:

| <i>Year</i> | <i>Principal Amount</i> | <i>Interest Rate</i> |
|-------------|-------------------------|----------------------|
| 2012 | \$155,000 | 2.000% |
| 2013 | 170,000 | 2.000 |
| 2014 | 180,000 | 3.000 |
| 2015 | 195,000 | 3.000 |
| 2016 | 210,000 | 3.000 |
| 2017 | 220,000 | 3.375 |
| 2018 | 230,000 | 3.750 |
| 2019 | 240,000 | 4.125 |
| 2020 | 245,000 | 4.375 |
| 2021 | 250,000 | 4.500 |
| 2022 | 260,000 | 4.750 |
| 2023 | 275,000 | 5.000 |
| 2024 | 290,000 | 5.000 |
| 2025 | 305,000 | 5.000 |
| 2026 | 325,000 | 5.125 |
| 2030 | 1,455,000 | 5.375 |

Interest on the Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check of The Bank of New York Mellon Trust Company, N.A., as Fiscal Agent, (the “Fiscal Agent”) mailed on the Interest Payment Dates by first class mail to the registered Owner thereof at the registered Owner’s address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer to an account within the United States made on such Interest Payment Date upon

written instructions received by the Trustee by the Record Date of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds, which instructions shall continue in effect until revoked in writing, or until such Bonds are transferred to a new Owner. The principal of the Bonds and any premium on the Bonds are payable by check in lawful money of the United States of America upon surrender of the Bonds at the Principal Office of the Fiscal Agent. All Bonds paid by the Fiscal Agent pursuant to this Section shall be canceled by the Fiscal Agent. The Fiscal Agent shall destroy the canceled Bonds and issue a certificate of destruction thereof to the District, if it so requests.

The Bonds are issued pursuant to the provisions of Title 5, Division 2, Part 1, Chapter 2.5 of the Government Code, Resolution No. 11-03 adopted on January 18, 2011 (the "Resolution"), of the City Council of the City acting as the legislative body of the District and a Fiscal Agent Agreement, dated as of August 1, 2011, by and between the District and Bank of New York Mellon Trust Company, N.A. (the "Fiscal Agent Agreement"). (All terms not otherwise defined shall be as defined in the Fiscal Agent Agreement.)

We have examined the Resolution, the Fiscal Agent Agreement, and other legal proceedings required for the issuance of the Bonds. Based on such review, in our opinion such proceedings show lawful authority for the issuance of the Bonds under the Constitution and laws of the State of California now in force, and the Bonds are valid and legally binding obligations of the District, enforceable in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases. The Bonds are payable from the proceeds of a special tax to be levied by the District and other amounts as provided in the Fiscal Agent Agreement.

We are of the opinion that interest on the Bonds is exempt from personal income taxes imposed by the State of California, and, assuming compliance by the District with the covenants in the Fiscal Agent Agreement designed to meet the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), we are further of the opinion that, under existing law, regulations, proposed regulations if adopted in their present form, rulings and court decision, interest on the Bonds is excluded from gross income for purposes of federal income taxation and is not an item of tax preference for purposes of the federal alternative minimum tax imposed by Section 55 of the Code on individuals and corporations, although we observe that interest on the Bonds is included in adjusted net book income and adjusted current earnings in calculating corporate alternative minimum taxable income. We express no opinion regarding the other federal tax consequences related to accrual or receipt of the interest on the Bonds.

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

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

Very truly yours,

RUTAN & TUCKER, LLP

WMM:vb

APPENDIX C

GENERAL INFORMATION CONCERNING THE CITY OF SAN CLEMENTE

The following information is being furnished solely to assist in the understanding of the general economic and demographic trends and factors existing in the City of San Clemente and Orange County. Neither the City, Orange County, the State of California, nor any governmental subdivision thereof has pledged its general fund to secure the Bonds, and the Bonds are not general obligations of such entities. In the course of the preparation of the following information, both verbal and written information was provided by parties other than the City which has been accepted as accurate without verification. No responsibility is assumed for information furnished by others and believed to be reliable.

General

The City is located in southern Orange County adjacent to San Diego County. It encompasses an area of 18.45 square miles of coastline and scenic foothills and has an estimated population of 63,743. Its mild climate and unsurpassed beaches annually attract approximately 1.5 million visitors.

Organization

The City was incorporated in 1928 and operates in the council-manager form of government. The City Council is the governing body of the City. Each of the five (5) City Council members is elected in an at-large election for alternating four year terms. The City Council appoints the City Manager who is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The following biographical summaries provide information regarding the City Council members and pertinent staff members.

CITY COUNCIL

Lori Donchak, Mayor, Since 2001, Lori Donchak has been active on many levels in San Clemente: the Planning Commission, the Coastal Advisory Committee, the Architectural Design Committee and the DBA Branding Committee. She is chair of the Traffic Task Force, CUSD Liaison, Member of the Quiet Zone Committee, Housing Element Committee, and Watershed Task Force. Mayor Donchak graduated from Northwestern University; the college of Science in Education. She received an MBA from Kellogg Graduate School of Management. She has a 20 year career as a business executive in the communications industry and is a Middle School English teacher at St. Margaret's Episcopal School. She is a member of the Chamber of Commerce, Rotary Club, and the Historical Society.

Jim Evert, Mayor Pro Tem. Jim Evert has been a resident of San Clemente for 13 years. A graduate of Syracuse University, he retired after 40 years as high tech executive at IBM and as CEO of publicly traded company. Mr. Evert is active in the Sunrise Rotary as a Past President, is currently chair for the Rotary golf tournament for Laura's House. He has chaired the annual holiday toy and food drive in support of Marine families and FAM and coordinates Beach Clean-Ups. In addition he has served on the Ocean Institute Board and Finance Committee and sponsored "adopt a classes." He has served for three years as president of the Friends of the Library Board, and serves on the

Cabrillo Playhouse Board of Directors. He has 15 years of prior experience serving on the city council and planning board in LaGrange, New York.

Jim Dahl, Councilmember. Jim Dahl has been a resident of San Clemente for over 45 years. For many years, Jim has shown his dedication to the community through his career as a firefighter with the Orange county Fire Authority. Before retirement, Jim held the position of Captain and served the San Clemente area. Jim attended college at Orange Coast College and Rancho Santiago College. He shows active participation in the profession of fire fighting through his membership in the California State Firefighters Association. Jim was first elected into office in 1996 and has served four terms as Mayor. Jim is the council representative on the CASA (Coastal Animal Services Advisory) Board, Orange County Fire Authority Board, Transportation Corridor Agencies Board (Foothill and San Joaquin Hills), and San Diego Association of Government Borders Committee.

Robert “Bob” Baker, Councilmember. Bob Bake has resided in San Clemente for 20 years. He is a graduate of the "Leadership San Clemente" program and has been a leader in the “Save San Clemente Open Space” movement. For the last 30 years, he has been a Commercial Airline Pilot and Captain with American Airlines. He graduated from the US Naval Academy at Annapolis in 1970 and served in the US Navy as a Naval Aviator for seven years. He has been in a variety of organizations including: Indian Guides, Boys & Girls Club, Wrestling and Tennis.

Tim Brown, Councilmember. Tim Brown is a 10 year resident of San Clemente. He is currently employed by TowerCo and has 11 years experience in the wireless telecommunications industry in business development, management and operations roles. He graduated from Arizona State University with degrees in Political Science and English. In 2008, he completed the Leadership San Clemente course. He was also selected to be a member of the General Plan Advisory Committee consulting on the update of San Clemente’s General Plan and to represent the City Council on the City’s Economic Development Committee, GMA 11, Coastal Animal Services Authority and Southern California Association of Governments and work on the Safety/Quiet Zone initiatives.

STAFF

George Scarborough is the City Manager of the City of San Clemente. He graduated from the University of California at Santa Cruz with a Bachelor of Arts degree in History and a minor in Economics. He has a diverse background in government having served as a finance director, planning director, redevelopment agency executive director, assistant city manager and city manager. During his career he has held positions with five different cities – each with different priorities – which enabled him to gain a strong perspective and expertise on environmental and quality of life issues, historic preservation efforts, affordable housing concerns, economic development efforts and urban planning. George has been with the City of San Clemente since 2003.

Pall Gudgeirsson is the Assistant City Manager and elected City Treasurer for the City of San Clemente where he has worked since 1992. He served in the U.S. Air Force as a police officer. After graduating from the University of Washington with a degree in Accounting, and an MBA in Finance from the University of Puget Sound, he went to work in Kitsap County, Washington, as an auditor and worked his way up in the accounting field to become Finance Director/Treasurer for the City of Redmond, Washington. He has served as director for the Association of Public Treasurers, is an instructor at California State University, Long Beach where he teaches budget and finance to police management personnel, and has spoken to a number of state and national associations.

Geography and Climate

The City is located between the Pacific Ocean and the Cleveland National Forest in southern Orange County. It is Orange County's southern population center and borders San Diego County.

The climate in the City is mild, tempered by cool sea breezes and typified by short, mild winters and long, dry summers. The average annual rainfall is 10.5 inches, and 315 days per year are "sunny". Fog is a common occurrence during the early summer, but the City is smog-free. Average temperatures range from 55 degrees to 75 degrees Fahrenheit in the summer and from 45 degrees to 70 degrees Fahrenheit in the winter; and the average annual temperature is 70 degrees Fahrenheit.

Population

The following table provides population census for the years 2001 through 2011 and certain other demographic information.

CITY OF SAN CLEMENTE POPULATION 2001-2011

| Fiscal Year | |
|----------------------|--------------------------|
| <u>Ending</u> | <u>Population</u> |
| 2001 | 53,188 |
| 2002 | 57,127 |
| 2003 | 60,698 |
| 2004 | 62,988 |
| 2005 | 65,031 |
| 2006 | 66,077 |
| 2007 | 66,833 |
| 2008 | 67,549 |
| 2009 | 68,234 |
| 2010 | 63,494 |
| 2011 | 63,743 |

Source: State Department of Finance.

POPULATION ESTIMATES FOR THE CITY, COUNTY AND STATE

| <u>Fiscal Year</u> | <u>City</u> | <u>County</u> | <u>State</u> |
|---------------------------|--------------------|----------------------|---------------------|
| 2004 | 62,988 | 3,015,950 | 36,199,342 |
| 2005 | 65,031 | 3,043,669 | 36,676,931 |
| 2006 | 66,077 | 3,061,535 | 37,087,005 |
| 2007 | 66,833 | 3,077,656 | 37,463,609 |
| 2008 | 67,549 | 3,104,046 | 37,871,509 |
| 2009 | 68,234 | 3,134,858 | 38,255,508 |
| 2010 | 63,494 | 3,008,855 | 37,223,900 |
| 2011 | 63,743 | 3,029,859 | 37,501,766 |

Source: State Department of Finance.

Education

There are five public elementary schools, three junior high schools, a senior high school, and three private elementary schools in the City. San Clemente is served by two major universities: University of California, Irvine and California State University, Fullerton, several private four-year colleges, including Chapman University in Orange and by numerous community colleges, including Saddleback College in Mission Viejo and Irvine Valley College in Irvine.

Employment

Listed below are the major employers in the City.

CITY OF SAN CLEMENTE - MAJOR EMPLOYERS – 2010

| <u>Employer</u> | <u>Number of Employees</u> |
|------------------------------------|----------------------------|
| Capistrano Unified School District | 553 |
| ICU Medical | 400 |
| City of San Clemente | 306 |
| Cross Section Ventures | 300 |
| Ethical Nutrients | 280 |
| Ralph's | 266 |
| Albertson's | 249 |
| Fishermans Restaurants | 195 |
| Walmart | 190 |
| Inspirational Films | 180 |

Source: City of San Clemente Fiscal Year 2009-10 CAFR.

The following table shows civilian employment and unemployment for the City, County and State labor markets.

EMPLOYMENT DATA CIVILIAN LABOR FORCE UNEMPLOYMENT RATE ANNUAL AVERAGE

| <u>Year</u> | <u>San Clemente</u> | <u>Orange County</u> | <u>State of California</u> |
|-------------|---------------------|----------------------|----------------------------|
| 2005 | 3.0% | 3.8% | 5.4% |
| 2006 | 2.7 | 3.4 | 4.9 |
| 2007 | 3.1 | 3.9 | 5.3 |
| 2008 | 4.2 | 5.3 | 7.2 |
| 2009 | 7.2 | 8.9 | 11.3 |
| 2010 | 7.8 | 9.6 | 12.4 |

Source: State Employment Development Department.

ORANGE COUNTY LABOR FORCE AND EMPLOYMENT DATA

| Year | Civilian Labor Force | Resident Employment | Unemployment | Percent |
|-------------|-----------------------------|----------------------------|---------------------|----------------|
| 2005 | 1,588,800 | 1,529,000 | 59,900 | 3.8% |
| 2006 | 1,601,800 | 1,547,300 | 54,400 | 3.4 |
| 2007 | 1,609,400 | 1,547,000 | 62,400 | 3.9 |
| 2008 | 1,617,200 | 1,532,300 | 84,900 | 5.3 |
| 2009 | 1,558,700 | 1,447,700 | 141,000 | 8.9 |
| 2010 | 1,580,900 | 1,429,700 | 151,200 | 9.6 |

Source: State Employment Development Department.

TEN LARGEST PRIVATE SECTOR EMPLOYERS IN COUNTY OF ORANGE

| Company | Product Service | Number of Employees |
|--|------------------------------|----------------------------|
| Walt Disney Company | Recreation, Hotel, Travel | 20,000 |
| County of Orange | State Government | 18,668 |
| University of California, Irvine | Education | 17,500 |
| St. Joseph Health System | Medical | 10,656 |
| The Boeing Company | High Technology Manufacturer | 8,100 |
| YUM! Brands Incorporated | Restaurants | 7,000 |
| Target Corporation | Telecommunications | 6,100 |
| Supervale Inc. | Grocery Retail | 6,082 |
| California State University, Fullerton | Education | 5,768 |
| Bank of America Corporation | Finance | 5,500 |

Source: County of Orange 2009-10 CAFR.

The types of employment located in Orange County are listed in the following table.

**ORANGE COUNTY ESTIMATED ANNUAL
EMPLOYMENT BY INDUSTRY
for the Year 2009**

| Industry | Employment |
|---|-------------------|
| Total Farm | 3,800 |
| Total Nonfarm | 1,352,900 |
| Total Private | 1,200,400 |
| Goods Producing | 217,800 |
| Natural Resources and Mining | 500 |
| Construction | 67,100 |
| Manufacturing | 150,200 |
| Durable Goods | 106,200 |
| Nondurable Goods | 44,100 |
| Service Providing | 1,135,200 |
| Private Service Producing | 982,600 |
| Trade, Transportation and Utilities | 244,200 |
| Wholesale Trade | 77,400 |
| Retail Trade | 141,100 |
| Transportation, Warehousing and Utilities | 26,700 |
| Information | 25,000 |
| Financial Activities | 103,600 |
| Educational and Health Services | 156,000 |
| Professional and Business Services | 242,800 |
| Leisure and Hospitality | 168,700 |
| Other Services | 42,400 |
| Government | <u>152,500</u> |
| Total, All Industries | 6,641,200 |

Source: State Employment Development Department.

Assessed Valuation

Below is a table which indicates the secured, unsecured and total assessed valuations for the City for the fiscal years 2005 through 2010.

| Fiscal Year | Secured Valuation | Unsecured Valuation | Total Assessed Valuation |
|------------------------|------------------------------|--------------------------------|-------------------------------------|
| 2005 | \$ 8,528,143,111 | \$218,271,886 | \$ 8,749,697,647 |
| 2006 | 9,762,930,041 | 233,077,887 | 9,999,352,255 |
| 2007 | 11,106,184,006 | 256,253,754 | 11,365,579,043 |
| 2008 | 12,248,077,941 | 237,177,678 | 12,485,395,619 |
| 2009 | 12,582,839,817 | 269,246,362 | 12,852,326,179 |
| 2010 | 12,379,601,820 | 242,960,738 | 12,627,738,439 |

Source: Orange County Assessor's Office.

Tax Levy and Tax Collection

Below is a chart which indicates the tax levy and collection records for the City from the 2005 through 2010 fiscal years.

| <u>Fiscal Year</u> | <u>Percent of Levy Collected</u> | <u>Total Tax Collections to Tax Levy</u> |
|--------------------|----------------------------------|--|
| 2005 | 129.98% | \$21,523,860 |
| 2006 | 127.86 | 26,406,039 |
| 2007 | 100.07 | 29,867,526 |
| 2008 | 100.05 | 32,676,641 |
| 2009 | 99.25 | 32,603,035 |
| 2010 | 93.23 | 28,784,691 |

Source: City of San Clemente Fiscal Year 2009-10 CAFR.

Largest Taxpayers

The principal property taxpayers in the City for 2010 are as follows:

| <u>Taxpayer</u> | <u>Type of Business</u> | <u>2010 Assessed Valuation</u> | <u>% of Total Assessed Valuation</u> |
|---------------------------------------|-------------------------|--------------------------------|--------------------------------------|
| Suncal Marblehead LLC | Real Estate | \$125,819,682 | 1.00% |
| Seacrest San Clemente LP | Real Estate | 91,124,046 | 0.72 |
| Villa San Clemente LLC | Real Estate | 62,934,099 | 0.50 |
| BRE-FMCA LLC | Real Estate | 60,901,561 | 0.48 |
| SAF Whispering Winds LLC | Real Estate | 50,278,041 | 0.40 |
| Centro Watt Operating Partnership LLC | Real Estate | 41,191,262 | 0.33 |
| Cox Communications Inc. | Public Utilities | 26,419,738 | 0.21 |
| Batido I LLC | Real Estate | 24,204,906 | 0.19 |
| Raymond Taccolini Trust | Real Estate | 22,791,214 | 0.18 |
| New Albertson's Inc. | Commercial | <u>21,493,817</u> | <u>0.17</u> |
| TOTAL: | | \$527,158,366 | 4.17% |

Source: City of San Clemente Fiscal Year 2009-10 CAFR.

Construction Trends

Below is a table indicating residential and non-residential building permits valuations for the City.

CITY OF SAN CLEMENTE BUILDING PERMIT VALUATION (in thousands of dollars)

| Type | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|
| <i>Residential:</i> | \$185,993 | \$152,967 | \$128,337 | \$ 84,637 | \$ 28,943 | \$ 29,093 | \$ 39,247 |
| <i>Non-Residential:</i> | | | | | | | |
| Commercial | \$ 980 | \$ 4,210 | \$ 11,063 | \$ 9,443 | \$ 875 | \$ 0 | \$ 0 |
| Industrial | 6,895 | 0 | 1,257 | 0 | 0 | 0 | 0 |
| Alter/Additions | 4,431 | 7,370 | 8,051 | 10,202 | 12,879 | 5,986 | 5,769 |
| Other | 10,599 | 9,465 | 10,713 | 10,346 | 6,522 | 3,178 | 6,694 |
| Total: | 22,905 | 21,046 | 31,083 | 29,991 | 20,276 | 9,163 | 12,463 |
| Total Valuation: | <u>208,890</u> | <u>174,013</u> | <u>159,420</u> | <u>114,629</u> | <u>49,220</u> | <u>38,257</u> | <u>51,711</u> |
| Type | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| <i>New Housing Units:</i> | | | | | | | |
| Single Family | 530 | 384 | 283 | 144 | 37 | 33 | 45 |
| Multi Family | 4 | 6 | 31 | 6 | 0 | 8 | 2 |
| Total Units: | <u>534</u> | <u>390</u> | <u>314</u> | 150 | 37 | 41 | 473 |

Source: Construction Industry Research Board.

Taxable Sales

The following table demonstrates the number of business permits and taxable sales in the City.

CITY OF SAN CLEMENTE TAXABLE TRANSACTIONS (in thousands)

| Year | Transactions | Permits |
|------|--------------|---------|
| 2004 | \$548,282 | 2,231 |
| 2005 | 577,390 | 2,314 |
| 2006 | 611,535 | 2,393 |
| 2007 | 632,285 | 2,360 |
| 2008 | 596,284 | 2,354 |
| 2009 | 531,239 | 2,200 |

Source: State Board of Equalization.

Per Capital Personal Income

The following table highlights the relative affluence and wealth of City residents.

PER CAPITA PERSONAL INCOME

| <u>Year</u> | <u>San Clemente</u> | <u>Orange County</u> | <u>State of California</u> | <u>United States</u> |
|-------------|---------------------|----------------------|----------------------------|----------------------|
| 2004 | \$37,520 | \$44,085 | \$36,904 | \$33,881 |
| 2005 | 38,157 | 47,141 | 38,767 | 35,424 |
| 2006 | 39,492 | 50,997 | 41,567 | 37,698 |
| 2007 | 40,812 | 51,877 | 43,240 | 39,461 |
| 2008 | 56,500 | 51,877 | 43,853 | 40,674 |
| 2009 | 43,031 | 49,020 | 42,395 | 39,635 |

Source: City CAFR for City, Bureau of Economic Analysis for County, State and U.S.

Recreation

Community recreational facilities include the following: The Ole Hanson Beach Club consisting of 1,950 square feet of ocean view terrace, kitchen facilities, and a 160,000 gallon swimming pool; an 8,000 square foot community center which includes an auditorium, stage, three meeting/activity rooms, and full kitchen; a 1,830 square foot senior citizens center with meeting/activity space; approximately 121 acres of city parks and landscape area. The City also has an 18 hole municipal golf course and 5 miles of beach.

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APPENDIX D

SUMMARY OF THE FISCAL AGENT AGREEMENT

The following is a brief summary of the provisions of the Fiscal Agent Agreement (Agreement). This Summary is not intended to be definitive. Reference is made to the actual document (a copy of which is available from the District) for the complete terms thereof.

DEFINED TERMS

The following terms have the following meanings, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary or previously defined in this Official Statement have the respective meanings previously given. The following are not all of the terms defined in the Agreement.

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

“Administrative Expenses” means the following actual or reasonably estimated costs directly related to the administration of the District: the costs of computing the Special Taxes and of preparing the annual Special Tax collection schedules (whether by the Director of Finance or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Fiscal Agent for the Bonds; the costs of the Fiscal Agent (including its legal counsel) in the discharge of the duties required of it under the Agreement; the costs of the District or its designee in complying with the disclosure requirements of applicable federal and state securities laws and of the Act, the District’s Continuing Disclosure Agreement and the Agreement including those related to public inquiries regarding the Special Tax and disclosures to Owners and the Original Purchaser; the costs of the District or its designee related to any appeal of the Special Tax; any amounts required to be rebated to the federal government in order for the District to comply with federal law; and an allocable share of the salaries of the City staff directly relating to the foregoing. Administrative Expenses shall also include amounts advanced by the City for any other administrative purposes of the District including costs related to prepayments of Special Taxes; recordings related to the prepayment, discharge or satisfaction of Special Taxes; amounts advanced to ensure compliance with federal rebate requirements; and the costs of commencing and pursuing to completion any foreclosure action arising from delinquent Special Taxes.

“Agreement” means the Fiscal Agent Agreement, as it may be amended or supplemented from time to time by any Supplemental Agreement adopted pursuant to the provisions therein.

“Authorized Investments” or **“Qualified Investments”** means, subject to applicable law:

1. (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of

ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

2. Federal Housing Administration debentures.

3. The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

- Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
Senior Debt obligations
- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system-wide bonds and notes
- Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)
Senior debt obligations
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- Student Loan Marketing Association (SLMA)
Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
- Financing Corporation (FICO)
Debt obligations
- Resolution Funding Corporation (REFCORP)
Debt obligations

4. Unsecured certificates of deposit, time deposits, deposit accounts and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P, including the Fiscal Agent and its affiliates.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.

6. Commercial paper (having original maturities of not more than 270 days rated at least "A-1+" by S&P and "Prime-1" by Moody's).

7. Money market funds rated "AAM" or "AAM-G" by S&P, or better (including funds for which the Fiscal Agent and its affiliates provide investment advisory or other management services).

8. "State Obligations," which means:

A. Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated “A3” by Moody’s and “A” by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

B. Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated “A-1+” or better by S&P and “Prime-1” or better by Moody’s.

C. Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated “AA” or better by S&P and “Aa” or better by Moody’s.

9. Pre-refunded municipal obligations rated “AA+” by S & P and “Aa2” by Moody’s meeting the following requirements:

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

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

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

D. the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

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

F. the cash or United States Treasury Obligations are not available to satisfy any other claims. including those by or against the trustee or escrow agent.

10. Repurchase agreements:

With (1) any domestic bank (including the Fiscal Agent), or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by S&P and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated “A” or better by S&P and Moody’s, provided that:

A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);

B. The Fiscal Agent or a third party acting solely as agent therefor or for the District (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferees books);

C. In the case of Public Securities Association Master Repurchase Agreements, the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

D. All other requirements of S&P and Moody's in respect of repurchase agreements shall be met;

E. In the case of Public Securities Association Master Repurchase Agreements, the repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the District or the Fiscal Agent, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Fiscal Agent.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (A) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

11. Investment agreements with a domestic or foreign bank or corporation the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of an insurance company, the long-term debt paying ability, of the guarantor is rated at least "A+" by S&P and "A1" by Moody's; provided that, by the terms of the investment agreement:

(1) interest payments are to be made to the Fiscal Agent at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Improvement Fund, construction draws) on the Bonds;

(2) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the District and the Fiscal Agent hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(3) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

(4) the District and the Fiscal Agent receives the opinion of domestic counsel (which opinion shall be addressed to the District and the Fiscal Agent) that such investment agreement is

legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to the District, and the Fiscal Agent;

(5) the investment agreement shall provide that if during its term

(a) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Fiscal Agent or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment; and

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

(6) The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); and

(7) The investment agreement must provide that if during its term

(a) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Fiscal Agent be accelerated and amounts invested and accrued, but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate; and

(b) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued, but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate.

12. The State of California's Local Agency Investment Fund ("LAIF") established by Government Code Section 16429.1. The Fiscal Agent may restrict investments in LAIF if required to keep money available for the purposes of the Agreement.

"Authorized Officer" means the City Manager, the Assistant City Manager, the Director of Finance, or any other officer or employee authorized by the City Council of the City or by an Authorized Officer to undertake the action referred to in the Agreement as required to be undertaken by an Authorized Officer.

“Bond Counsel” means Rutan & Tucker, LLP or any attorney or firm of attorneys selected by the District with expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bonds” means Community Facilities District No. 99-1 of the City of San Clemente, **2011 Special Tax Refunding Bonds**.

“Business Day” means any day other than (i) a Saturday or a Sunday, or (ii) a day on which banking institutions in the state in which the Fiscal Agent has its principal corporate trust office are authorized or obligated by law or executive order to be closed.

“City” means the City of San Clemente, California.

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

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the District or City and related to the authorization, sale and issuance of the Bonds, which items of expense include, but are not limited to, printing costs, costs of reproducing and binding documents, closing costs, filing and recording fees, initial fees and charges of the Fiscal Agent including its first annual administration fee and fees and expenses of its counsel, expenses incurred by the District or City in connection with the issuance of the Bonds and the establishment of the District including costs related to any mitigation agreement or other agreement related to establishment of the District, special tax consultant fees and expenses, preliminary engineering fees and expenses, bond underwriter’s discount, legal fees and charges, including bond counsel, disclosure counsel, financial consultants’ fees, charges for execution, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the foregoing.

“County” means the County of Orange, California.

“District” means the Community Facilities District No. 99-1 of the City of San Clemente formed by the City under the Act and the Resolution of Formation.

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

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

(ii) any of the following obligations of the following agencies of the United States of America: (a) direct obligations of the Export-Import Bank, (b) certificates of beneficial ownership issued by the Farmers Home Administration, (c) participation certificates issued by the General Services Administration, (d) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, (e) project notes issued by the United States Department of

Housing and Urban Development, and (f) public housing notes and bonds guaranteed by the United States of America.

“Fiscal Agent” means The Bank of New York Mellon Trust Company, N.A., appointed by the District and acting as an independent fiscal agent with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place.

“Fiscal Year” means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing September 1, 2011.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

“Ordinance” means any ordinance adopted by the legislative body of District providing for the levy of the Special Taxes.

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

“Owner” means any person who is the registered owner of any Outstanding Bond.

“Principal Office” means the principal corporate trust office of the Fiscal Agent set forth in the Agreement or such other or additional offices as may be designated by the Fiscal Agent.

“Project” means the facilities more particularly described in the Resolution of Formation.

“Record Date” means the fifteenth day of the month next preceding the month of the applicable Interest Payment Date, whether or not such day is a Business Day.

“Reserve Requirement” means, as of any date of calculation by the District an amount equal to the lesser of (i) the then Maximum Annual Debt Service, (ii) one hundred twenty-five percent (125%) of the then average Annual Debt Service, or (iii) ten percent (10%) of the initial principal amount of the Bonds issued hereunder, as adjusted for any transfers made from the Reserve Fund to the Bond Fund, as provided in Section 4.04(F).

“Resolution” means Resolution No. 11-03, adopted by the City Council of the City on January 18, 2011, authorizing issuance of the Bonds.

“Resolution of Formation” means Resolution No. 99-103 adopted by the City Council on September 15, 1999.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the District, including any scheduled payments and any prepayments thereof, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon. “Special Tax Revenues” does not include any penalties or costs of collecting delinquent Special Taxes collected in connection with delinquent Special Taxes.

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

“Supplemental Agreement” means an agreement the execution of which is authorized by a resolution that has been duly adopted by the legislative body of the District under the Act and which agreement amends or supplements the Agreement, but only if and to the extent that such agreement is specifically authorized under this Agreement.

FUNDS AND ACCOUNTS

The following funds and accounts are established pursuant to the Agreement:

Costs of Issuance Fund. A Costs of Issuance Fund is established, as a separate fund to be held by the Fiscal Agent. Monies in the Costs of Issuance Fund shall be held in trust by the Fiscal Agent and shall be disbursed from time to time to pay Costs of Issuance, as set forth in a requisition containing respective amounts to be paid to the designated payees, signed by an Authorized Officer and delivered to the Fiscal Agent concurrently with the delivery of the Bonds and from time to time thereafter. The Fiscal Agent shall maintain the Costs of Issuance Fund for a period of 90 days after the Closing Date and then shall transfer any monies remaining therein, including any investment earnings thereon, to the Improvement Fund. Monies in the Costs of Issuance Fund shall be invested in Authorized Investments. Interest earnings and profits resulting from said investment shall be retained by the Fiscal Agent in the Costs of Issuance Fund to be used for the purposes of such fund.

Reserve Fund. A Reserve Fund is established, as a separate fund to be held by the Fiscal Agent, to the credit of which a deposit shall be made equal to the Reserve Requirement as of the Closing Date for the Bonds, and deposits shall thereafter be made as provided in the Agreement. Monies in the Reserve Fund shall be held in trust by the Fiscal Agent for the benefit of the Owners as a reserve for the payment of principal of, and interest and any premium on, the Bonds and shall be subject to a lien in favor of the Owners. All amounts deposited in the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the Bonds or for the purpose of redeeming Bonds. Monies in the Reserve Fund shall be invested in Authorized Investments. Whenever a transfer is made from the Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund, the Fiscal Agent shall provide written notice thereof to an Authorized Officer, specifying the amount withdrawn. Whenever, on the Business Day prior to any Interest Payment Date, or on any other date at the written request of an Authorized Officer, the amount in the Reserve Fund exceeds the Reserve Requirement (including interest earnings), the Fiscal Agent shall provide written notice to an Authorized Officer of the amount of the excess and shall transfer an amount equal to the excess from the Reserve Fund to the Improvement Fund until completion of the Project (as evidenced by a written certificate of an Authorized Officer) and thereafter to the Bond Fund to be used for the payment of interest on and principal of the Bonds on the next Interest Payment Date in accordance with the Agreement. Whenever the balance in the Reserve Fund equals or exceeds the amount required to

redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall upon the written direction of an Authorized Officer transfer the amount in the Reserve Fund to the Bond Fund to be applied on the next succeeding Interest Payment Date to the payment and redemption, in accordance with the Agreement, as applicable, of all of the Outstanding Bonds. If the amount transferred from the Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in the Reserve Fund shall be transferred to the District to be used for any lawful purpose of the District. Notwithstanding the foregoing, no amounts shall be transferred from the Reserve Fund pursuant to the Agreement until after (i) the calculation of any amounts due to the federal government pursuant to the Agreement following payment of the Bonds and withdrawal of any such amount from the Reserve Fund for purposes of making such payment to the federal government, and (ii) payment of any fees and expenses due to the Fiscal Agent. Whenever Special Taxes are prepaid and Bonds are to be redeemed with the proceeds of such prepayment pursuant to of the Agreement, a proportionate amount of the then Reserve Requirement (determined by the District on the basis of the principal of Bonds to be redeemed and the original aggregate principal amount of the Bonds) shall be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the Bonds pursuant to the Agreement. Monies in the Reserve Fund shall be invested in accordance with the Agreement. Interest earnings and profits resulting from said investment shall be retained in the Reserve Fund and (to the extent the balance in the Reserve Fund is otherwise equal to or greater than the Reserve Requirement) may at any time be used, at the written direction of an Authorized Officer, for purposes of paying any rebate liability under the Agreement. Amounts not so used shall be transferred to the Bond Fund.

Bond Fund. A Bond Fund is established, as a separate fund to be held by the Fiscal Agent. Within the Bond Fund, the Fiscal Agent shall establish a separate subaccount known as the Special Tax Prepayments Subaccount. Monies in the Bond Fund and the subaccount therein shall be held in trust by the Fiscal Agent for the benefit of the Owners, shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below, and, pending such disbursement, shall be subject to a lien in favor of the Owners. If amounts in the Bond Fund are insufficient for the purposes set forth above, the Fiscal Agent shall withdraw from the Reserve Fund to the extent of any funds therein amounts to cover the amount of such Bond Fund insufficiency. Amounts so withdrawn from the Reserve Fund shall be deposited in the Bond Fund. If, after the foregoing transfers, there are insufficient funds in the Bond Fund to make all of the required payments, the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, and then to payment of principal due on the Bonds by reason of sinking payments. Any sinking payment not made as scheduled shall be added to the sinking payment to be made on the next sinking payment date. Monies in the Special Tax Prepayments Subaccount shall be transferred by the Fiscal Agent to the Bond Fund on the next date for which notice of redemption can timely be given for redemption of Bonds, and shall be used to redeem Bonds on the redemption date selected. Monies in the Bond Fund and the Special Tax Prepayments Subaccount shall be invested in Authorized Investments. Interest earnings and profits resulting from the investment of amounts in the Bond Fund and the Special Tax Prepayments Subaccount shall be retained in the Bond Fund and the Special Tax Prepayments Subaccount, respectively, to be used for purposes of such fund and accounts.

Special Tax Fund. A Special Tax Fund is established, as a separate fund to be held by the Fiscal Agent, to the credit of which the District will deposit all Special Tax Revenues received by the District. Monies in the Special Tax Fund shall be held in trust by the Fiscal Agent for the benefit of the District and the Owners, shall be disbursed as provided below and, pending disbursement, shall

be subject to a lien in favor of the Owners and the District. From time to time as needed to pay the obligations of the District, but no later than the Business Day before each Interest Payment Date, the Fiscal Agent shall withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority: (i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers from the Improvement Fund and the Special Tax Prepayments Subaccount to the Bond Fund, such that the amount in the Bond Fund equals the principal (including any sinking payment), premium, if any, and interest due on the Bonds on the next Interest Payment Date; (ii) to the Reserve Fund an amount, taking into account amounts then on deposit in the Reserve Fund, such that the amount in the Reserve Fund is equal to the Reserve Requirement; and (iii) the amount or portion thereof which an Authorized Officer directs the Fiscal Agent in writing to deposit in the Administrative Expense Fund for payment of Administrative Expenses. The amounts the Authorized Officer directs the Fiscal Agent to transfer from time to time to the Administrative Expense Fund shall not exceed, in any Fiscal Year, the amount included in the Special Tax levy for such Fiscal Year for Administrative Expenses. At any time following the deposit of Special Taxes in an amount sufficient to make payment of all of the foregoing deposits for the current Bond Year, any amounts in excess of such amounts remaining in the Special Tax Fund shall, upon the written direction of an Authorized Officer, be transferred by the Fiscal Agent to the District to be used for any lawful purpose. In the absence of such written direction, all amounts remaining in the Special Tax Fund on the first day of the succeeding Bond Year shall be transferred to the District. Monies in the Special Tax Fund shall be invested in Authorized Investments. Interest earnings and profits resulting from such investment and deposit shall be retained in the Special Tax Fund to be used for the purposes thereof.

Administrative Expense Fund. An Administrative Expense Fund is established, as a separate fund to be held by the Fiscal Agent. Monies in the Administrative Expense Fund shall be held in trust by the Fiscal Agent for the benefit of the District. Amounts in the Administrative Expense Fund shall be withdrawn by the Fiscal Agent and paid to the District upon receipt by the Fiscal Agent of requisition of an Authorized Officer stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense and the nature of such Administrative Expense. Monies in the Administrative Expense Fund shall be invested in Authorized Investments. Interest earnings and profits resulting from said investment shall be retained by the Fiscal Agent in the Administrative Expense Fund to be used for the purposes thereof.

COVENANTS OF THE DISTRICT

Punctual Payment. The District will punctually pay or cause to be paid the principal of, and interest and any premium on, the Bonds when and as due in strict conformity with the terms of the Agreement.

Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the District shall not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and shall not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest is extended or funded, whether or not with the consent of the District, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of the Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest that have not been so extended or funded.

Against Encumbrances. The District shall not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts or funds pledged to the Bonds superior to or on a parity with the pledge and lien herein created for the benefit of the Bonds, except as permitted by the Agreement.

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

Protection of Security and Rights of Owners. The District shall preserve and protect the security of the Bonds and the rights of the Owners, and shall warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the District, the Bonds shall be incontestable by the District.

Collection of Special Tax Revenues. The District shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues.

Covenant to Foreclose. The District covenants that it shall order, and cause to be commenced, and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due subject to certain exceptions.

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

Tax Covenants. The District will not take, nor suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of any of the Bonds which would cause any of the Bonds to be “arbitrage bonds” or “private activity bonds” within the meaning of the Tax Code. The District agrees to comply with all applicable provisions of the Tax Code relating to the rebate of excess investment earnings on the proceeds of the Bonds to the United States of America.

Waivers, Tax Amnesty and Tender of Bonds. The District covenants that it will not (a) exercise its rights under the Act to waive delinquency and redemption penalties related to the Special Taxes or (b) declare a Special Tax penalties amnesty program, if to do so would materially and adversely affect the interests of the owners of the Bonds or to permit the tender of Bonds in full or partial payment of any Special Taxes, except upon receipt of a certificate of an Independent Financial Consultant that to accept such will not result in the District having insufficient Special Tax Revenues to pay the principal of and interest on the Bonds remaining Outstanding following such tender.

INVESTMENTS

Monies in any fund or account created or established by the Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Authorized Investments, as directed pursuant to

the written direction of an Authorized Officer. In the absence of any such written direction, the Fiscal Agent shall invest, to the extent reasonably practicable, any such monies in the Authorized Investment described in paragraph 7 of the definition thereof, and otherwise hold such amounts uninvested. Obligations purchased as an investment of monies in any fund shall be deemed to be part of such fund or account, subject, however, to the requirements of the Agreement for transfer of interest earnings and profits resulting from investment of amounts in funds and accounts.

LIABILITY OF THE DISTRICT

The District shall not incur any responsibility in respect of the Bonds or the Agreement other than in connection with the duties or obligations explicitly herein or in the Bonds assigned to or imposed upon it. The District shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful default. The District shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions covenants or agreements of the Fiscal Agent herein or of any of the documents executed by the Fiscal Agent in connection with the Bonds, or as to the existence of a default or event of default thereunder. No provision of the Agreement shall require the District to expend or risk its own general funds or otherwise incur any financial liability in the performance of any of its obligations hereunder, or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

MODIFICATION OR AMENDMENT OF THE AGREEMENT

The Agreement and the rights and obligations of the District and of the Owners may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of Owners, or with the written consent without a meeting of the Owners, of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Agreement. No such modification or amendment shall (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the District to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation by the District of any pledge or lien upon the Special Taxes superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or this Agreement), or (iii) reduce the percentage of Bonds required for the amendment hereof. Any such amendment may not modify any of the rights or obligations of the Fiscal Agent without its written consent.

The Agreement and the rights and obligations of the District and of the Owners may also be modified or amended at any time by a Supplemental Agreement without the consent of any Owners only to the extent permitted by law and only for any one or more of the following purposes:

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

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

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

(D) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from gross federal income taxation of interest on the Bonds; and

(E) to modify, alter or amend the rate and method of apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum annual Special Taxes that may be levied in each year on developed property within the District to an amount which is less than 110% of the principal and interest due in each corresponding future Bond Year with respect to the Bonds Outstanding as of the date of such amendment.

DISCHARGE OF AGREEMENT

The District has the option to pay and discharge the entire indebtedness on all or any portion of the Bonds Outstanding in any one or more of the following ways:

(A) by well and truly paying or causing to be paid the principal of, and interest and any premium on, such Bonds Outstanding, as and when the same become due and payable;

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

(C) by irrevocably depositing with the Fiscal Agent, in trust, cash and Federal Securities in such amount as the District determines as confirmed by Bond Counsel or an independent certified public accountant, will, together with the interest to accrue thereon and monies then on deposit in the fund and accounts provided for in the Bond Fund and the Reserve Fund, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

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

Upon compliance by the District with the foregoing with respect to all Bonds Outstanding, any funds held by the Fiscal Agent after payment of all fees and expenses of the Fiscal Agent that are not required for the purposes of the preceding paragraph shall be paid over to the District and any Special Taxes thereafter received by the District shall not be remitted to the Fiscal Agent but shall be retained by the District to be used for any purpose permitted under the Act.

APPENDIX E

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement dated as of August 1, 2011 (the “Disclosure Agreement”) is executed and delivered by the Community Facilities District No. 99-1 of the City of San Clemente (the “Issuer”) and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”) and as dissemination agent (the “Dissemination Agent”), in connection with the issuance and delivery by the Issuer of its \$5,005,000 2011 Special Tax Refunding Bonds (the “Bonds”). The Bonds are being issued pursuant to a Fiscal Agent Agreement, dated as of August 1, 2011 (the “Fiscal Agent Agreement”), by and between the Issuer and the Fiscal Agent. The Issuer, the Fiscal Agent and the Dissemination Agent covenant as follows:

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

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

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

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income purposes.

“Disclosure Representative” shall mean the City Treasurer of the City of San Clemente or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

“EMMA” shall mean the MSRB’s Electronic Municipal Market Access system, which is currently available on the Internet at <http://emma.msrb.org>.

“Dissemination Agent” shall mean, initially, The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designed in writing by the Issuer and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

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

“MSRB” means the Municipal Securities Rulemaking Board.

“Participating Underwriter” shall mean Piper Jaffray & Co. as the original underwriter of the Bonds and any other underwriter which the Issuer acknowledges is required to comply with the Rule in connection with offering of the Bonds.

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

“SEC” shall mean the United States Securities and Exchange Commission.

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

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than six months after the end of the Issuer’s fiscal year (which currently ends on June 30), commencing with the report for the fiscal year ending June 30, 2011, file electronically with the MSRB through EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Issuer shall provide the Annual Report to the Dissemination Agent and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). If by fifteen (15) Business Days prior to such date the Fiscal Agent has not received a copy of the Annual Report, the Fiscal Agent shall contact the Issuer and the Dissemination Agent to determine if the Issuer is in compliance with subsection (a). The Issuer 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 Issuer 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 the MSRB in the manner and by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB, in substantially the form attached as Exhibit A.

(d) Promptly after receipt of the Annual Report, the Dissemination Agent shall file a report with the Issuer 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.

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

(a) Financial Statements. The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended. If the Issuer prepares audited financial statement and if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Fiscal Agent Agreement. Audited financial statements, if prepared by the Issuer, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to each Repository, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of June 30 of each year;

(ii) the balance in each fund under the Fiscal Agent Agreement as of the June 30 preceding the filing of the Annual Report;

(iii) an update of Tables 1, 2 and 3 in the Official Statement for the Bonds based on the assessed values within the Issuer for the current fiscal year, the Special Tax levy for the fiscal year in which the Annual Report is being filed and the outstanding principal amount of the Bonds as of the September 2 preceding the date of the Annual Report;

(iv) a report with respect to any parcel in the boundaries of the Issuer that is delinquent in the payment of its special taxes, the amount of such delinquency and the status of any foreclosure action with respect thereto.

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

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

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

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the MSRB. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if in a timely manner, not in excess of ten business days after the occurrence of the event:

- (1) principal and interest payment delinquencies,
- (2) non-payment related defaults, if material,
- (3) unscheduled draws on the Reserve Account reflecting financial difficulties,
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties,
- (5) substitution of credit or liquidity providers, or their failure to perform,
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds,
- (7) modifications to the rights of Bond Owners, if material,
- (8) bond calls, if material, and tender offers,,
- (9) defeasances,
- (10) release, substitution, or sale of property securing repayment of the Bonds if material,
- (11) rating changes,
- (12) bankruptcy, insolvency, receivership or similar event of the Issuer or the City, provided that for the purposes of this clause (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer or the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in

which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Issuer or the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer or the City,

- (13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry in to a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, and
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Fiscal Agent shall, promptly upon the obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Issuer pursuant to the Fiscal Agent Agreement, inform such person of the event, and request that the Issuer promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (c). 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.

(c) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB through EMMA.

(d) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and that the Fiscal Agent or the Dissemination Agent shall not be responsible for determining whether the Issuer’s instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(e) Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given any earlier than the notice thereof is given to Owner under the Fiscal Agent Agreement.

SECTION 6. Termination of Reporting Obligation. The obligation of the Issuer, the Fiscal Agent and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Fiscal Agent shall

be the Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Mellon Trust Company, N.A.. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer and the Fiscal Agent and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment. (a) This Disclosure Amendment may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Fiscal Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer and the Fiscal Agent, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners, and (5) the Issuer shall have delivered copies of such opinion and amendment to each Repository.

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

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

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

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

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer 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 Issuer 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. The provisions of Article VII of the Fiscal Agent Agreement are hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Fiscal Agent Agreement and the Dissemination Agent and the Fiscal Agent shall be entitled to the same protections, limitations from liability and indemnities hereunder as are 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 Issuer agrees to indemnify and save the Dissemination Agent and the Fiscal Agent and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Fiscal Agent's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer 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 and the Fiscal Agent shall have no duty or obligation to review any information provided to them hereunder. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and Fiscal Agent and payment of the Bonds. No person shall have any right to commence any action against the Fiscal Agent or the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent and the Fiscal Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

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

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

| | |
|----------------------------|--|
| Disclosure Representative: | City Treasurer City of San Clemente 100 Avenida Presidio San Clemente, California 91720 |
| Dissemination Agent: | The Bank of New York Mellon Trust Company, N.A. Corporate Trust Division 700 South Flower Street, 5th Floor Los Angeles, California 90017 |
| Fiscal Agent: | The Bank of New York Mellon Trust Company, N.A. Corporate Trust Division 700 South Flower Street, 5th Floor Los Angeles, California 90017 |
| Participating Underwriter: | Piper Jaffray & Co. 53 Avantis Drive, Suite 100 Aliso Viejo, CA 92656 Attention: Senior Vice President |

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

COMMUNITY FACILITIES DISTRICT NO. 99-1
OF THE CITY OF SAN CLEMENTE

By: _____
City Treasurer

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Fiscal Agent and Dissemination
Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Community Facilities District No. 99-1 of the City of San Clemente
Name of Bond Issue: Community Facilities District No. 99-1 of the City of San Clemente, 2011
Special Tax Refunding Bonds
Date of Issuance: August 25, 2011

NOTICE IS HEREBY GIVEN that the Community Facilities District No. 99-1 of the City of San Clemente (the "Issuer") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of August 1, 2011, by and between the Issuer and The Bank of New York Mellon Trust Company, N.A., as fiscal agent and dissemination agent. The Issuer anticipates that the Annual Report will be filed by _____.

Dated:

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Dissemination Agent

cc: City of San Clemente
Piper Jaffray & Co.

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APPENDIX F

INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY

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

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

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

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

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

such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District on the 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 or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District, 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. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

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

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